

2015

Annual Report

# STRATEGY 2020



“The world is not only growing closer together, above all it is the number of people that is growing, especially in Middle America, Asia, the Middle East and Africa. The middle class, with its strong buying power, is becoming bigger and is driving demand for consumer goods of all kinds. These goods have to be transported. And one thing is certain in the foreseeable future: trucks and trailers are at the beginning and at the end of the supply chain and that involves us here at SAF-HOLLAND.” — Detlef Borghardt, CEO

SALES EUR million	ADJUSTED EBIT EUR million	DILUTED EARNINGS PER SHARE in Euro
2015 — 1,060.7	2015 — 94.0	2015 — 0.99
2014 — 959.7	2014 — 70.7	2014 — 0.69
2013 — 857.0	2013 — 59.3	2013 — 0.54

#### KEY FIGURES

EUR million	2015	2014	2013
Sales	1,060.7	959.7	857.0
Cost of sales	-857.8	-785.1	-701.4
Gross profit	202.9	174.6	155.6
as a percentage of sales	19.1	18.2	18.2
Adjusted result for the period	62.2	43.7	28.8
as a percentage of sales	5.9	4.6	3.4
Adjusted EPS in EUR <sup>1)</sup>	1.37	0.96	0.63
Adjusted EBITDA	109.3	84.3	71.1
as a percentage of sales	10.3	8.8	8.3
Adjusted EBIT	94.0	70.7	59.3
as a percentage of sales	8.9	7.4	6.9
Operating cash flow <sup>2)</sup>	79.5	48.8	63.0

<sup>1)</sup> Adjusted net result / weighted average number of ordinary shares outstanding as of the reporting day.

<sup>2)</sup> The operating cash flow is the cash-flow from operating activities before income tax payments.

#### SALES BY REGION

EUR million	2015	2014	2013
Europe	521.9	496.5	447.9
North America	421.3	363.9	339.1
Other	117.5	99.3	70.0
<b>Total</b>	<b>1,060.7</b>	<b>959.7</b>	<b>857.0</b>

#### SALES BY BUSINESS UNIT

EUR million	2015	2014	2013
Trailer Systems	612.7	544.4	485.7
Powered Vehicle Systems	180.0	169.5	144.7
Aftermarket	268.0	245.8	226.6
<b>Total</b>	<b>1,060.7</b>	<b>959.7</b>	<b>857.0</b>

#### OTHER FINANCIAL INFORMATION

	12/31/2015	12/31/2014	12/31/2013
Total assets (EUR million)	888.5	645.2	536.4
Equity ratio (%)	32.4	38.5	41.4
	2015	2014	2013
Employees (average)	3,325	3,346	3,106
Sales per employee (kEUR)	319.1	286.8	275.9

# MEGATRENDS

Profiting from global growth momentum

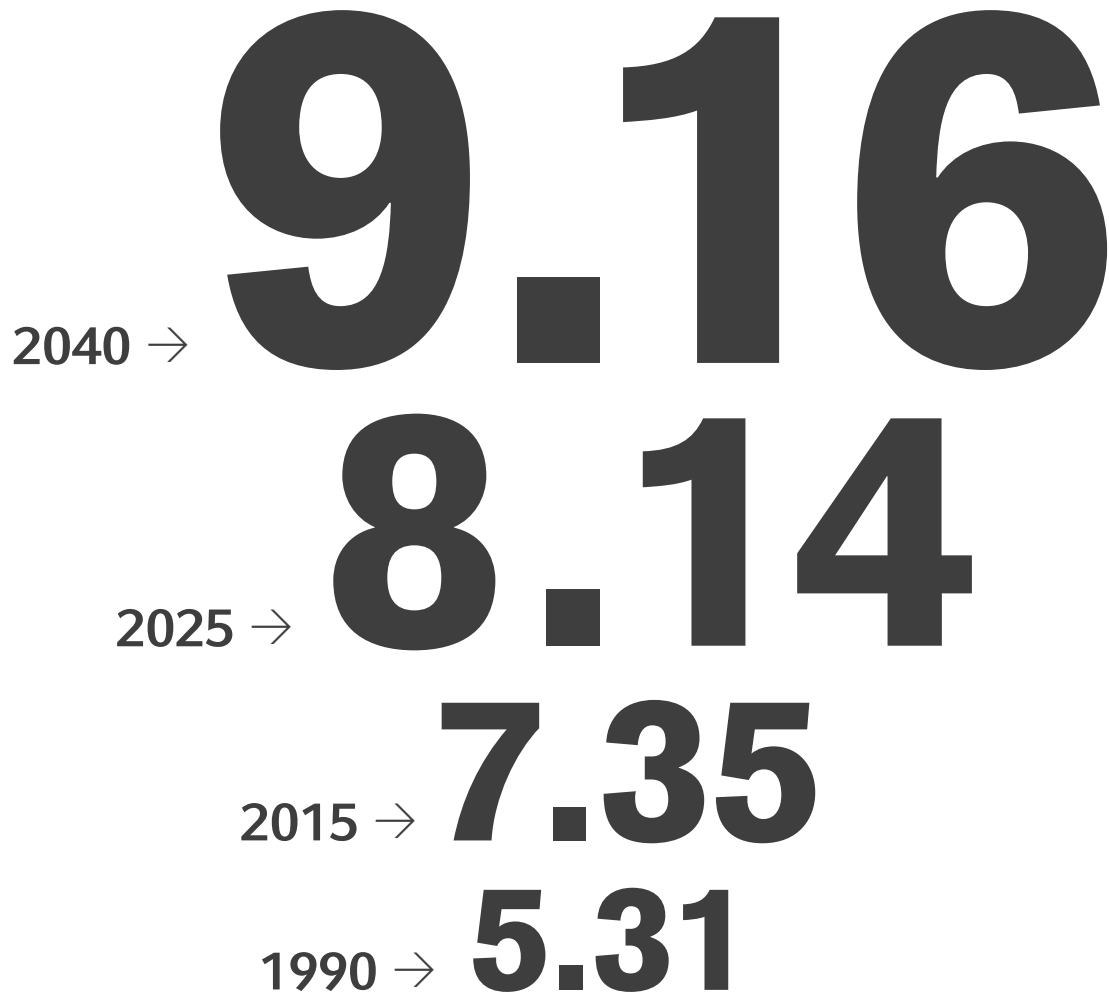


# GLOBAL POPULATION CONTINUES TO GROW

In 2040, our planet will see a population of 9 billion people – this is almost a quarter more than today. With the increase in the global population, the flow of goods will also soar because those additional people will also have to be provided with goods and services.



Global population in billions<sup>1</sup>



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In the emerging markets such as the Next 11 countries, the population is growing six times faster than in today's industrial countries. Population growth is strongest in Africa, Asia, the Middle East as well as in Central and South America.

<sup>1</sup>United Nations, World Population Prospects, Total Population 1950-2100, 2015.

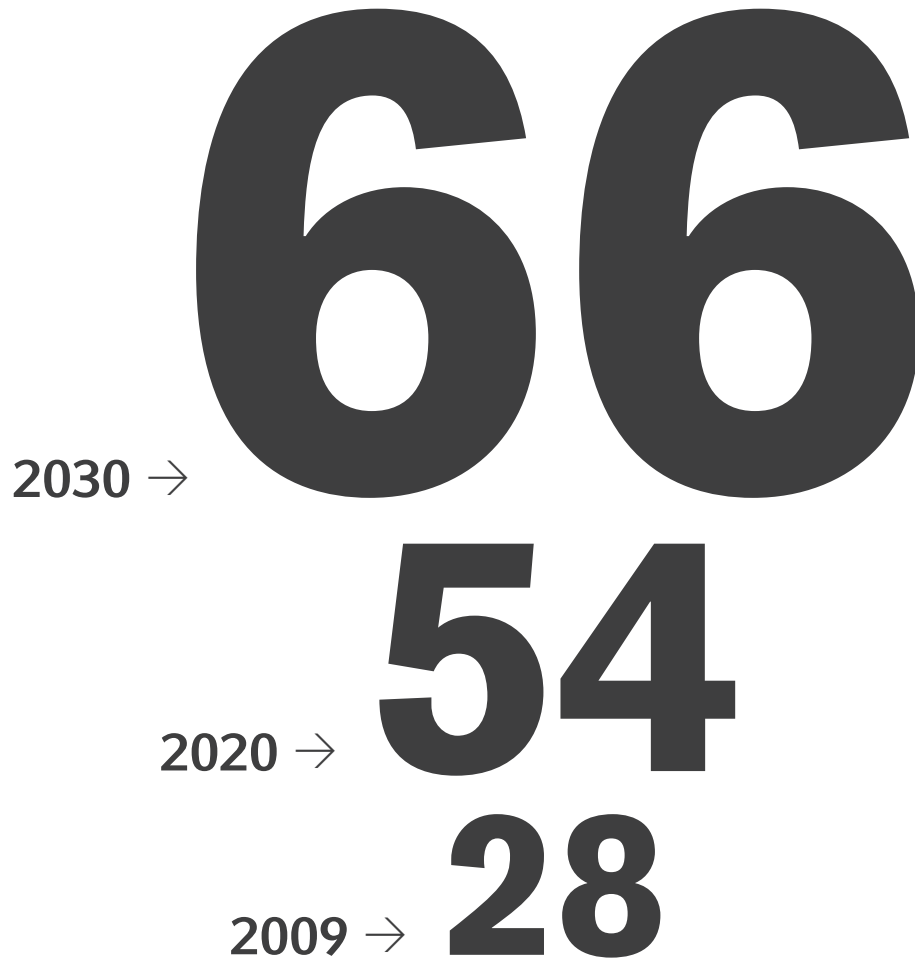
# BOOMING MIDDLE CLASS

An affluent middle class is growing in the emerging countries. The economic upswing means people have more money in their pockets promoting purchasing power: consumer goods, such as cars, household appliances and electronics will be more in demand than ever before.





Asia-Pacific percentage share in global middle class<sup>1</sup>



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By 2030, around 3 billion people in Asia will belong to the middle class – ten times more than in North America and five times more than in Europe.

<sup>1</sup>OECD, The Emerging Middle Class in Developing Countries, 2010.



# SOARING BUYING POWER

A growing portion of the world's population will experience further economic improvement and will be better positioned. Billions of people have greater financial means for a better standard of living with a corresponding higher level of consumption. Goods need to be transported; transport volumes are increasing.



Expenditures of the global middle class in billion ppp dollars <sup>1</sup>



**55,680** ← 2030  
**35,045** ← 2020  
**21,278** ← 2009

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The strong increase in spending in the global middle class is among the most thriving economic factors of our time. Asian countries contribute more than 80% of this increase.

<sup>1</sup> OECD, The Emerging Middle Class in Developing Countries, 2010.  
PPP dollar (international dollar) is a reference currency calculated by the World Bank using purchasing power parity and on the basis of a base year (here: 2005). The purchasing power of one international dollar is equivalent to one US dollar.

# GROWING TRANSPORT VOLUME

Good prospects for global freight transport: production has never been higher than it is today and the trend is set to continue as the quantity of goods is increasing with increasing consumption. And one thing is for sure: a considerable share of the freight will reach its final destination by road – in trucks and trailers.



Worldwide transport volume in trillion ton kilometers<sup>1</sup>



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Worldwide freight traffic will quadruple in the coming years. Growth in inland freight traffic will be particularly high in Africa and Asia – continents on which road transport is dominant.

<sup>1</sup>Transport Outlook 2015.

# EXPANDING INFRASTRUCTURE

The world is changing. There are even more metropolises and cities of over one million inhabitants arising in emerging regions as well as in Europe and North America. Infrastructure has to keep up. New roads are being built and high-performance transport networks are being created. The demand for environmentally friendly transport is at the heart of it all.



Worldwide infrastructure spending on road networks  
in billion US dollars (p. a.)<sup>1</sup>



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The global road network is growing, especially in emerging markets. The total length of the Chinese road network has more than tripled since 1999. It now stretches over a huge 4.5 million kilometers and is set to grow even more.

<sup>1</sup>PwC, Outlook to 2025 Data Modeller, Trends in annual infrastructure spend by sector, roadnet, August 2015.

- GLOBAL POPULATION CONTINUES TO GROW
- BOOMING MIDDLE CLASS
- SOARING BUYING POWER
- GROWING TRANSPORT VOLUME
- EXPANDING INFRASTRUCTURE



# ROADMAP 2020

The route to the future

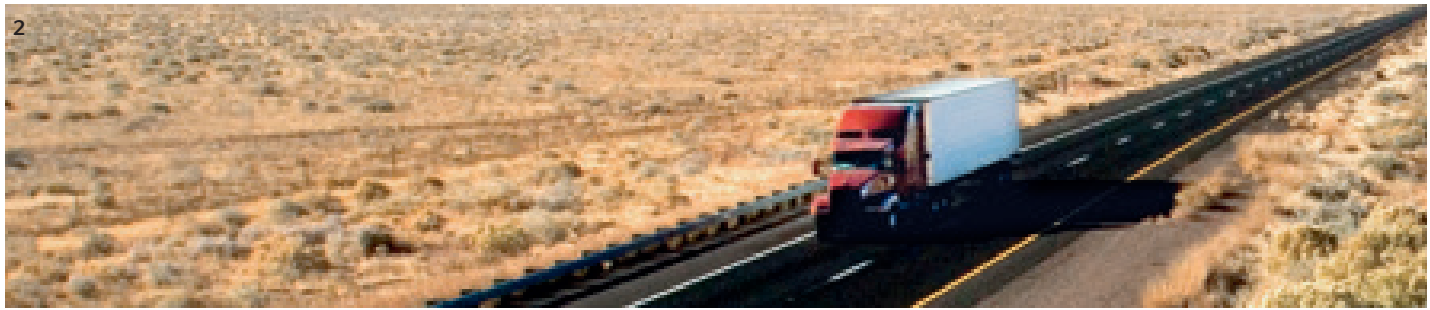
We have analyzed the global megatrends that are applicable over the long term, filtered out the developments that are relevant for us and on this basis derived our plan for the years ahead of us until 2020 and beyond. We have positioned ourselves both strategically and organizationally, secured the financial resources and laid the foundation for additional growth. The focus now turns to the implementation. We will continue to concentrate on our core competences. From this starting position, we will add new products and applications to our program in a targeted manner and consistently roll out our business in promising new markets.

The following reports and interviews are representative for our growth areas.

2015

Annual Report

# STRATEGY 2020



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Worldwide

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### NEW MARKETS

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Primarily in the Middle East,  
Africa and China

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### AFTERMARKET

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Worldwide

# FOREWORD FROM THE MANAGEMENT BOARD



**Detlef Borghardt,**  
Chief Executive Officer (CEO)

*Ladies and Gentlemen, Dear Shareholders and Investors,*

This past year has been a special year for SAF-HOLLAND; not only because of the particular challenges presented to us by the international market environment in 2015 but because, despite these challenges, we still achieved the mid-term targets presented to our shareholders five years ago. In 2010, we set out to achieve Group sales of one billion euros and an adjusted EBIT margin of 9 to 10% by the end of fiscal year 2015. You might recall, in 2010 we had sales of just EUR 631 million and an operating margin of 5.9%.

Despite unforeseen weakness in markets important to us such as the Russian Federation and Australia and the further economic downside in Brazil – all of which pressured both our sales and earnings in 2015 – we were able to keep our word: Sales significantly exceeded the one billion euro threshold, carried in part by positive currency effects, and the adjusted EBIT margin of 8.9 % has largely been achieved at the lower end of the target range.

2015 marked a new record year. With net cash flow from operating activities of EUR 63 million, we outperformed our previous year's figure by 75% and, at EUR 51.7 million, recorded a 58% higher result for the period. We want our shareholders to be able to participate adequately in the Company's success, which is why we will propose a 25% dividend increase to 40 eurocents at the Annual General Meeting on April 28. Based on the share's 2015 closing price, this equates to an attractive dividend yield of 3.2 percent. We, the Management Board, would like to sincerely thank our employees whose commitment and expertise were largely responsible for this performance.

Now let us turn to what lies ahead: The year 2015 was also special because our Strategy 2020 brought the Company's development to the next level. This year's annual report will give you an in-depth look at this strategy, describe the measures involved, and illustrate the opportunities we see for SAF-HOLLAND. In May 2015, we introduced the Group's new targets: Starting from sales of EUR 960 million in fiscal year 2014, we intend to increase Group sales organically to roughly EUR 1,250 million by 2020. At the same

time, we plan to reach a solid adjusted EBIT margin of at least 8% on average, providing a suitable return for our shareholders. In addition, we plan to augment growth through collaborations, joint ventures, and acquisitions to bring Group sales to the overall target level of EUR 1.5 billion by the year 2020. The emphasis will be on facilitating rapid market penetration in new growth markets or on strengthening our existing foothold in these markets. We intend to boost our Aftermarket business by establishing new international parts distribution centers and sales offices and by making targeted acquisitions. We have established the financial foundation for achieving the Strategy 2020 targets with our strong cash flow and our first-time issue of a promissory note loan, which brought proceeds of EUR 200 million.

We have also thoroughly restructured our organization and reporting lines according to our medium-term targets and have adopted a regional structure. These changes will make us more effective and have brought us even closer to our customers.

Approximately 90% of our sales in 2015 were generated in our core markets of North America and Europe. This means, in a worldwide comparison, we are operating in a relatively stable economic environment, also when taking political risks into consideration. Our strongest incremental percentage growth, however, was achieved in the emerged and emerging markets included in the region "Others". We prefer to take a countercyclical approach. The temporary slowdown in some growth markets that are highly attractive from a medium-term perspective, for example within the MINT economies or among the NEXT 11 countries, increases the chance of entering into collaborations and joint ventures or making acquisitions at reasonable terms to enhance our organic growth and add complementary technologies.

We strengthened our international production network in 2015, which included the successful and on schedule consolidation of our German plants in September 2015. This laid the groundwork for continuing our process optimization at our Bessenbach location. Our intention is to offset rising wage costs and secure the international competitiveness of our domestic locations over the long term. We also divested our Canadian plant in Norwich in the course of selling our AerWay product line.

We are focused intently on designing new products and applications, particularly for the needs of our fleet customers. Among others, this means even lighter lightweight products that help save fuel, reduce CO<sub>2</sub> emissions, and make a marked contribution to lowering the total cost of ownership for transportation companies. Technological innovation and digitalization are factors that are increasingly influencing our business model. Therefore, we will take advantage of any emerging opportunities and push forward with our development in these areas.

In some markets, the year 2016 is predicted to be another challenging year. However, our strong position in the further recovering European market, new customer acquisitions, and our high standing in the Aftermarket business give us confidence that the 2016 fiscal year will be another year of solid performance for SAF-HOLLAND. The glass is half full, not half empty: Pent-up demand in regions such as Russia and the bottoming-out in the Australian and Brazilian markets should set the stage for renewed growth in these countries no later than in the next one to two years.

We invite you to join us on our journey ahead, be it as a customer, employee, development partner, supplier, or as our shareholder. We continue to count on your trust and look forward to working with you.

With best regards from Bessenbach

Sincerely,

  
Detlef Borghardt (CEO)



# MANAGEMENT BOARD





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**Detlef Borghardt***Chief Executive Officer (CEO) & President Region APAC/China*

Detlef Borghardt has been CEO of the SAF-HOLLAND Group since July 1, 2011 and has also served as President for the Region APAC/China since January 1, 2016. Between 2007 and 2011 Detlef Borghardt was Head of the Trailer Systems Business Unit and also assumed the position of Deputy CEO in January 2011. Detlef Borghardt joined the former SAF in 2000 as Head of Sales, Services and Marketing. In mid-2007, he was appointed to the Management Board and assumed responsibility for the Trailer Systems Business Unit. Before joining SAF-HOLLAND, he held various management positions with Alusuisse-Lonza in Singen, Germany, including Director of Marketing, Sales and Engineering as well as Head of Sales for aluminum extruded products. Detlef Borghardt holds an engineering degree in vehicle design from the University of Applied Sciences in Hamburg, Germany.

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**Wilfried Trepels***Chief Financial Officer (CFO)*

Wilfried Trepels has been Chief Financial Officer (CFO) and member of the Management Board of SAF-HOLLAND since June 20, 2007. He joined the former SAF Group as Chief Financial Officer in 2005. Previously, from 2001 to 2005, Trepels was Managing Director of Dürr Systems GmbH, a subsidiary of Dürr AG, and from 1998 to 2001 he was Managing Director of Schenck Process GmbH, also a subsidiary of Dürr AG. Prior to that, he worked for Dürkopp Adler AG in Bielefeld, Germany as Director of Finance and Accounting. Wilfried Trepels holds a degree in business administration from the University of Aachen.

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**Mike Kamsickas***Chief Operating Officer (COO)*

Mike Kamsickas has been Chief Operating Officer (COO) at the SAF-HOLLAND Group since January 1, 2016 and is a member of the Management Board. He was previously President of the Powered Vehicle Systems Business Unit. Prior to joining SAF-HOLLAND, Mike Kamsickas was active as Executive Vice President Global Operations Group at DAYCO. He looks back on more than 30 years of experience in the automotive and commercial vehicle industries. Kamsickas earned a degree in business administration at Central Michigan University. He also holds a master's degree in advanced management from Michigan State University, USA.

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**Steffen Schewerda***President Region Americas*

Steffen Schewerda has held the position of President Region Americas since January 1, 2016 and is member of the Management Board. Previously, from July 1, 2011 to December 31, 2015, Schewerda was President of the Trailer Systems Business Unit. At the same time, Schewerda, as member of the Management Board, has been responsible for Group Operations since June 20, 2007. Steffen Schewerda has been with the company since 1997 in various management roles including Head of Material Management and Logistics and responsible for the entire production at the German locations as well as industrial engineering. Steffen Schewerda studied engineering at the University of Aachen and holds an MBA from the Universities of Augsburg and Pittsburgh, USA.

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**Alexander Geis***President Region EMEA/India*

Since January 1, 2016, in the course of the new organizational structure, Alexander Geis has held the position as President Region EMEA/India and is member of the Management Board. From July 1, 2011 until December 31, 2015, Alexander Geis was as member of the Management Board responsible for the Aftermarket Business Unit after assuming overall responsibility for the segment on October 1, 2009. As Head of this Business Unit, he was responsible for the strategic and operative alignment of the global spare parts business. His professional career at SAF-HOLLAND began in 1995 in the sales area. In the following years, Alexander Geis took on various tasks with a continuous growth in responsibility in the company. These included Sales Director Foreign Markets and Director Spare Parts as well as Vice President and, most recently, President of the Aftermarket Business Unit. Alexander Geis holds an MBA from the University of Maryland, USA.

# REPORT FROM THE BOARD OF DIRECTORS



**Bernhard Schneider,**  
Chairman of the  
Board of Directors

*Ladies and Gentlemen,  
Dear Shareholders and Investors,*

The general economic and industry-specific environment was challenging in reporting year 2015. Important commercial vehicle markets such as Brazil, Russia and even Australia recorded substantial declines. Against this backdrop, the positive business development of SAF-HOLLAND in financial year 2015 is to be viewed as a tremendous success. In terms of sales, the company managed to clearly surpass its annual target and, in terms of adjusted EBIT margin, our expectations were largely met. Furthermore, the groundwork for a successful future was laid with the growth strategy 2020. In line with our proven dividend policy, we will propose to the Annual General Meeting on April 28, 2016 the distribution of a dividend of EUR 0.40 per share – an increase of about 25%.

#### **Collaboration of the boards**

The Board of Directors conscientiously carried out its duties in accordance with legal requirements and the articles of association of the company during financial year 2015. The main responsibilities of the Board of Directors include advising the Management Board in the operational management of the business and monitoring the conduct of business. The Management Board informed the Board of Directors, both in writing and in person, regularly, thoroughly and in a timely manner on all relevant occurrences and developments. The focus in this regard was, in addition to the order, sales and earnings development, also the strategic repositioning of the Group. Product and market developments, and aspects of risk management and compliance as well as the financial position, were also jointly discussed and debated with the Management Board. We reviewed any business transactions requiring approval from the Board of Directors and decided on their approval.

#### **Focus of consultations**

A key topic of consultations in the Board of Directors in the reporting year was the definition of the strategy 2020 and its communication toward the capital markets. The board dealt in particular with the strategic positioning, the position in the respective market segments, the most important growth areas, the relevant regional megatrends and the resulting financial objectives of the company. In May 2015, the strategy 2020 was published within the scope of the financial reporting on the first quarter. Further details were published during the Capital Markets Day in December 2015, including the change of the organizational structure into a regional set-up as approved by the Board of Directors in order to focus SAF-HOLLAND more clearly on the additional growth areas in new markets and to achieve synergies among the former Business Units.

In connection with the objectives of strategy 2020, the Board of Directors also dealt intensively with the new growth strategy developed by the Management Board and the criteria that it defines, including the strategic objectives, the operational aspects and the financial requirements.

#### **Meetings of the Board of Directors**

The Board of Directors met regularly in financial year 2015. A total of five meetings were held, with a minimum of one meeting per quarter. None of the Board members took part in less than half of the meetings. Members of the Management Board were also present at most of the meetings as guests.

At the meeting on March 10, 2015, in which the auditors also participated, the focus was on the consolidated financial statements and the group management report for financial year 2014. On the recommendation of the Audit Committee and after thorough review, the statement was approved by the Board of Directors. In addition, the Board resolved to conduct the Annual General Meeting 2015 in a simplified form in terms of organization and process. The Board also dealt with the adjustment to the vesting conditions for the phantom share program established in 2010 and the objectives for the Management Board and other managers for financial year 2015.

The members of the Board of Directors held their second meeting of the year on May 8, 2015 on the occasion of the company's management meeting in Frankfurt am Main. The items on the agenda, in addition to the report on business development in the first quarter and the current order situation, included in particular an analysis of SAF-HOLLAND's market position and the development of the market share in the various product areas.

The meeting of the Board of Directors on August 4 and 5 was held in Holland, Michigan, USA, one of the company's North American locations. One of the focuses of the meeting, in addition to the report on business development in the second quarter, was the current status of the restructuring program and the customer structure in the Trailer Systems Business Unit. Furthermore, the Board approved the appointment of Mike Kamsickas as Managing Director of SAF-HOLLAND Inc. He succeeds Jack Gisinger who retired at the end of 2015. The Board also decided on the convening of an Extraordinary General Meeting in order to adjust the conditions for the use of the authorized share capital as already approved by the Annual General Meeting in 2012.

During the meeting on November 3, 2015, in addition to the report on business development in the third quarter and the current order situation, the forecast for the truck and trailer markets in North America and Europe for 2016 was also dealt with. Further items at this meeting included the medium term financing situation following the renewal and expansion of the credit lines carried out in October and the planned issue of a promissory note loan as well as an analysis of the relative position of SAF-HOLLAND in comparison with its key competitors and customers. In addition, the agenda for the Extraordinary General Meeting in December 2015 and the new organizational structure of SAF-HOLLAND S.A. were approved.

The last meeting of the Board of Directors in financial year 2015 took place in advance of the Capital Markets Day on December 7 and 8 in Luxembourg. The focus of the meeting was on the changed organizational structure of the Group and the realignment of the areas of responsibility in the Management Board which were implemented as part of the strategy 2020. In addition to the current order and sales situation, the Board also dealt with the budget of the individual business units and of the Group for the year 2016 as well as the medium-term planning until 2020.

#### **Audit Committee**

The Board of Directors is supported in its activities by the Audit Committee. The Audit Committee met twice in the reporting year. It dealt primarily and in detail with the quarterly figures and the annual financial statements as well as the results of the audit and compliance reviews. The content of these meetings was presented and submitted for approval to the Board of Directors.

#### **Corporate Governance**

In the reporting year, the Board of Directors once again dedicated itself intensively to the topic of corporate governance. The 2015 Declaration of Conformity with the recommendations of the German Corporate Governance Code was submitted by the Board of Directors of SAF-HOLLAND in March 2015. The current Declaration of Conformity issued in March 2016 can be found on the company's website.

### **Audit of the consolidated financial statements and balance sheet meeting**

On April 23, 2015, the Annual General Meeting elected Ernst & Young S.A., Luxembourg, as auditor for financial year 2015.

Ernst & Young audited the consolidated financial statements and consolidated management report prepared by SAF-HOLLAND S.A. as of December 31, 2015. The auditor issued an unqualified audit certificate and came to the conclusion that the consolidated financial statements give a true and fair view of the sales and earnings performance, net assets and financial position as well as cash flows of SAF-HOLLAND S.A. The auditor confirmed that the consolidated management report, including the declaration on the corporate governance code, is consistent with the consolidated financial statements.

The consolidated financial statements, the consolidated management report as well as the report and documentation of the auditors were submitted to the Board of Directors in a timely manner. Following relevant preparatory work of the Audit Committee, the consolidated financial statements, the reports and documents were subject to complete review by the Board of Directors. At the meeting of March 9, 2016, the Board of Directors discussed, agreed and approved the consolidated financial statements as submitted. The auditor participated in the meeting, reported on the principal results of his audit and was available to respond to detailed questions. The Board of Directors endorses the Management Board's recommendation on the utilization of retained earnings and proposes to the Annual General Meeting on April 28, 2016 the payment of a dividend of EUR 0.40 per share for financial year 2015.

### **Personnel Changes in the Board of Directors**

The mandate of Richard Muzzy ended as planned at the end of the Annual General Meeting on April 23, 2015. Mr. Muzzy stepped down from the Board after reaching retirement age. On behalf of the entire Board of Directors, I would like to express my special thanks for his long and dedicated commitment to SAF-HOLLAND with which he shaped the development of the company. Following the merger of the former SAF and Holland Group, he accompanied the growth path of SAF-HOLLAND and played key roles in turning it into the successful international company that we are all familiar with today.

In order to ensure a smooth transition, the Annual General Meeting of the previous year had already elected Martina Merz as new Member of the Board of Directors.

The Board of Directors would like to express its thanks to all employees, employee representatives and the Management Board for their tremendous commitment and their successful work in financial year 2015.

Luxembourg, March 2016



Bernhard Schneider  
Chairman of the Board of Directors

“Megatrends and new markets certainly offer opportunities. As a German-American company you are already binationally positioned. You’ve shown that that is successful. For you, global now means moving to the next level.”





# DETLEF BORGHARDT TALKS TO CHERNO JOBATEY

***Cherno Jobatey: Mr. Borghardt, you run a German-American company – with great success. 90 percent of your sales are made in North America and Europe. By 2020 around a third of sales should come from the so-called emerging markets. Here you are relying on megatrends that are believed to have been spotted. However, there are dozens of them. How do you know which are the right ones?***

Detlef Borghardt: We believe that we have found the right megatrends for us by asking the questions: What drives our business? Why do people order our products?

***And the answer?***

That can be summed up in one word: transport. Whenever transport occurs, whether it is of people or goods, we are in business. That is our structural growth driver. Among the megatrends that influence transport, we have deliberately looked not just at the next three years, but the next 15 years. Our business is long-term and conservative. The megatrends that we will encounter in these scenarios include the topics of sustainability and digitalization. Global population growth is particularly important for us.

***Because an increasing number of people need ever more goods?***

Exactly. And because people need money to buy goods, which must be transported, we also asked ourselves: Where will money be earned in the future? Today between 55 and 60 percent of the global middle class is in Europe and North America. According to studies, this will shift dramatically in the next 15 years.

***Where to?***

Towards Asia, Mexico, South America and Africa, which I found particularly surprising. Although Europe and North America are not going to become poor, in 2030, the new customers who can afford goods, will particularly be in the regions I mentioned.

***Have you identified any other megatrends?***

Yes, infrastructure. What is the use of 500 million people living in North Africa in 2030 who want to buy televisions or iPads if there are no transport facilities? So we looked at the existing and predicted development of infrastructure. →



“We are transitioning from a company with a strong German-American influence to a global Group and are thereby relying heavily on our core competences and a strong team.”

***And what was the result of this comparison?***

In Western Europe, Europe and North America there is little investment being made in new roads – but huge investment in China, the ASEAN area and Africa. In China alone there is talk of up to 35 billion US-dollar in infrastructure investment per year, just in bridges and highways.

***Is it not also possible that new transport technology will emerge in these countries and scenarios that will replace trucks?***

We do not think that this is possible. Even if rail transport increased, trucks would still be required at the beginning and end of the transport chain: a train cannot come to you at the end of the street and unload the television. In addition, transport volume will grow exponentially with population growth because companies outsource their production to emerging countries as part of the global distribution of labor, and the products and components have to be returned to Europe or North America. This will primarily be done by road.

***How did you explain to your employees that in the future you want to focus more on the emerging countries of the Next 11 or MINT countries – although things are going well in the core markets?***

The first thing I said to them was: you have no reason to worry. The fact that we want to make a third of our sales in other regions by 2020 and half by 2030 does not mean that we will reduce the number of engineers and business managers in Germany or America. On the contrary, we will take on new employees in China, Indonesia or Brazil in order to expand there. We need our current core staff to pass on their knowledge and train new colleagues. Because there are many cultural differences, this will be an exciting, ongoing process.

***As a German-American company you are already binationally positioned and – though on a small scale – have been active in Brazil and China for some time.***

Being German-American works quite well. But a German is a German and an American is an American. They will not automatically become Chinese or Mexican just because we say: now we are global. It does not work like that.

***True. How does a German engineer cope when a right angle suddenly isn't necessarily 90 degrees?***

With difficulty. We were wrong to initially send our engineers abroad to teach the colleagues there how things work. Now colleagues from abroad come to us, work in Germany or the USA for several months and then go back and say: in Germany they would do things like this; there, right angles are 90 degrees.

***Being multinational means getting closer together. Global means that you cannot say: I know what is right – instead, global means sometimes having to find a middle ground. Right?***

In simple terms, yes. And you have to keep the communication going. That is something we have had to learn.

***How long did the process take?***

We are still right in the middle of it. But we really only understood this three or four years ago, after we expanded abroad – and lost money there.

***What was the point when you realized: now we need to do things differently?***

In 2008, I had a conversation with the Chief Executive Officer of a large Chinese customer, who I have known for almost 15 years. He said: “Detlef, are you sure you haven't made a mistake with this?” At the time we had a fantastic, lightweight product and gave it a six year guarantee. But he said that in China, no one was interested about what would happen in six years time. “Customers want to buy now, they are paying now – they are not interested in anything else.”

***What was his advice?***

He said: “Make products that last at least two to three years – that's enough for now. And accept a correspondingly low price.” I initially said: “I can't, our products are just too good.” But on the flight home I realized: It's a shame we didn't listen.

***And what did you do with this realization?***

We simplified the products. Unlike in Europe or the USA, in countries such as China or Brazil products are simpler, less versatile and heavier. This makes them cheaper. And the results are good.



***So you are now making money in these countries?***

Yes. The key is providing the right products for each particular market. And we are well positioned to change our offerings as the market changes.

***What you are saying about the emerging markets is convincing – almost. If we look closer, the so-called BRIC countries, Brazil, Russia, India, China as well as South Africa, are not doing as well as first thought. Have you really made the right decision?***

The dip that we are currently experiencing in those countries is not bothering us – our business is still small there. But in the long term, we need to be present in these regions, because they will grow again, and they will grow more than Europe and North America.

***Let me put it a different way: Shouldn't you have started expanding sooner? Market valuations and thereby the acquisition prices for companies have increased.***

That may be true. But then some of our plants there would be empty today. That we weren't there sooner has turned out to be a real stroke of luck – also because medium-sized companies looking for a partner are knocking on our door every week. At the same time, possible acquisitions are financially more attractive for us than ever as a result of the devaluations of local currencies. We can now take a counter-cyclical approach.

***So how are you preparing your company to go from being a traditional German company from the countryside to a global player?***

We have decided to change our Group structure. Since the merger of SAF and Holland at the end of 2006, we have had a structure based on the three Business Units Trailer Systems, Powered Vehicle Systems and Aftermarket, who operate largely independently worldwide. For our global expansion, we need to be organized by regions: that means that one member of the Management Board will be responsible for Europe/the Middle East/Africa and India, one for America and one for Asia-Pacific and China.

***What does that mean for the employees?***

I think that many of them understand this as an opportunity and, for example, be prepared to spend two or three years in somewhere such as Dubai or Istanbul. This will, of course, require time and some convincing – and people who will take the lead. But then it will work. →

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CEO Detlef Borghardt in a lively discussion with the journalist, TV presenter and editorial director of the German edition of the Huffington Post, Cherno Jobatey, about the growth opportunities in new markets, how employees will be involved and industry 4.0



***You are very persuasive when you talk about the megatrends important to you, but there are a lot of very smart people in New York with a big influence on the White House who say: instead of the supposed megatrends, microtrends are the real growth drivers. Who should I believe – Obama's advisers or you?***

I believe that everyone is right. Megatrends are about a long-term, lasting consideration. And if the advisor says that we should be focusing more on structural microtrends, then we can say: we are doing that too. We want to increase our sales from around one billion Euro today to close to 1.5 billion Euro by 2020. Around 200 to 250 million of this additional half a billion should come from joint ventures and acquisitions in special regions. This means we will use acquisitions to combine organic growth with the trend towards consolidation through inorganic growth.

***When we talk about population growth and the increasing transport volumes, there is one topic we cannot avoid: energy. Alternative drives and saving fuel are becoming ever more important. How sustainable, how "green" are you? You're wearing a blue jacket...***

You are talking about several aspects. One is the development of technology, in which alternative drives are indeed a very hot topic. We do not manufacture engine technology or transmissions, but we do produce components, axles and suspension systems for electric buses, for instance.

***And this means that you are directly affected by this topic again?***

Exactly. Because electric buses need a lot of space for the battery stacks. Unfortunately, the axles and suspension systems are in the same place in the vehicle, which causes problems. We recently purchased a Chinese company whose suspension systems fit into electric buses and work well. This makes us one of the very few suppliers in China. The Chinese electric bus market is booming and other Asian markets are following.

***And the topic of fuel consumption and CO<sub>2</sub> emissions?***

As far as CO<sub>2</sub> emissions are concerned, weight is the central issue. A heavy truck or trailer needs more energy, which is why light-weight construction is a top priority for us. If a truck-trailer combination is to produce less carbon dioxide and use less diesel then it must be lighter – even in combination with higher performance engines. We explain to the manufacturers of trucks and trailers: we can build axles from carbon – but we are not doing it yet because it would be very expensive. I think that will change in five or ten years.

***Where do you stand with sustainability?***

We have taken an active approach to this topic in our company for the last year and a half, but have realized: we cannot become completely CO<sub>2</sub> neutral.

***Why not?***

Because we would have to do this from A to Z – from purchasing and manufacturing the product across its entire useful life to scrapping or recycling. But we do not know what will happen to our product once it leaves our plant. Where does it travel? How long does it travel? How is it used, and what is it used for? We cannot measure this across the entire life cycle.

***But at least some CO<sub>2</sub> reduction must be achievable.***

In production, we have actually managed a lot. Between 2014 and 2015, we have saved almost 30 percent in energy costs for lighting, air conditioning and heating at our German locations in Bessenbach. We asked employees for their energy-saving ideas and have implemented them. It takes a lot of small steps, but I think we are heading in the right direction. In 2016, we want to be among the first in our sector to target sustainable CO<sub>2</sub> reduction and make this an important part of our marketing.

***How reliable are predictions really in times in which the world, in comparison with 10 or 15 years ago, is in a state of disorder? We have numerous international crises, the climate conference is starting and the refugee debate is in full swing.***

It is indeed difficult to say how reliable they are. But my experience in the last 25 years is that there are always crises of differing types and dimensions. In the global financial crisis of 2008/2009, we lost more than half of our order backlog in Europe in a matter of a few weeks.

***What do you do in that situation? Do you bang your head against the wall?***

You pray and you take action. From a business point of view it is important to have a solid, widely spread business base and to conduct risk management. This allows you to compensate for crises in individual markets. Our operations were never in the red, even in 2008/2009.

***You must be good.***

The team is good. We responded very quickly. And surviving a crisis like that increases self-confidence.

***To conclude, let me talk about a different topic. Nowadays, everyone is talking about digitalization, industry 4.0, networked production sites and so on. Is this happening for you?***

Of course. Our German plants are using highly advanced technology with many robots, controls and interconnected plants.

***When did that start?***

Three years ago, for example, we implemented a program in which the customer is directly involved. Our system uses the customers' order history and their own needs forecast for the next twelve months to calculate what they are likely to need from us in the near future. We can then determine the necessary materials and machine times, what we need for the welding system and assembly line and how many people we require to do this. Thanks to the evaluation of historic data and forecasts, we can even calculate when plants are likely to break down – this is called preventative maintenance.



***And that works?***

Not quite 100 percent yet, but fairly well. Whether this is now industry 4.0, I don't know. But the automated process is something very different from what we were doing 15 years ago. However, we have been using this format primarily in Germany so far. We are not quite as far at our plants in Brazil and China and the processes there are not comparable. In the future, we will roll out this technology step by step across our other production sites.

***If I imagine us meeting again in five years time: How has the world changed, where is SAF-HOLLAND? Give me your perspective.***

Where the world will be, I don't know. I hope it will be better than today. If everything works, SAF-HOLLAND will be significantly larger than today – with more plants, more employees and more products. But also more interconnected and closer to customers. If we do everything right, then we will have built a strong reputation in markets where we are relatively small today. We want to be number one or at least number two in these markets, as we are already with our core products. Whether we will have come that far by 2020, I don't know. But we will be heading in that direction. Of that I'm sure.

***Many thanks, Mr. Borghardt!***

Thank you, Mr. Jobatey!

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Detlef Borghardt and Cherno Jobatey discuss the far-reaching influence of megatrends on people and on business





The goal: EUR 1,500 million sales by 2020



→ “The message from the megatrends that are relevant for the transport sector is clear: more people in the middle class, more buying power and consumption, primarily in a number of emerging markets, means a greater volume of goods transported over roads with trucks and trailers. With the growth strategy 2020, we are consistently aligning our business operations and our Group structure toward these global developments and are taking advantage of the growth potential that results for our business model. We have developed a total of 64 business plans for markets and products that we will roll out and with which we intend to grow organically. We will present these to you in the impressive reports and interviews that you will find on the following pages.” — Detlef Borghardt, CEO

#### 64 BUSINESS PLANS IN THE FOUR MAJOR GROWTH AREAS

- Axle and suspension systems for trailers – Europe and North America
- Truck and bus suspension systems – worldwide
- New markets – primarily in the Middle East, Africa and China
- Aftermarket – worldwide



“The greatest potential for SAF-HOLLAND in the North American trailer market rests on two pillars: our innovative product solutions and the close collaboration with our customers.”





# TRANSFER IS KEY



**SAF-HOLLAND takes advantage of the growth opportunities in the North American trailer market – and thus continues a European success story.** \_ In 2011, the company launched its own axle production in North America. Today, the company is already among the top 3 suppliers of axle and suspension systems in this core market. But SAF-HOLLAND also has big plans in North America for the future. Björn Meyer reports on the strengths, plans and perspectives of the business with axle and suspension systems in the world's second largest commercial vehicles market.

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Björn Meyer is a specialist when it comes to axle production, bringing together experience from three continents. For SAF-HOLLAND, he already worked at the German location in Bessenbach, in Xiamen, China and in North America. Today, he works as Vice President Operations for the America region. His focus: the SAF-HOLLAND plants in Canada, the USA and Brazil.



***SAF-HOLLAND intends to expand its market share in the North American trailer market to 30% in the medium term. Is that an ambitious goal?***

A market share of 30% is an ambitious goal, but it is also realistic. Innovations and a strong positioning toward the needs of the customer are keys to success. The fleet teams from SAF-HOLLAND are in close and permanent contact with the fleets. We listen to our customers and offer them outstanding technical solutions.

***The focus of the growth initiative is on axle and suspension systems – product groups that the company in North America has already been pushing for some time. What approach will you take with regard to expanding your market share?***

In recent years, axle and suspension systems have been the drivers of our growth in North America and they will continue to drive growth in the future. SAF-HOLLAND has positioned itself well in this area: we have been investing steadily in our production capacities for many years. At the same time, the product range has been expanded in a way that allows SAF-HOLLAND to flexibly supply the market with standard and premium products. In addition, the comprehensive service network offers fast and secure delivery of spare parts – for all customers and for every product variation. The growing sales figures confirm the success of this concept.



***What sets SAF-HOLLAND's products apart in the North American trailer market?***

The advantages are clearly in the product features. In an industry comparison, our components and systems are particularly light, durable and safe. And we also have a modular product concept. This allows us to supply manufacturers of standard vehicles as well as niche markets and manufacturers of vocational trucks.

***In the European trailer market, SAF-HOLLAND is a leader for both axles and suspension systems. Does the North American business benefit from this strong market position?***

Absolutely. After all, the North American technologies are based on many years of development work and practical experience in Europe. This is on top of the direct transfer of knowledge through employees. SAF-HOLLAND is internationally positioned and the exchange among countries and regions is reflected in each and every one of our projects. It is, however, extremely important to adapt technologies to the local markets. It starts with local applications and moves on to local production, which makes it possible to quickly address customer requirements. →

## → STRATEGY

### Expansion of the division for axles and suspension systems for trailers

**In Europe und North America** \_ The expansion of market share for axle and suspension systems in the core markets, primarily in North America, plays a decisive role in the growth strategy 2020. In North America, where plans call for the market share to be expanded to 30% in the medium term, SAF-HOLLAND has already significantly increased its production capacities. The potential that has been created will now be gradually utilized. In Europe, SAF-HOLLAND wants to grow in the trailer sector through innovations in special segments in particular. The initiatives of a complex package of measures that have now been implemented are also making an important contribution for both core markets. They are paving the way through savings on the cost side and guarantee sustainable sales increases.

“To generate growth, it is important to set yourself apart on the market. We have therefore developed and launched innovative products that offer value added for our fleet customers.”

# 480

With axles, suspension systems and other key components for trailers, SAF-HOLLAND generated sales of EUR 480 million worldwide in 2014.



# 650

By the end of 2020, the share of sales worldwide accounted for in this sector will increase by 35% to EUR 650 million.



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The development of innovative axle and suspension systems is among SAF-HOLLAND's core competences. The expansion of the product range in core markets, primarily in North America, is a key element of the growth strategy 2020.

“The North American business also benefits from our extensive expertise and strong position in the European trailer market. This applies in particular to the transfer of proven technologies as well as with regard to the experience of developing a business and a market.”



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 Björn Meyer at the plant in Warrenton, Missouri. SAF-HOLLAND's North American production capacities have been expanded significantly in recent years.

***Is the transfer of technologies, knowledge and experience an important success factor for SAF-HOLLAND?***

Transfer is clearly one of the key factors of our company success – also with regard to internal company networking and integration. There are a lot of examples of large, international mergers that did not work. That is not the case at SAF-HOLLAND. We have managed to fully integrate the American Holland Group and the German SAF. This integration competence is a clear strength of SAF-HOLLAND.

***Speaking of integration competence: in Xiamen, SAF-HOLLAND produces axles for Chinese trailers that are exported to North America. What role does the location, which was acquired in 2009, play in the planned expansion of North American market share?***

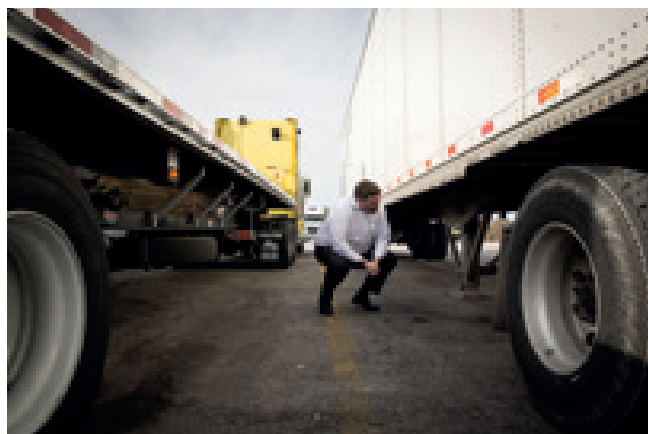
The role of the Chinese location is becoming increasingly important, also for North America. There are many ways that Xiamen can support this region – with components, axles or even systems. By now, the plant nearly has the same technological standard as American or European plants.

## LEADING IN EUROPE

When it comes to axle and suspension systems for trailers, SAF-HOLLAND has a leading position in Europe and has been able to substantially increase its market share within just a few years – and there are many reasons for this success. Among the most important are the extensive technological competence in integrated axle production and a well-filled portfolio of new developments. From 2016, new air suspension systems from the INTRA series, among other things, will be driving demand. The INTRA R is designed for trailers in use off-road and those with stiff frames, such as tankers and tippers. INTRA S, on the other hand, is designed for curtainsiders and coolers. Both variants earn points for their maintenance-free axle connection and suitability for proven chassis connections. Beyond the innovations, SAF-HOLLAND stands out in trailer market with quality and reliability as well as with exemplary values in the elementary product categories weight, durability and safety. This is in addition to the nearly perfect supply of spare parts – a key argument for fleet operators to equip their trailers with SAF-HOLLAND products.

As is the case in all business sectors, SAF-HOLLAND also relies on close contact with fleet customers in axle and suspension systems. This ensures the required proximity to the market and leads to product and service offerings that are precisely aligned to the practical needs of the transport sector. In the trailer segment in particular, this end customer strategy is a decisive advantage since, in terms of axles, the trailer equipment in many markets is decided by the fleet customers directly.

SAF-HOLLAND is a leading supplier in the European trailer market. The transfer of the experience and competences gained in Europe benefits the business in other regions of the world.



Today, SAF-HOLLAND is able to manufacture an axle in North America and sell it to OEMs there. But we can also manufacture the same axle in China and deliver it to a Chinese OEM who will then export it, together with a trailer, to North America. The share of axles that make their way from China to North America is growing steadily.

**What is SAF-HOLLAND planning for the coming years?  
How will growth in the North American trailer business be moved forward?**

We are continuing to expand the product portfolio, especially for niche markets. In addition, local development and manufacturing capacities will be expanded. Because SAF-HOLLAND is a systems provider, there continues to be tremendous potential for us and many opportunities for further development. In everything that we do, one principle applies: the focus is on the success of the fleet customers.

***In Europe, disc brake technology, in which SAF-HOLLAND is an expert, has been dominant for a long time. Can a change in technology to disc brake aggregates also provide a boost in North America?***

SAF-HOLLAND introduced this technology in the USA a number of years ago – a market where drum brakes had dominated. Since then, the market share for disc brakes has increased steadily. I think that fleet customers are starting to take a closer look at this technology and getting to know the advantages of this brake technology in transport operations. The share of disc brake axles will increase significantly as a result. The change to disc brake technology is a further, additional driver for our growth.

“We offer innovative products and knowledgeable employees who support OEM and fleet customers in all areas – from development design to spare parts supply.”



# THE SPECIALISTS



**Suspension systems are among SAF-HOLLAND's product groups with the greatest expansion potential.** \_ Already today, the company is perceived as a reputable supplier of robust, fleet-tested and powerful air suspension systems for trucks and buses. Through an even more intensive market development and by gaining market share in new markets, SAF-HOLLAND intends to grow at a disproportionately high rate in this area. A very attractive segment in this regard is primarily the equipping of vocational trucks.

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Dan Kohn taps sales potential in the highly attractive vocational trucks segment. The National Sales Manager Vocational OEM is part of the SAF-HOLLAND Inc. team in Muskegon, USA. He is especially proud of the broad area of application for SAF-HOLLAND products, which are used both in trucks for everyday transport purposes and for highly specialized vocational trucks.



“Important markets for our truck suspension systems are currently North America, Latin America, China, India and Australia. There, our products prove themselves under the most difficult of conditions and in challenging environments and also stand out as a result of their outstanding performance, reliability and durability.”



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Pioneer for air suspension systems in commercial vehicles: suspension systems for trucks and buses are marketed by SAF-HOLLAND under the Corpco and NEWAY brand. The NEWAY brand has a long and illustrious history: about 50 years ago, air suspension systems for trailers were offered under this brand for the first time; a short time later production also began for trucks and buses.





**T**here is heavy work to be done when they are in use: class 8 vocational trucks are the kings of the transport world. They powerfully take care of demanding jobs. They are often used in nearly impassable terrain, far away from regular road networks. “The more difficult the terrain, the greater the probability that the vocational trucks are equipped with a suspension system from SAF-HOLLAND”, explains Dan Kohn. For eight years, Dan Kohn has been part of SAF-HOLLAND’s US-American team in Muskegon, USA. He has been selling suspension systems for vocational trucks for just as long. The sales manager is convinced that “suspension systems for off-road use are a particular strength of SAF-HOLLAND. Whether single, tandem or triple axle – we offer capacities that are only rarely reached in typical highway use.” The fact that the company’s suspension systems set standards has been confirmed in practice: products from SAF-HOLLAND prove themselves in the most difficult of conditions and in challenging environments. It is for exactly this reason that they are used, for example, in the Prudhoe Bay oil field on the north coast of Alaska, on the sugar cane plantations in Guatemala or in the Canadian wilderness where massive logs have to be transported far away from civilization.

## → STRATEGY

### Growth with new product groups in the truck and bus suspension system business

**Worldwide, primarily in the emerging markets** – suspension systems for trucks and buses give SAF-HOLLAND strong sales potential. The company therefore wants to expand its position in this segment internationally. In addition to stronger penetration in existing sales regions, the expansion into other country markets from among the emerging markets will be accelerated. SAF-HOLLAND is focusing on the targeted distribution of the product portfolio as well as increased construction and manufacturing resources. With a view to the production of the Corpeco subsidiary located in China, SAF-HOLLAND assumes that it will be able to benefit from the increased use of road-friendly air suspension systems in this country in the future.

SAF-HOLLAND supplies all the major North American truck and vocational truck manufacturers with suspension systems and, in addition, offers a broad range of models and configurations. The outstanding features in terms of performance, reliability and durability are typical for all product lines. This is on top of superior driving stability combined with low weight and reduced space needs. Dan Kohn: “We are frequently setting milestones when it comes to systems for heavy commercial vehicles. With the ADZ, for example, one of the lightest and at the same time most stable suspensions on the North American market. Or with the new LSZ, which is bringing about a paradigm change in lift axle technology.” Further innovations will continue to boost business success in the future. “We are continually expanding the unique functions and advantages of our products. It is, after all, about always exceeding the expectations of the customers. Trucks and, in particular, vocational trucks are highly specialized equipment components. Fleet operators have to be able to rely on the fact that each component in the vehicle does what it is supposed to do – reliably, under difficult conditions and in challenging terrain.”



## IN THE FAST LANE

For a long time, buses were viewed as a practical but not particularly attractive means of transport that played a secondary role at best in the public's interest. Those times are over. Buses are experiencing a comeback – a development that SAF-HOLLAND is also benefiting from.

**J**ust how much more important buses are becoming is being demonstrated especially in metropolitan areas. With rapid growth in traffic density, individual transport is reaching its limits in larger cities. Traffic jams are an everyday occurrence and lead not only to lost time, but also to additional air pollution. Around the globe, countries and municipalities are therefore counting on new concepts to reduce inner-city traffic and thus also the amount of exhaust emissions. Buses have a key role to play in this regard.

Major cities in particular are increasingly relying on intelligently planned bus networks. One shining example is the TransMilenio central express bus system in the Columbian city of Bogota, which transports roughly 1.4 million passengers every day. It uses its own bus and passing lane, which leads the vehicles directly past the traffic jams. Similar models are already in use or in the planning stages in many cities in Central and South America as well as in Asia, Africa, Europe and North America.

Buses are gaining popularity also for longer distances. In Germany, for example, where passenger numbers have increased five-fold in the two years since the liberalization of long-distance bus travel. Or in the USA: here intercity bus providers set up more than 100 new connections daily in 2014 alone.

Whether distance or local buses: SAF-HOLLAND is often on board, because under the NEWAY brand, the company has been selling suspension systems for buses that are marketed around the world. Main sales regions are North America and Latin American countries as well as the Middle East, India, China and Australia.

With the acquisition of Corpco in 2014, SAF-HOLLAND again significantly expanded the production of suspension systems for buses. As a leading Chinese manufacturer of air suspension systems for buses, Corpco currently produces primarily for the Chinese market. But the distribution radius will be stretched to other emerging countries such as India, Brazil and Russia. The cooperation between Corpco and NEWAY in the Group works well. After all, the two had already cooperated before the acquisition and Corpco has been manufacturing and selling suspension systems from the NEWAY brand for more than ten years already.



With this pillar, SAF-HOLLAND strengthens its presence in the promising Chinese sales region and also gives itself a stronger position in the fast-growing segment for electric buses, which are in strong demand in China. Between 2014 and 2017, the number of environmentally-friendly multi-seated vehicles will be increased four-fold to 4,500 units in Beijing alone. With the J Beam air suspension system, SAF-HOLLAND offers a technological solution especially for e-buses. Because our air suspension systems take up only a small amount of space and thus leave more room for the all-important storage batteries in e-buses.

Master-class for short and long-haul: Buses equipped with suspension systems from SAF-HOLLAND are in use throughout the world.

#### FIVE FACTS ABOUT THE BUS MARKET

- The global market for buses will grow by a good 5% per year until 2017
- The market for electric buses is expected to show annual growth of 16% until 2018.
- Increasing urbanization and the associated expansion of inner-city transport systems are driving demand.
- In the view of industry experts, Asia will continue to be the main sales region.
- In the emerging market countries, the trend is also increasingly shifting toward comfortable, well-equipped buses.

# THE LOCALIZERS



**A key component of the growth strategy 2020 is an expansion of business in new country markets including, in particular, the Middle East, Africa and China.** \_

When opening up sales regions, SAF-HOLLAND first sets up sales offices. With growing business volume, these are followed by subsidiaries, which often make sales and earnings contributions from the beginning – as is the case in Dubai, for example. Whether the business develops successfully is not decided by the organizational side alone. The decisive factor is the exact coordination of the product portfolio with the regional requirements and customer wishes. Thomas Wilczok on the importance of applications and the value of local presence.

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Tomasz Wilczok is Technical Manager for trailer axle and suspension systems. As an employee of the subsidiary SAF-HOLLAND Middle East FZE, he works in Dubai, in the Jabel Ali free-trade zone. He sees to it that the products are perfectly adapted and aligned with the conditions and the requirements of the local customer. From Dubai, SAF-HOLLAND supplies the entire Arabian Peninsula as well as the emerging markets in Northern and Central Africa.

“Direct customer contact and application skills are important keys to success. The investment in a regional presence will pay off for SAF-HOLLAND and strengthen our position in the global market.”





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 Sand tracks instead of paved roads: in emerging market countries, vehicles must sometimes overcome demanding routes. Fleet operators are therefore interested in robust products with a focus on the basics.

***Mr. Wilczok, SAF-HOLLAND wants to conquer new country markets. Will this change the product portfolio?***

The new sales markets do not fundamentally change our product portfolio, but there will be further differentiations within the individual product groups. In every country, we offer our products exactly as they are needed. The more pronounced the global positioning, the more comprehensive the number of our regional product variations.

***Why is that necessary? You could also have global standards for suspension systems or axles?***

There are a number of reasons for the differentiation. The most important factors are different national regulations and transport guidelines. They set out how a trailer can be built and used. The regional preferences of the end customers are also decisive. Mechanical suspension systems, for example, are nearly forgotten in Europe but remain in high demand in other regions. Increasing globalization therefore requires flexibility and a growing number of applications and adaptations.

## → STRATEGY

### Globalization campaign for all product groups

**In the Middle East, Africa and China** \_ SAF-HOLLAND aims to generate about 30% of Group sales outside of today's core markets of Europe and North America by 2020. In order to achieve this goal, the penetration of emerging markets will be intensified and stretched across all product groups. The focus is on proven paths through the aftermarket business, sales offices and product technology applications. In this regard, SAF-HOLLAND relies on its core competences and consistently gears the further globalization toward the requirements of the market and the customer. For each customer and in all sales regions, solutions will be made available that are tailored to the respective needs. The company's strong application expertise is the basis for local success.



#### ***Isn't a certain degree of standardization necessary, despite the many variations, so that economies of scale can be achieved?***

Variations and standardization have to be brought together – that is the challenge. In order to create the best possible and most flexible solutions, adaptability plays an important role as early as the development stage of our products. The objective is always to implement as many standard components as possible in order to take advantage of economies of scale and synergies.

#### ***Is the application capability an important criteria for success?***

It certainly is. But success on the market is always the result of a number of strengths. Of course, SAF-HOLLAND benefits from our high degree of adaptability, but that is not everything. Our innovative strength also has to be taken into consideration, as does our strong spare parts availability, first-class service and much more. →

Consistent positioning toward the requirements of the customer: SAF-HOLLAND stands for a global portfolio which provides various product and technology variations in individual sales markets.



“Consistent positioning toward regional market demands requires local product and technology variations. Through our modular systems approach, we ensure a high degree of variation with the best possible economies of scale.”



***In Application Engineering, you prepare the products for use in the respective markets through variations and customized solutions. It is part of the R&D activities for which short development cycles and fast market entry are key. Does this also apply to the area of applications?***

Not entirely. Our applications are built on developments that already exist. The particular strength of Application Engineering lies more in the proximity to the regional market and the customers there. In order to play this trump card, SAF-HOLLAND has located Application Engineering mainly locally. This allows us engineers to play the role of middle-men and therefore intensify the flow of information between R&D and the local manufacturers or fleets. With a dual advantage: our special market knowledge benefits product development and customers profit from the fact that their wishes are quickly taken up and appropriate solutions are created.

***The focus of their work lies in technological variations for the Middle East as well as Northern and Central Africa. How much do the requirements vary in this regional area?***

They vary greatly – this region in particular comprises very different country markets and is an excellent example of how important it is to be on site. Direct customer contact is irreplaceable; fast reaction times and short delivery periods are significant sales arguments. Local presence is quite simply the ideal path to better sales results.

## PRESENCE AS A KEY TO MARKET SUCCESS

Regional locations strengthen the position of SAF-HOLLAND in important growth markets and accelerate geographic expansion. Among the advantages of local presence is the fact that the company is more strongly perceived as a local player. As a result of the close proximity to its customers, SAF-HOLLAND can also offer them the best possible service and the even faster availability of spare parts.

Experience in the Middle East as well as in Central and South America has shown that local sales offices are an efficient way to support SAF-HOLLAND's regional expansion. With this in mind, the company began in the third quarter of 2015 with preparations for the founding of one sales branch in Morocco and one in Kenya.

Morocco is moving forward with its integration into world trade and, to this end, has signed both regional and continental free-trade agreements. At the same time, the country is increasingly positioning itself as a trade hub between the European and African continents as well as North and South America. In the World Bank's Logistics Performance Index (LPI), Morocco is already ranked 62nd. Kenya, which is ranked 89th in the LPI rankings, benefits from its favorable geographical location in East Africa and is working on expanding the Nairobi area into a major hub for the region. Experts anticipate that the transport and logistics services in the country will grow substantially – not least because Kenya wants to produce and export more raw materials.





“Through the aftermarket business, we establish close connections to fleets around the world and position SAF-HOLLAND as a strong partner for the transport industry.”



# PROVEN SUCCESS FACTOR



**In the Aftermarket business, high spare parts availability, a quick order process and short delivery times are particularly important to customers.** \_

This allows downtimes to be kept to a minimum. In order to be able to guarantee this worldwide, a first-class global network is required. The spare parts and service network built up by the SAF-HOLLAND Group over the course of decades is one of the largest and most efficient of its kind across the entire industry. Today, it includes around 9,000 spare parts and service stations, distributors and workshops in over 80 countries. They are supplied by the so-called Parts Distribution Centers (PDC) on six continents. For example by the PDC in Querétaro, Mexico, an important driver for the success of the expansion of SAF-HOLLAND's market presence in Central and South America.

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Rodolfo Sánchez is the Managing Director of SAF-HOLLAND Internacional de México and Hispanoamérica. The subsidiary has its headquarters in Mexico City and supports customers far beyond Mexico, in 21 Central and South American states. This includes the equipment of trucks and trailers with fifth wheels or axle modules from SAF-HOLLAND, the Aftermarket business and fleet operations with end customers.

**M**exico is still considered an emerging country. However, as far as economic growth is concerned, the country is far from being just at the beginning. In the world ranking of global economies, the Next 11 nation has already reached fourteenth place. Particularly as far as the automobile and transport sector is concerned, nothing gets past the Central American country: Mexico is already the seventh largest producer of passenger cars worldwide. Commercial vehicles are also showing signs of growth. Domestic production of trucks alone should increase by more than 50% by 2020 – a tremendous prospect.

SAF-HOLLAND has been active in Mexico since 2001. Since then the market penetration has been continually advanced – not just in the country itself, but in the whole region. The Parts Distribution Center in Querétaro, just 200 km north of Mexico City, commissioned in 2013, proved to be the trump card. “The PDC is a key factor for our expansion plans in the growth markets of Central and South America”, says Rodolfo Sánchez, Managing Director of SAF-HOLLAND International de México and Hispanoamérica. “As a distribution center, it makes a huge contribution to product support for fleet customers. At the same time, it ensures the fast provision of products for vehicle manufacturers (OEM), for example if fleet operators equip newly ordered trailers with our axles. And it stands for the brand that enjoys an excellent reputation in the region.”

Around 123,000 fleets of diverse compositions are in operation in Mexico, a huge number. SAF-HOLLAND has already achieved solid market penetration today. Rodolfo Sánchez believes that this can be further expanded through good service, new developments and attractive innovations in axles and suspension. Alongside the reliable supply with wear-out and spare parts, information and sales tasks play an important role. “We provide product knowledge and offer regular customer workshops and training on operation and maintenance. This generally convinces customers of the advantages of SAF-HOLLAND components and systems, which leads to an increased demand for the equipment of new vehicles. This completes the cycle.”

The growing economy, extensive investment in infrastructure and increasing trading volumes will continue to increase demand for trucks and trailers in the region. The Alianza del Pacífico (Pacific Alliance), an extremely successful free trade area founded in 2012, to which Colombia, Peru and Chile also belong, alongside Mexico, provides additional stimulus. Together, these four states represent a trade area with more than 205 million consumers, which equates to 40% of the GDP and 55% of the exports of Latin America. For Rodolfo Sánchez, the further development of SAF-HOLLAND is in one clear direction: growth. “This will be increasingly ensured through the emerging markets of the neighboring countries, alongside Mexico. With offices in Argentina, Colombia and Peru, SAF-HOLLAND and its technologically highly regarded products are also represented locally”, says Rodolfo Sánchez in his outlook.



The original spare parts employ the entire know-how of the company. This ensures that all components work reliably and perfectly fulfill their task in the entire system, even after replacement.

## → STRATEGY

### Expansion of the Aftermarket business

**In Europe, North America and in the emerging markets** – The combination of the original equipment business and Aftermarket activities is a key success factor: with the growing installed base of SAF-HOLLAND products in the market, demand is increasing for components, with which these can be replaced or upgraded. At the same time, the extensive spare parts and service network ensures that fleet customers explicitly choose products from SAF-HOLLAND when ordering new vehicles and request these from the vehicle manufacturer. In order to further strengthen the strategically important spare parts business, which is largely independent of the economy, the company is reliant on the geographical expansion of the service network and regular additions to the spare parts range.

# SAF-HOLLAND International de México and Hispanoamérica locations



**Mexico**  
Mexico City  
Monterrey  
Puebla  
Querétaro

**Colombia**  
Bogotá

**Peru**  
Lima

**Argentina**  
Buenos Aires





## IDEAL ADDITION TO THE SPARE PARTS RANGE

For older trucks and trailers – in their so-called second life – SAF-HOLLAND also offers additional spare parts brands, specially adapted to their requirements. This develops additional sales opportunities and establishes the company early in markets which are only just beginning.

**T**rucks and trailers, which are taken out of use in the traditional industrialized countries and are generally sold on, are subsequently often used for many years in emerging countries. Alongside original parts with a guarantee package, SAF-HOLLAND therefore also offers wear-out and spare parts, which are specially adapted to the requirements of older vehicles with an already high mileage. Under independent brands, these product lines are targeted towards national markets, which are characterized by a high number of used vehicles. Despite increasing quality standards, the demand for original spare parts is low that SAF-HOLLAND is able to develop further sales potential through the additional spare parts range of second brands. The SAUER GERMANY QUALITY PARTS label shows how quickly these brands develop. The spare parts line, which was primarily designed for Eastern European, Asian, Middle Eastern and North African countries, was first introduced in 2013. In 2014, it already made a noticeable contribution to Group sales.

Based on the positive experiences with SAUER GERMANY QUALITY PARTS, SAF-HOLLAND started to introduce the spare parts brand GoldLine to the market in the first quarter of 2015. This brand targets the Aftermarket in North, Central and South America with its specifications.

GoldLine and SAUER GERMANY QUALITY PARTS provide trucks and trailers in the later stages of their lifecycle with the appropriate spare parts. In addition, these two brands contribute towards the early positioning of SAF-HOLLAND in emerging countries such as the Next 11. In our experience, freight forwarders and other fleet operators, who have come to know the company as a quality supplier in the Aftermarket sector, pay close attention to making sure that products, components and service packages from SAF-HOLLAND help to optimize the fleet operating costs, including with the later purchase of new vehicles.





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Alongside the Parts Distribution Center in Mexico, SAF-HOLLAND operates ten further distribution centers in North America, Europe, Africa, Asia and Australia. They supply the worldwide service network with 9,000 stations. The fast, secure spare parts supply is an important success criterion – for the fleet operators and for SAF-HOLLAND.

## SAF-HOLLAND targets by 2020



# 1,500

← Group sales in EUR million

# 120

← Adjusted EBIT in EUR million

# ~1.20

← Earnings per share in Euro<sup>1</sup>



“Profitable growth with an increase in sales outpacing the market development through the exploitation of the potential of our four large growth areas – that is the aim for the next five years. By 2020, we want to increase Group sales to EUR 1,500 million (2015: 1,060.7), the adjusted EBIT to EUR 120 million (2015: 94.0) and earnings per share to around EUR 1.20 (2015: 0.99).<sup>1</sup>

For business expansion, we are reliant on the combination of organic and additional external growth. Joint ventures, cooperation and acquisitions can support the growth regionally and on the product side and contribute up to EUR 250 million towards the total sales by 2020.

Following on from more than 10% in 2015, in line with the megatrends, we want to achieve around 30% of Group sales outside Europe and North America by 2020. This means: SAF-HOLLAND will be a multinational company, to a greater extent than it has been so far. We are therefore orienting our organization towards the future. The company structure so far in Business Units, will be further developed into an even more powerful position, which is closer to customers, and the Group will be divided into three regional segments in future with full responsibility for sales and earnings: EMEA/India, Americas and APAC/China.” — Wilfried Trepels, CFO

<sup>1</sup> Under consideration of the higher number of shares resulting from the convertible bonds issued in 2014.





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# SAF-HOLLAND ON THE CAPITAL MARKET

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## STOCK MARKET AND PRICE DEVELOPMENT OVERVIEW

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### German stock market up in 2015 despite heavy turbulence

Development of the German stock market in 2015 was once again marked by significant price fluctuations. Those factors with a positive influence included, in particular, the extremely expansive monetary policy on the part of the European Central Bank, most significantly the decision to purchase government bonds in a volume of EUR 60 billion monthly, thus further boosting the already abundant liquidity on the financial markets. Additional impetus came from the agreement that was reached in the Greek debt crisis, the gradual economic recovery in the euro zone and the substantial decrease in the exchange rate of the euro to the US dollar. Burdens, on the other hand, came from the geopolitical hot spots which continue to smoulder, the unexpectedly strong cooling of the Chinese economy and worries about the upcoming turnaround in interest rates in the USA.

At the beginning of the year, the leading German index DAX recorded a massive, liquidity-driven increase of over 25%, which led to a new all-time high of 12,375 points for the market in April 2015. This was followed by a consolidation which lasted several months in which the DAX showed a slight downward trend until August. A painful price drop followed in the summer months and, by the end of September, the DAX had reached its low for the year of 9,428 points. The recovery that began thereafter put the DAX back to a level of 10,743 points at the end of the year. Overall, the leading German index recorded a respectable plus of 9.6% in 2015 as compared to the international capital markets.

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### SDAX reaches new all-time high

The SDAX, the select index of Deutsche Börse AG for the 50 smaller companies that follow the DAX and the MDAX – so-called small caps – also had a generally successful stock exchange year. After surpassing for the first time the marks of 8,000 and 9,000 points, the index expanded by 26.6% to 9,099 points in a year-on-year perspective. The index thus exceeded – as was the case in the previous year – the development of the DAX. Also in terms of price fluctuation, the SDAX fared much better. While the DAX performance, during the correction phase from April to September, experienced a decrease of nearly 25%, the SDAX fell in the same period by just 8%.

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### Market capitalization of SAF-HOLLAND above EUR 560 million at the end of the year

Parallel to the overall market, the SAF-HOLLAND share, buoyed by ongoing pleasingly solid production figures for trucks and trailers in North America and Europe, showed a steep rise at the beginning of the 2015 stock exchange year. Compared to the year-end figure for 2014, the share price climbed by over 40% by the middle of March and reached its high for the year of EUR 16.00 in intra-day trading. As a result of profit-taking and burdened by the significant downturn in the markets as a whole, a correction began. This was also accelerated by the noticeably worsened mood in the automotive and commercial vehicles sector brought about by the Volkswagen emissions scandal. As a result, the SAF-HOLLAND share price fell just below the EUR 12.00 mark by the end of September. Together with the stock market environment which improved again from the fourth quarter, sound quarterly figures and the intensive

dialog, primarily with international investors, it was possible for the share to subsequently rise again and end the year with a closing price of EUR 12.49 (previous year: EUR 11.10). This corresponds to a respectable annual gain of 12.5%. The SAF-HOLLAND share thus fared better than the DAX and, as compared to the relevant industry index, the DAXsector Automobile Index (+7.1%), there was a clear outperformance of more than 5 percentage points. SAF-HOLLAND shareholders also had reason to be pleased due to the respectable dividend yield of 2.9% in relation to the year-end closing price 2014.

On the basis of the year-end closing price and the 45,361,112 shares issued, the market capitalization of SAF-HOLLAND reached EUR 566.6 million on December 31, 2015.

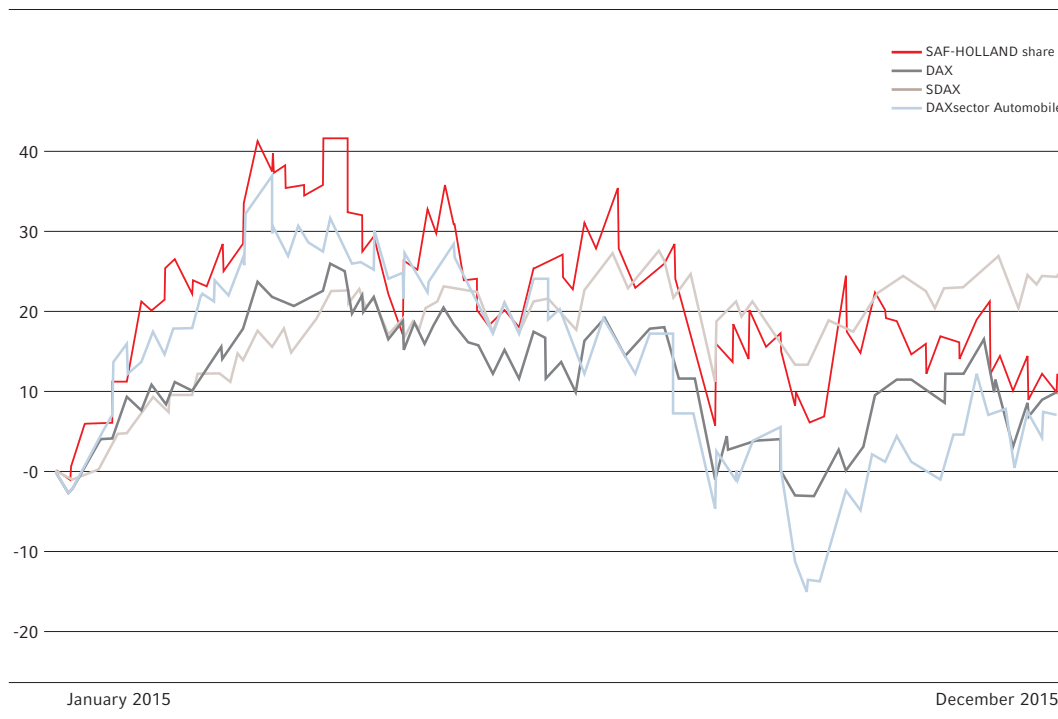
**Significantly increased trading volume**

Compared to 2014, the liquidity of the SAF-HOLLAND share – a key investment criteria for major institutional investors such as banks, pension funds and asset managers – increased noticeably. The average daily traded volume on all German securities exchanges increased by 25.5% to 209,459 shares (previous year: 166,851 shares) or by 54.8% to EUR 2.8 million as compared to EUR 1.8 million in the prior year.

**Position in index rankings**

The increased market capitalization and the substantial growth in trading volume were positively reflected in Deutsche Börse AG’s index ranking list which is used as a basis for decisions on the composition of the MDAX and SDAX. As of December 31, 2015, SAF-HOLLAND was at position 66 in the index ranking list in terms of market capitalization of the free float and at position 57 in terms of trading volume.

DEVELOPMENT OF THE SAF-HOLLAND SHARE AS COMPARED TO DAX, SDAX AND DAXSECTOR AUTOMOBILE in %



Source: Commerzbank AG, Frankfurt am Main.

## INVESTOR RELATIONS AND CAPITAL MARKET RELATIONSHIPS

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### Increased internationalization of investor relations efforts

Within the scope of our investor relations activities, we provide comprehensive, timely and transparent information on the strategy, ongoing developments in the company, current market trends and new technological approaches.

In addition to the investors and analysts conference at the end of the year and the regular telephone conferences held for the publication of the quarterly figures, the focus of our activities lies in an exchange with investors, analysts and other capital market participants at a broad range of investor conferences and road shows.

In financial year 2015, we pursued the internalization of our investor relations efforts. We presented, for example, the current business development and the Group's growth prospects in connection with strategy 2020 for the first time at a multi-day road show in the USA and Canada. Other destinations in 2015 included Scandinavia, Switzerland, Austria, Italy and, for the first time, Australia. In Germany, we conducted road shows and investor events in Frankfurt, Hamburg and Munich and introduced the company at a total of twelve investor conferences in Germany and abroad. Here, too, the focus – in addition to Germany – was on major international financial centres such as London, New York and Boston.

A further highlight of last year's activities was the Capital Markets Day 2015 in December. The focus of the event was on the objectives and measures related to the implementation of the growth strategy 2020. On this occasion, the new regionally oriented organizational structure of the company which took effect from the beginning of 2016 was introduced. The Capital Markets Day was rounded off with a visit to the expanded Plant 1 in Bessenbach, in the course of which the many analysts and investors who participated could get their own impression of the successfully completed German plant consolidation.

Furthermore, the noticeably higher number of company visits is evidence of the interest in SAF-HOLLAND on the part of the capital market participants. In 2015, a record number of investors and analysts took advantage of the opportunity to visit us at our headquarters in Bessenbach, Germany and to exchange information and ideas with the company on site. At the core of the many individual and group discussions with investors and analysts which were generally carried out in connection with plant tours, were questions related to business development and the future prospects of our company. We also saw increased interest in production processes, the newest technological trends and innovations, especially concerning the topic of weight reduction.

Our SAF-HOLLAND Investor Relations website provides detailed and current information on the share as well as on the corporate bond and the convertible bonds. In addition to key figures and current financial news, it also offers reports, presentations and recordings of telephone conferences for download: <http://corporate.safholland.com/en/investoren.html>. A new, fully re-designed SAF-HOLLAND corporate website with an optimized scope of information and functionality will be launched in the first half of 2016.

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### Mainly positive analyst ratings

SAF-HOLLAND is observed and analyzed by both national and international banks and research institutes. Detailed company analyses therefore appear one after the other in close succession. In 2015, three additional brokers or banks began reporting on SAF-HOLLAND. Other institutes are getting ready to initiate their coverage.

At the end of 2015, nine of eleven analysts gave the share a “buy” recommendation or expected a better share price development than for the overall market, two analysts issued a “hold” recommendation. The relevant share price targets varied between EUR 14.00 and EUR 20.00.

CURRENT ANALYSTS RECOMMENDATIONS

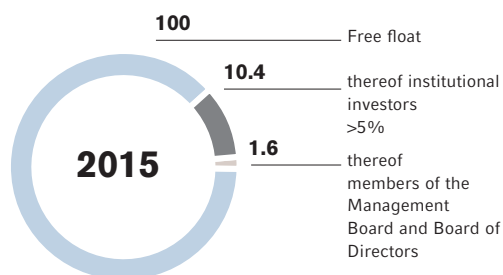
December 14, 2015	Kepler Cheuvreux	buy
December 10, 2015	Commerzbank AG	hold
December 10, 2015	equinet Bank AG	buy
December 10, 2015	Exane BNP Paribas	buy
December 10, 2015	Macquarie Capital Ltd.	outperform
December 10, 2015	ODDO SEYLER BANK AG	buy
December 8, 2015	Hauck & Aufhäuser Institutional Research AG	buy
December 4, 2015	Deutsche Bank	hold
November 16, 2015	Montega	buy
November 6, 2015	quirin Bank AG	buy
November 5, 2015	Bankhaus Lampe KG	buy

Broad shareholder structure

SAF-HOLLAND shares are broadly held. According to the definition of Deutsche Börse AG, all of the company’s shares are attributable to free float. Shareholders consist primarily of institutional investors such as funds and asset managers, banks and insurance companies as well as private investors in Germany and abroad who appreciate the share price potential and the attractive dividend yield. In addition to German funds, major shareholders include, for the most part, investment companies from the United Kingdom, USA, France, Scandinavia and the Benelux countries. At the end of 2015, funds from Deutsche Bank AG as well as Franklin Templeton Investment Management Ltd. each had holdings of more than 5% in the share capital of SAF-HOLLAND S.A.

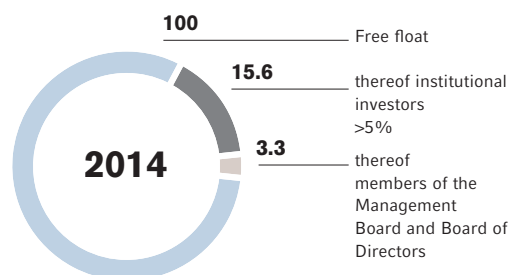
Members of SAF-HOLLAND’s Management Board and the Board of Directors held 1.6% (previous year: 3.3%) of outstanding shares at the balance sheet date. The decrease can be explained primarily by the departure of Richard Muzzy from the Board of Directors of SAF-HOLLAND S.A. and the departure of Ulrich Otto Sauer from the Supervisory Board of SAF-HOLLAND GmbH at the end of the Annual General Meeting on April 23, 2015. Their stock holdings are thus no longer included in the calculation.

SHAREHOLDER STRUCTURE 2015 in %



As of December 31, 2015

SHAREHOLDER STRUCTURE 2014 in %



As of December 31, 2014

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### Annual General Meeting 2015 approves 19% dividend increase

A fixed component of SAF-HOLLAND's corporate policy is to allow shareholders to participate appropriately in the success of the company. The Annual General Meeting of SAF-HOLLAND held on April 23, 2015 approved a dividend payment of EUR 0.32 per share for financial year 2014 (previous year: EUR 0.27). The shareholders approved the proposal from the Board of Directors. The dividend amount paid out of EUR 14.5 million (previous year: EUR 12.2 million) corresponds to approximately 44% (previous year: 50%) of the available net earnings in the 2014 financial year.

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### Extraordinary General Meeting 2015 approves the use of authorized share capital

At the company's Extraordinary General Meeting on December 22, 2015, shareholders prepared a resolution on the use of the already in 2012 approved but still remaining authorized share capital I in the amount of EUR 164,949.63. Afterwards the Board of Directors was authorized, with 95.0% approval, to use a part of the authorized share capital in the amount of up to EUR 45,361.11 to issue up to 4,536,111 new shares under exclusion of subscription rights. In this regard, the issue price of the new shares shall not be significantly lower than the stock exchange price of the company's shares that are already listed. This authorization was issued by the Extraordinary General Meeting for a period of five years.

The remaining amount of the authorized share capital I in the amount of EUR 119,588.52 can still be used by the Board of Directors until July 25, 2017 for the issue of up to 11,958,852 new shares, whereby the shareholders must be granted subscription rights in such a case.

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#### KEY SHARE FIGURES

WKN/ISIN	A0MU70/LU0307018795
Stock exchange symbol	SFQ
Number of shares	45,361,112 shares
Designated Sponsors	Commerzbank AG, ODDO SEYDLER BANK AG, Kepler Cheuvreux
Highest/lowest price for the year <sup>1)</sup>	EUR 16.00 / EUR 10.99
Closing price at end of the year <sup>1)</sup>	EUR 12.49
Market capitalization	EUR 566.6 million
Undiluted adjusted earnings per share	EUR 1.37

<sup>1)</sup> XETRA closing price.

## CORPORATE BONDS OVERVIEW

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### SAF-HOLLAND corporate bond

The SAF-HOLLAND corporate bond is listed on the Prime Standard for corporate bonds on the Frankfurt Stock Exchange. The total nominal value is EUR 75.0 million. The bond has a maturity until April 26, 2018 and an interest coupon of 7.0%.

In financial year 2015, the corporate bond recorded a generally stable price development. On December 30, 2015, the final trading day of the year, the bond was quoted at 111.0% as compared to 112.3% at the end of the year 2014. On December 30, 2015, the yield to maturity amounted to 2.07%.

### Company rating of BBB again confirmed

In a detailed analysis from April 7, 2015, the rating agency Euler Hermes again confirmed the investment grade rating of SAF-HOLLAND S.A. of "BBB" with a stable outlook. The rating agency also expressed its expectations of a stable rating in the next twelve months. Euler Hermes bases its assessment on the assumption of a slightly higher business risk and, at the same time, a lower financial risk.

#### KEY FIGURES FOR THE CORPORATE BOND

WKN	A1HA97
ISIN	DE000A1HA979
Volume	EUR 75.0 million
Denomination	EUR 1,000
Coupon	7.00% p.a.
Interest date	April 26
Term	5.5 years
Maturity	April 26, 2018
Bond segment	Prime Standard
Stock Exchange	Frankfurt
Status	Not subordinated
Company rating	BBB, stable outlook (Euler Hermes)
Closing price at the end of the year <sup>1)</sup>	111.0%

<sup>1)</sup> Source: IKB Deutsche Industriebank AG, Düsseldorf.

### SAF-HOLLAND convertible bonds

In 2014, within the scope of a private placement, SAF-HOLLAND issued convertible bonds with a total nominal value of EUR 100.2 million. The convertible bonds have a final maturity on September 12, 2020 and an annual interest rate of 1.0%. They are listed on the OTC trade of the Frankfurt Stock Exchange.

The convertible bonds with a nominal value of EUR 100,000 were initially convertible into roughly 8.1 million new or existing ordinary shares of SAF-HOLLAND S.A. with a par value of EUR 0.01, which represented approximately 17.8% of SAF-HOLLAND S.A.'s current outstanding share capital. As a result of the cash dividend payment approved by the Annual General Meeting on April 23, 2015 and payable to shareholders of SAF-HOLLAND S.A., the conversion price and the conversion ratio were adjusted in accordance with the terms and conditions of the bonds. The subscription rights of the shareholders were excluded.

In line with the development of SAF-HOLLAND's share price, development of the convertible bond also had a positive development in 2015. Based on a year-end closing price of 107.5% on December 30, 2014, the listing increased by a net of 10.4% and reached a level of 118.7% on the final trading day of 2015.

No conversions took place in financial year 2015.

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 KEY FIGURES FOR THE CONVERTIBLE BOND
 

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WKN	A1ZN7J
ISIN	DE000A1ZN7J4
Volume	EUR 100.2 million
Denomination	EUR 100,000
Coupon	1.00% p.a.
Method of payment	Semi-annual
Term	6 years
Maturity	September 12, 2020
Status	Unsubordinated and unsecured
Conversion price	EUR 12.33 per share
Conversion ratio	8,110.8921 per bond
Dividend protection	Up to EUR 0.27 per share annually
Stock exchange listing	Over the counter market of the Frankfurt Stock Exchange
Closing price at the end of the year <sup>1)</sup>	118.7%

<sup>1)</sup> Source: IKB Deutsche  
Industriebank AG, Düsseldorf.



# GROUP MANAGEMENT REPORT

## SAF-HOLLAND AT A GLANCE

### Short profile

SAF-HOLLAND is Europe's largest publicly-listed commercial vehicle supplier. With sales of approximately EUR 1.1 billion in 2015 and more than 3,100 employees worldwide, the company is one of the leading manufacturers of chassis-related systems and components – primarily for trailers, trucks, buses, and recreational vehicles. The product range comprises trailer axle and suspension systems, kingpins, landing gears and fifth wheels as well as suspension systems for vocational trucks and buses and is marketed under the umbrella brands SAF, Holland and NEWAY. SAF-HOLLAND sells its products to original equipment manufacturers (OEMs) on six continents. The Aftermarket Business Unit sells spare parts to the original equipment service (OES) of the manufacturers and to end customers and service centers through its own extensive global service and distribution network. SAF-HOLLAND is one of the few suppliers in the truck and trailer industry that is internationally positioned in almost all markets worldwide.

### Business model: Direct contact with end customers

With its product range, SAF-HOLLAND focuses on components, which play a decisive role in terms of quality, performance, innovation and safety standards. With a view to optimizing the total cost of ownership for end customers, SAF-HOLLAND is setting standards in the industry, in particular with its lightweight components and resulting weight savings. With its trailer products, SAF-HOLLAND has a share of about one-third of the total cost of a standard trailer.

On the sales side, SAF-HOLLAND supplies original equipment manufacturers (OEMs) and is also in direct contact with its end customers, the fleet operators. For many products, including axle and suspension systems, the fleet operators generally select the specifications of trailers themselves and thus determine the choice of supplier. This direct access means that SAF-HOLLAND is in constant contact with its customers and ensures that the company always has the right solution for constantly changing customer requirements.

Alongside the original equipment business, the Aftermarket business is a further key pillar of the business model. With around 9,000 spare parts and service stations worldwide, SAF-HOLLAND has the largest and most dense spare parts and service network in Europe and North America. The guaranteed fast provision of spare parts is one of the key selection criteria for fleet operators and also represents a high entry barrier for potential competitors. Because the Aftermarket business follows the original equipment business with a time lag, cyclical fluctuations in the original equipment business can be offset.

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### **Strong position in the oligopolistic market environment**

The markets currently most important for SAF-HOLLAND, Europe and North America, are characterized by oligopolistic competitive structures on the supplier-side. In almost all product groups, the three largest suppliers have 80-90% of the market volume in Europe and North America.

With its alignment, SAF-HOLLAND has secured a strong market position and is one of the three leading suppliers in Europe and North America in all market segments. SAF-HOLLAND has a leading market position in trailer axle and suspension systems in Europe. In North America, SAF-HOLLAND has a leading market position in fifth wheels, kingpins and landing gears.

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### **Products and customers**

Axle and suspension systems, kingpins and landing gears for trailers as well as fifth wheels for trucks and suspension systems for vocational trucks and buses form the core of SAF-HOLLAND's product range.

Through the global spare parts and service network, SAF-HOLLAND offers a wide range of spare parts for all products of the Trailer Systems and Powered Vehicle Systems business segments. The range also includes spare parts from third-party providers.

The client base of the Powered Vehicle Systems business segment includes globally active truck manufacturers, smaller regional suppliers as well as manufacturers of vocational trucks. With several hundred trailer manufacturers in Europe and North America, the client base of the Trailer Systems business segment is significantly more diverse. Furthermore, SAF-HOLLAND is in direct contact with its end customers – the fleet operators, who act as customers through their specification decisions when it comes to the equipping of vehicles. The Aftermarket business targets spare parts dealers and repair shops as well as large fleet operators.

Globally, SAF-HOLLAND markets its products in the original equipment business under three umbrella brands: SAF, Holland and NEWAY. The SAF brand markets our axle and suspension systems for trailers. The Holland logo incorporates coupling and lifting technology products. NEWAY markets suspension systems in vocational trucks and buses. In addition, at a local level, SAF-HOLLAND relies on the TRILEX brand.

In the Aftermarket business, SAF-HOLLAND supplies trucks and trailers with original spare parts, but also with products from the SAUER GERMANY QUALITY PARTS and GoldLine brands. These brands have been specially designed for markets in which a large proportion of vehicles have an advanced service age and in which customers' main concern is durability and low prices.

SAF-HOLLAND at a Glance

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PRODUCT BRANDS OF SAF-HOLLAND

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Trailer axles and suspension systems



Innovative fleet-optimized trailer axles, brakes and suspension systems to maximize transport efficiency

Coupling and lifting technology



Reliable, tried-and-tested fleet solutions for safe and efficient coupling and lifting by using innovative technology and global expertise

Suspensions for vocational trucks and buses



Robust, tried-and-tested for fleet use and extremely powerful air suspensions with excellent design features and extensive experience in vocational trucks and buses

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**Locations and markets: Global presence in all key markets**

SAF-HOLLAND is internationally positioned and present in all key regions. The company manufactures at a total of 17 locations on six continents. The focus of the production locations is traditionally in the established markets of North America (7 plants) and Europe (3 plants). In addition, SAF-HOLLAND has production facilities in countries such as Brazil, South Africa, India, China, Australia and the United Arab Emirates. With this positioning, the company is among the suppliers with the greatest geographical diversification in its market.

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 SAF-HOLLAND PRODUCTION LOCATIONS
 

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1

**Canada**  
Woodstock

2

**USA**  
Holland  
Muskegon  
Warrenton North  
Warrenton South  
Wylie  
Dumas

3

**Brazil**  
Jaguariúna

4

**Germany**  
Keilberg  
Frauengrund  
Singen

5

**South Africa**  
Johannesburg

6

**United Arab Emirates**  
Dubai

7

**India**  
Sriperambadur Taluk

8

**China**  
Xiamen  
Baotou

9

**Australia**  
Melton

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SAF-HOLLAND's spare parts and service network is also considerably more comprehensive than those of most competitors. It consists of around 9,000 spare parts and service stations, dealers and workshops in more than 80 countries. We have a comprehensive footprint in our core markets Europe and North America.

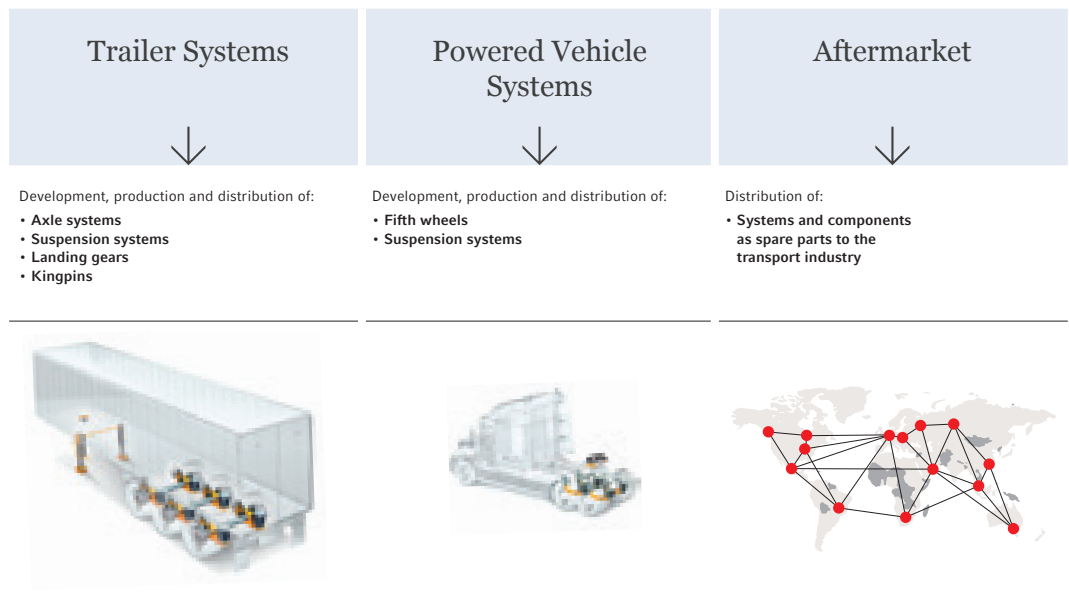
The key sales markets for SAF-HOLLAND are currently Europe and North America: In the reporting year we achieved around 90% of our sales in these regions. SAF-HOLLAND's activities outside of these established sales markets are primarily focused on the so-called BRIC countries. In China, we are also active in the growing bus suspension systems segment in addition to the truck and trailer sector.

**Previous organizational structure**

Up to the end of financial year 2015, SAF-HOLLAND’s organizational structure was divided into three business units, oriented towards customer groups: Trailer Systems, Powered Vehicle Systems and Aftermarket.

The Trailer Systems Business Unit developed, manufactured and sold axle and suspension systems as well as landing gears and kingpins for trailers. The Powered Vehicle Systems Business Unit develops, manufactures and sells fifth wheels and suspension systems for trucks, buses and recreational vehicles. The Aftermarket Business Unit is focused on the supply of spare parts for the transport industry and fleet operators.

**BUSINESS UNITS AND PRODUCT GROUPS**



**Presentation of new growth strategy 2020**

In May 2015, SAF-HOLLAND presented its growth strategy 2020, with which the company aligns its business towards global megatrends. Factors such as the growing global population and increasing buying power, particularly in the middle class lead to increasing demand of goods and thereby constantly increasing global transport volumes. This not only results in high investment in transport infrastructure, but also in means of transport, particularly in trucks and trailers, which are at the beginning and the end of every supply chain.

This structural market growth will primarily occur in emerging countries, in particular in the Asia-Pacific, Middle East and African markets. On the basis of its core competences, SAF-HOLLAND is therefore focusing on expanding its product portfolio and opening new regional markets outside of the current core markets of Europe and North America.

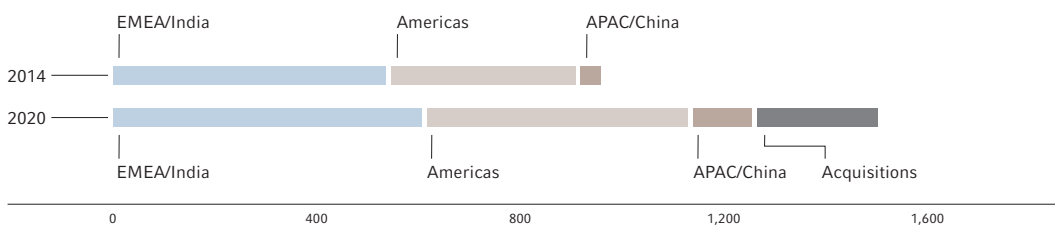
However, the current core regions will not be forgotten. SAF-HOLLAND sees great growth potential with axle and suspension systems for trailers in its core markets and wants to significantly increase its market share, particularly in North America, through production innovations and the gradual utilization of already existing capacities.

In the attractive segment of suspension systems for trucks and buses, SAF-HOLLAND is planning to continue to expand its global position, particularly in emerging countries, through the targeted expansion of its product portfolio as well as larger construction and manufacturing resources.

In addition, SAF-HOLLAND also aims to significantly expand its spare parts business across all regions. In Europe and North America the company benefits from the constantly expanding fleets of trucks and trailers in the market. In emerging countries, the foundations for future spare parts business as well as the regional spare parts and service network must first be laid with the growth of the original equipment business.

As part of the strategy 2020, Group sales – based on group sales of EUR 959.7 million in financial year 2014 – is expected to grow on an organic basis to around EUR 1,250 million by 2020. This corresponds to an annual average organic sales growth of around 4%. A further sales contribution of around EUR 250 million is expected to be achieved through additional cooperations, joint ventures and acquisitions. Group sales are hereby to be expanded to EUR 1,500 million, which corresponds to annual average sales growth of around 7%. SAF-HOLLAND is also planning to increase the share of sales outside of the current core markets of Europe and North America from its present level of approximately 10% to 30%. Alongside China, the focus is on the Next-11 markets and, in particular, on the MINT markets as part of the Next-11 markets.

SALES in EUR million



At the same time, the company is confident that it will achieve an adjusted EBIT margin at a level of at least 8% on average. In terms of earnings per share, SAF-HOLLAND expects for 2020 an increase of about 75% as compared to 2014 to approximately EUR 1.20. The increased number of shares through conversion rights from the convertible bonds issued in 2014 has already been taken into account here.

Despite strong growth, the high capital efficiency of the Group is to be maintained. The annual investment volume is expected to remain stable in the coming years at around 2.5% of sales and the ratio of net working capital to sales is also to remain largely stable at around 12%. Furthermore, the aim is also to keep the net debt-to-equity ratio (net debt/EBITDA) at 2.0 or below, in the case of larger acquisitions a temporary increase to around 2.5 is possible.

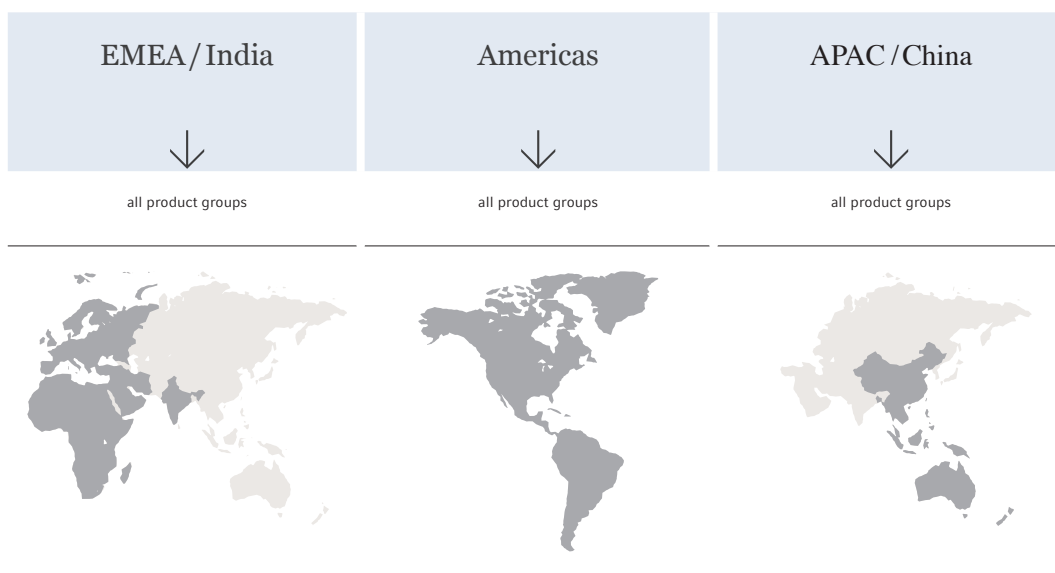
SAF-HOLLAND has already put the necessary financial structure in place for strategy 2020 by expanding its credit lines to EUR 156 million and by issuing a promissory note loan with a total volume of EUR 200 million in 2015.

**New organizational structure since the beginning of 2016**

On January 1, 2016, SAF-HOLLAND changed its Group structure in order to be able to better reflect the organizational aims defined in strategy 2020. The previous Group structure was transferred to a regionally focused organization. In the first stage, the Group activities were divided into the following regions, whereby each region covers all product groups:

- EMEA/India
- Americas
- APAC/China

REGIONALLY FOCUSED SET-UP SINCE THE BEGINNING OF 2016



At the same time, responsibilities in the Management Board were also reassigned. The previous Presidents of the Business Units Trailer Systems (Steffen Schewerda) and Aftermarket (Alexander Geis) took over the management of the new regions Americas and EMEA/India respectively. Mike Kamsickas, previously President of the Powered Vehicle Systems Business Unit, took over the position of Chief Operating Officer (COO). The third regional unit, APAC/China, will be managed by Chief Executive Officer Detlef Borghardt until further notice. Detlef Borghardt and Wilfried Trepels will remain active in their positions as CEO and CFO.

MANAGEMENT BOARD AS OF DECEMBER 31, 2015

Detlef Borghardt	Chief Executive Officer, President of region APAC/China
Wilfried Trepels	Chief Financial Officer
Mike Kamsickas	Chief Operating Officer
Steffen Schewerda	President of region Americas
Alexander Geis	President of region EMEA/India

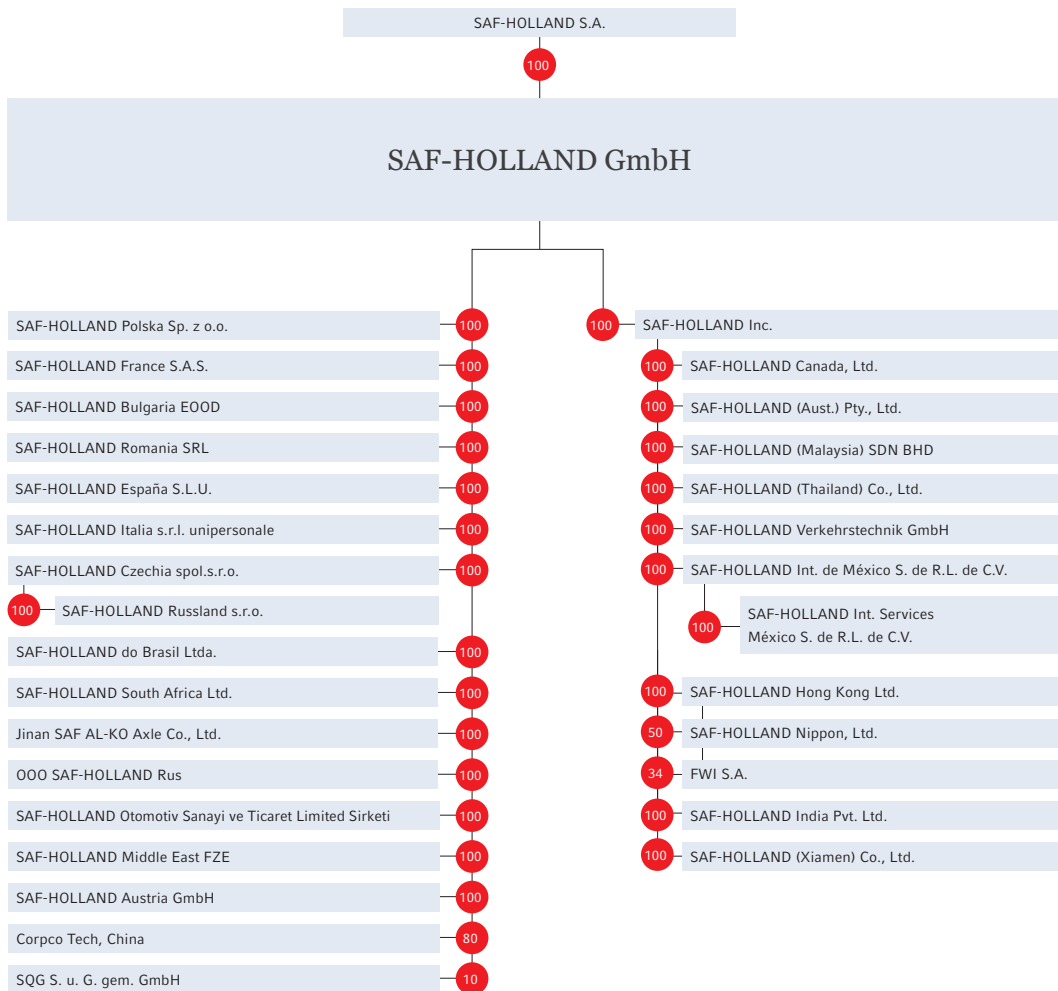


In the medium-term, plans call for the regional division of Group activities to be split up further and, in a second step, to expand the Management Board to a total of eight members. In addition to the three members with functional responsibility (CEO, CFO and COO), the five core regions will each be represented by a member of the Board (Americas, Europe, APAC, Middle East/Africa/India and China).

### Legal Group structure

SAF-HOLLAND S.A. is a company in accordance with Luxembourg corporate law whose shares are listed exclusively in Germany. As the parent company of the Group it holds all shares in SAF-HOLLAND GmbH, which in turn is associated with all national companies.

LEGAL GROUP STRUCTURE in %



In addition to investments in the national companies, SAF-HOLLAND has held a good third of the shares in FWI S.A. in France since 2006. The other shares in the joint venture are held by the SAFE Group, a manufacturer of technical components made of cast steel and injection molded plastics for various industrial applications. SAF-HOLLAND obtains cast iron components for fifth wheels and suspension systems for the North American market from the joint venture.

## Economic and legal influences

The development of global transport volume is a key factor for SAF-HOLLAND. Driven by the rapid growth of the global population, advancing urbanization and globalization of the economy, the transport of goods is rising strongly around the world. In emerging countries, the expansion of the road network also allows an above-average growth of goods traffic. The demographic and economic developments thus lead to greater demand for trucks, trailers and buses, from which SAF-HOLLAND can benefit.

From a legal perspective, regulatory requirements could promote our product sales. The requirements, for example, regarding fuel consumption and the emissions behavior of commercial vehicles around the world are becoming increasingly strict. This increases the need for weight-reduced components – a development that benefits SAF-HOLLAND since our components are among the lightest on the market. A similar scenario applies to safety requirements. In this area, too, increasingly strict regulations are being passed around the world. For SAF-HOLLAND, this opens up advantageous perspectives since our products can contribute to the meeting of stricter safety standards.

## CORPORATE GOVERNANCE

### Corporate governance and Declaration of Conformity

As a company in accordance with Luxembourg corporate law whose shares are listed exclusively in Germany, SAF-HOLLAND is subject to neither the German nor the Luxembourg standards regarding corporate governance. Both the Board of Directors and the Management Board nevertheless have a sense of obligation to provide responsible and transparent corporate governance, business integrity, sustainability and compliance with ethical values. SAF-HOLLAND therefore follows the recommendations and suggestions of the German Corporate Governance Code on a voluntary basis insofar as they are compatible with Luxembourg corporate law and/or the single-tier management structure of the company. The resulting limitations are reflected in the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act, which we submit to voluntarily.

The Declaration of Conformity issued by the Board of Directors in March 2016 is permanently available on our website at <http://corporate.safholland.com/en/investoren/corporate-governance.html>.

### Disclosures pursuant to Article 11 (1) and (3) of the Luxembourg Law on Takeovers of May 19, 2006

- a) Information regarding Article 11 (1) a of the law on takeovers (structure of capital) can be found on page 49 of this Annual Report.
- b) The transfer of shares is, pursuant to the company's articles of association, not limited.
- c) In accordance with the requirements of Article 11 (1) c of the Law on Takeovers, we present the significant shareholdings within the meaning of Directive 2004/109/EG as amended (Transparency Directive) as follows:

Name of the shareholder	Shares <sup>1) 2)</sup>	Percentage of voting rights <sup>1)</sup>
Deutsche Bank AG	2,401,539	5.3%
Franklin Templeton Investment Management Limited	2,337,534	5.2%

<sup>1)</sup> As of December 31, 2015.

<sup>2)</sup> Total shares SAF-HOLLAND: 45,361,112.

- d) There are no shareholders with special control rights.
- e) The control rights of any shares issued in connection with employees are exercised directly by the respective employees.
- f) The company's articles of association does not include limitations on voting rights.
- g) As of December 31, 2015, there are no agreements among shareholders which are known to the Company that could result in restrictions on the transfer of shares or voting rights within the meaning of Directive 2004/109/EG, as amended (Transparency Directive).

h) The members of the Board of Directors may be appointed or dismissed with or without indication of a reason at the General Meeting of the Shareholders with a simple majority (meaning 50% of the voting rights present or represented at the General Meeting of the Shareholders plus one vote) in accordance with Article 7.1 and 7.4 in connection with Article 17.10 of the articles of association as well as Article 67 (2) of the Luxembourg law of August 10, 1915 on commercial enterprises, as amended. There is no quorum requirement. The period in office of a Member of the Board of Directors may not exceed six years, a re-election is, however, possible. Should a Member of the Board of Directors step down, the remaining members can, with a simple majority, elect a replacement member for the period until the next General Meeting.

Any vote of the Annual General Meeting on an item relating to an amendment of the articles of association requires a quorum of at least 50% of the share capital and a majority of two thirds of the voting rights present or represented at the meeting. Should the quorum requirement not be met in the first General Meeting, a second General Meeting can be convened for the same purposes in which there is no quorum requirement.

- i) The Board of Directors is equipped with wide-ranging powers for the execution of all administrative tasks in the interests of the company. Information regarding the powers of the Board of Directors to issue, redeem and buy back of shares can be found in the consolidated financial statements in the "Equity" chapter of the annual report.
- j) In October 2012, the company issued a corporate bond which will mature in 2018 with a nominal value of EUR 75 million and with an interest rate of 7%. In the case of a change of control as defined in detail in Article 5 (3) b) of the terms and conditions, these conditions grant each bondholder the right, at his discretion, to declare due all or a part of his bonds plus any interest accrued up to the optional redemption date. The optional redemption date is defined by the company following a change of control event, announced to creditors in the form of a notice and is a business day that is within 60 calendar days but not more than 90 calendar days after the notification.

The company issued a convertible bond in the amount of EUR 100.2 million with an interest rate of 1% which will mature in 2020. In the case of a change of control, the terms and conditions of the convertible bond grants, as described in greater detail in Article 10 (7) of the terms and conditions, each holder of such a convertible bond the right, at his discretion, to declare due on the effective date all or a part of his convertible bonds that were not previously converted or repurchased. The effective date is defined by the company following a change of control event, announced to creditors and is a business day that is within at least 40 calendar days but not more than 60 calendar days after the notification of the change of control. The company will repay convertible bonds that have been terminated by a creditor on the effective date at their nominal value plus any interest that may have accrued. For each exercising of conversion rights, the conversion price will be adjusted on or before the effective date by the calculation agent in accordance with Article 10 (3) of the terms and conditions of the convertible bond.

The company has issued a promissory note loan in several tranches in a total amount of EUR 200 million which will mature at different times. In the case of a change of control, the contractual terms of the respective loans, as described in detail in Article 13 (3) and (4) of the respective contractual terms, grant each creditor the right to declare due in whole his part of the loan and to demand immediate repayment at the nominal value plus any interest that may have accrued and any other amounts owed in accordance with the respective loan agreement.

The current credit agreements with various banks (syndicated loans) – relating to drawn and undrawn lines of credit in a total volume of EUR 156 million – also include provisions in the case of a change of control. Following a change of control, the company must immediately inform the agents about the event. The creditors have the right, at their discretion, to declare due, via the agents, all outstanding credit lines plus any interest that may have accrued and all other amounts owed in accordance with the respective loan agreement, insofar as they notify the agents within a period of 30 days. The agent is obligated to notify the company of this within 10 days.

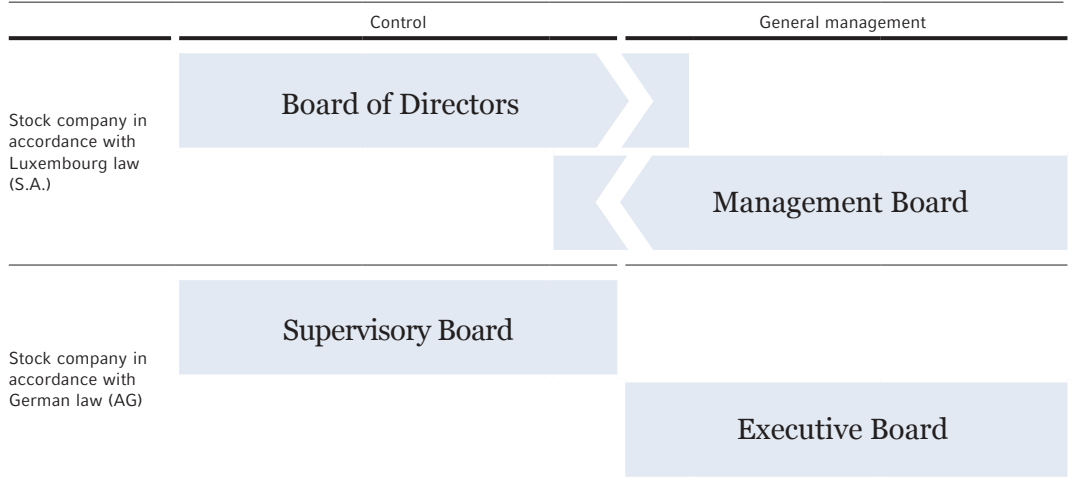
In addition, there are no further important agreements to which the company is a party and which take effect, alter or terminate upon a change of control in the company following a takeover bid.

- k) There are no agreements between the company and members of the Board of Directors or employees providing for compensation to members of the Board of Directors or employees in the case of a takeover bid if the employment relationship is terminated without valid reason or due to a takeover offer.

**Management and Control**

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

MANAGEMENT AND CONTROL UNDER LUXEMBOURG AND GERMAN CORPORATE LAW



**Board of Directors**

The Board of Directors, which is responsible for the strategic direction of the company, characterizes the single-tier structure of the board system. Its most important task is to ensure that the company management acts in the interest of the shareholders. With this intention, the competences of the Board of Directors include both supervisory functions as well as management duties.

The Board includes both external members, the Non-Executive Directors, as well as operationally active members of the relevant company, the Executive Directors. Similarly to a German Supervisory Board, the body elects a Chairman from among its members and establishes committees.

At SAF-HOLLAND, the Board of Directors currently consists of six members. Five of these elected representatives, including the Chairman Bernhard Schneider, are Non-Executive Directors. The sixth seat in the body is held by Detlef Borghardt, the Chief Executive Officer (CEO) of SAF-HOLLAND. This means that one member of the Board is directly involved in the daily business of the company.

The Board of Directors of SAF-HOLLAND makes decisions on the basis of a simple majority, in accordance with the articles of association. For the exercising of its duties, the Board has formed a committee: the Audit Committee, whose tasks are comparable to the audit committee in a Supervisory Board.

More detailed information on the Board of Directors can be found in the relevant report on page 8. An overview of the mandates of board members is provided on page 186.

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#### **Personnel Changes in the Board of Directors**

At the conclusion of SAF-HOLLAND's Annual General Meeting on April 23, 2015, the mandate of Richard Muzzy ended as planned. In order to ensure a smooth transition, the Annual General Meeting of the previous year had already elected Martina Merz as new Member of the Board of Directors.

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#### BOARD OF DIRECTORS AS OF DECEMBER 31, 2015

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Bernhard Schneider	Chairman of the Board of Directors
Sam Martin	Deputy Chairman of the Board of Directors
Detlef Borghardt	Member of the Board of Directors
Dr. Martin Kleinschmitt	Member of the Board of Directors
Anja Kleyboldt	Member of the Board of Directors
Martina Merz	Member of the Board of Directors

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#### **Management Board**

A Management Board, similar to an Executive Board, is assigned to the Board of Directors and is responsible for the daily business of the company as well as the operational management. The members of the Management Board are appointed by the Board of Directors. In the interests of the company, the Board of Directors and the Management Board maintain a close and on-going cooperation.

At the end of 2015, the Management Board at SAF-HOLLAND consisted of five members, including Detlef Borghardt who, as Chief Executive Officer (CEO), is also part of the Board of Directors, and Wilfried Trepels as Chief Financial Officer (CFO). Further members of the Management Board are the presidents of the respective Business Units – Alexander Geis, Mike Kamsickas and Steffen Schewerda. More detailed information on the Management Board can be found on page 6.

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### Personnel changes in the Management Board in financial year 2015

At the end of 2015, Jack Gisinger, for many years a member of the Management Board and President of the Powered Vehicle Systems Business Unit, retired. He had already handed over his position as President of Powered Vehicle Systems to Mike Kamsickas in June 2015. As a result of this early succession arrangement, a smooth transition in the management was ensured.

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### New structure of the Management Board as of financial year 2016

In connection with the implementation of strategy 2020, the Management Board was given a new organizational structure at the beginning of 2016. In addition to Detlef Borghardt as Chief Executive Officer (CEO) and Wilfried Trepels as Chief Financial Officer (CFO), Mike Kamsickas assumed the newly-created office of Chief Operating Officer (COO). Further members of the Management Board include the heads of the respective regional business segments – Steffen Schewerda (Americas) and Alexander Geis (EMEA/India). Management of the APAC/China region will be assumed by CEO Detlef Borghardt until further notice.

The Management Board will be expanded to eight members in the medium term. In addition to the three members with functional responsibility (CEO, CFO, COO), the five core regions will each be represented by their own member of the Board (Americas, Europe, APAC, Middle East/Africa/India and China). This alignment secures both a targeted processing of the respective regional markets as well as a constant flow of information and thus short reaction times at Group level.

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### General Meeting

The shareholders of SAF-HOLLAND exercise their voting rights at the Annual General Meeting. Each share is granted one vote. The Annual General Meeting takes place each year on the fourth Thursday in April and, thus, within the first six months of the financial year. The Board of Directors presents the annual and consolidated financial statements to the shareholders. The Annual General Meeting decides on the annual financial statements of SAF-HOLLAND S.A., the appropriation of profits and on ratifying the actions of the members of the Board of Directors as well as those of the auditor, whom they also appoint. They resolve on changes to the articles of association and significant entrepreneurial measures. These include, among other things, the election of the members of the Board of Directors and extension of mandates.

The convening of the Annual General Meeting along with the agenda and relevant documentation is published on the company's website. The significant date for the legitimization of the shareholders is the end of the 14th day before the Annual General Meeting (record date). Shareholders can exercise their voting rights through an authorized representative of their own choice, a voting rights representative of the company bound by instructions or in writing.

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### Transparency

SAF-HOLLAND has a sense of its obligation to provide comprehensive, equitable and timely communication to its shareholders and the general public. All annual and quarterly financial reports, ad hoc and press releases, investor presentations as well as all changes to voting shares with a reporting requirement are published on SAF-HOLLAND's website. In addition, the website offers the opportunity to find out about the Group, its organizational structure, the articles of association, the members of the Board of Directors and the Management Board as well as upcoming and previous Annual General Meetings. The dates of the regular financial reporting can also be accessed in the financial calendar.

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### Accounting and auditing

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

The consolidated financial statements were audited by Ernst & Young S.A., Luxemburg, the auditors selected by the Annual General Meeting 2015. The audit of the consolidated financial statements was conducted in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Prior to the issuing of the audit mandate, the auditors assured the Board of Directors of their independence and objectivity. The financial statements are reviewed, approved and published by the Board of Directors, at the latest, 90 days after the balance sheet date.

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### Directors' Dealings

In accordance with Section 15a of the German Securities Trading Act (WpHG), managers of the company are obligated to disclose their own transactions with company shares or derivative financial instruments when the value of the purchase or sale meets or exceeds a total of EUR 5,000 within a calendar year. This obligation also applies to persons who are closely related to the managers. SAF-HOLLAND publishes these transactions immediately when the company receives the information.

We received three notices regarding Directors' Dealings in reporting year 2015 which have been placed on our website at <http://corporate.safholland.com/en/investoren/investor-news/directors-dealings.html>.

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### Main features of the remuneration system

For their service in the Board of Directors, the members of the board receive remuneration. They also receive additional fees for special functions such as chairing the Audit Committee. The CEO of the Management Board receives no additional remuneration for his work on the Board of Directors.

The performance-related remuneration system for the Management Board is underpinned by short and medium-term performance agreements. In addition, a share-based remuneration component for members of the Management Board was created that is geared towards the medium to long-term success of the company. Further details on share-based remuneration for the members of the Management Board can be found in the notes to the consolidated financial statements on page 124.

## PERFORMANCE METRICS

The focus of company management is the profitable growth of the Group in connection with a sustainable increase in the enterprise value. It is primarily financial indicators that are used to evaluate the current business development and to derive future strategic and investment decisions. These are supplemented by non-financial performance indicators as well as industry and company-specific early indicators. The objective is to monitor the success of strategic decisions and, wherever necessary, to take appropriate measures in a timely manner.



### Internal Group control system

Each year, the Group prepares a medium-term planning with a time horizon of five years as well as a budget divided into individual months. On the basis of current business development, a forecast is also drawn up quarterly for the relevant financial year. Sales and earnings planning and monitoring for conformity with targets is carried out on the basis of a rolling monthly forecast. SAF-HOLLAND continuously controls compliance with these key figures through the reporting system.

The Management Board and the Board of Directors monitor goal achievement of the financial performance indicators on the basis of a plan/actual comparison. In addition, progress made in the achievement of strategic objectives is regularly reviewed and analyzed in the meetings of the Management Board and Board of Directors.

### Financial performance indicators

For the management of the company, SAF-HOLLAND relies primarily on the following four financial performance indicators:

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

#### FINANCIAL PERFORMANCE INDICATORS

EUR million	Target 2020	2015	2014	2013	2012	2011
Sales	1,250-1,500	1,060.7	959.7	857.0	859.6	831.3
Adjusted EBIT	≥ 100-120	94.0	70.7	59.3	58.2	58.0
as a percentage of sales	≥ 8%	8.9	7.4	6.9	6.8	7.0
Diluted earnings per share in EUR	~1.20	0.99	0.69	0.54	0.18	0.73
Net working capital	150-180	116.6 <sup>1)</sup>	102.7	76.1	82.4	78.2
as a percentage of sales	12	12.0	10.9	9.4	10.2	9.6

<sup>1)</sup> Not including receivables in the amount of EUR 2.0 million coming from the sale of property in Würth, Germany.

While sales and adjusted EBIT are planned, calculated and monitored for both the Group and the operational business segments, the calculation of earnings per share and net working capital is carried out only at Group level.

In addition, SAF-HOLLAND takes further financial performance indicators into consideration including the equity ratio, liquidity, cash flow from operating activities and return on investment (ROI).

### Non-financial performance indicators

As non-financial performance indicators, SAF-HOLLAND relies primarily on data such as delivery reliability, quality, volume, personnel, customer structure and satisfaction as well as market share development. The parameters gathered are recorded separately for different regions and product groups. Developments are thereby not only recognized at an early stage but can also be addressed specifically.

### Industry and company-specific early indicators

The key figures orders received and order backlog, which are gathered on the basis of the respective Group companies, serve as indications for the expected capacity utilization as the anticipated sales and earnings developments. These company-specific key figures are taken into account especially for the short-term corporate planning.

In addition, management also continuously monitors statistics and forecasts for global demand and production of trucks and trailers as well as for the general economic development in the relevant countries and regions.

## RESEARCH AND DEVELOPMENT

### Expansion of technological leadership

The aim of our research and development activities is to sustainably ensure and further expand our technological leadership. Product innovations are the basis of our future business success. Research and development activities are strategically very important for SAF-HOLLAND and have been continuously expanded in recent years.

In the reporting year, research and development costs amounted to EUR 20.9 million (previous year: EUR 19.6 million). Development expenses of EUR 3.7 million (previous year: EUR 2.3 million) were also capitalized. The capitalization ratio was thus 15.0% (previous year: 10.5%). Depreciation on capitalized development costs totaled EUR 0.5 million (previous year: EUR 0.4 million). In relation to Group sales, this results in an R&D ratio of 2.3% (previous year: 2.3%). At the end of 2015, a total of 191 people were employed in the area of development, construction and testing (previous year: 171).

#### PERIOD OVERVIEW RESEARCH AND DEVELOPMENT

	2015	2014	2013	2012	2011
R&D expenditures including capitalized development costs (EUR million)	24.6	21.9	19.1	19.4	16.1
R&D ratio (expenditures as a percentage of sales)	2.3	2.3	2.2	2.3	1.9
Number of employees in the area of development, construction and testing	191	171	164	160	159

Alongside the development of new products, our development activities also focused on the adaptation of existing solutions to country or customer-specific requirements. Our teams of developers and engineers are thus active not only at the headquarters in Germany and the USA, but also worldwide. We use direct proximity to our customers to ensure that the special market knowledge of the local units flows directly into product variations.

At the same time, we maintain an active exchange of personnel between the local sites and the two research and development headquarters in Germany and the USA. By developing so-called "International Application Teams", in recent years we have started to integrate engineers from emerging countries into the teams in Germany and the USA for a longer period. This process allows a comprehensive transfer of know-how, overcomes language barriers and leads to faster solutions for the local sites.

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### **Our goal: Optimization of the total cost of ownership for our fleet customers**

The overriding objective of our R&D activities is to offer our customers products which ensure efficient fleet operation and which contribute towards the optimization of their total cost of ownership. The following topics are therefore the focus of our R&D activities:

- Weight reduction through the use of lightweight components: This allows larger loads and results in lower fuel consumption.
- Durability: Extended mileage and reduced maintenance expenses result in lower operating costs.
- Safety: Greatest driving safety and reliability ensure the maintenance of the globally constantly increasing safety standards.

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### **Innovative solutions for an even wider product range**

In the reporting year, our R&D activities primarily focused on the further diversification of our product range. Our aim is to use specific products to offer the solutions, which are in demand in each market segment. We concentrate on the most flexible design and modularization of our products, so that the systems can be further expanded in the coming years.

#### **\_\_\_ INTRA S air suspension system**

One focus of our R&D activities in the reporting year was on the development of the INTRA S air suspension system for series production, which was already presented at the IAA Commercial Vehicles trade fair in 2014 and was introduced into the market at the beginning of 2016. This application and weight-optimized variation of the proven INTRA line is designed for trailers such as curtainsiders and coolers and impresses with maintenance-free axle connection and suitability for proven chassis connections. The INTRA S suspension system also offers weight savings of 10 kilograms per axle compared with the INTRA series, which has been offered on the market for some time. At three axles per trailer, that adds up to a potential total weight savings of up to 30 kilograms. The market launch of INTRA R, a further variation of the INTRA line, which is specially designed for trailers in use off-road and those with stiff frames, such as tankers and dump trucks, is to follow in the coming years.

#### **\_\_\_ SAF SBS 1918 H0 trailer disc brakes**

The series production of the newly-developed, adaptable SAF SBS 1918 H0 trailer disc brakes began in June 2015, the lightest 19.5 inch disc brakes for axles with an axle load of 9 tons currently available on the market. Including the brake pads, the total weight of the brakes is less than 29 kilograms. In addition to the low weight, the disc brakes also impress with their ideal braking torque to weight ratio, long service life and easy maintenance.

#### **\_\_\_ Galvanized axles**

At the IAA Commercial Vehicles trade fair in 2014, SAF-HOLLAND was also the first manufacturer to present a spray-galvanized axle for 9 tons axles, which offer substantially improved corrosion protection. The axles are sandblasted in a multi-stage process and coated with zinc and aluminum using special spray galvanizing. An additional zinc-based primer prevents the zinc oxide from "blooming". This results in substantially improved economic efficiency for vehicles. In addition, SAF-HOLLAND is the first axle manufacturer to offer a 10-year guarantee against rust.

After the initial establishment of the spray-galvanized variant of the disc brake axles, in financial year the further development and adaptation of this concept began for steered axles and drum-braked axles.

### \_\_ SAF Air Damping

SAF Air Damping is a completely new air suspension, with which suspension and damping are achieved through two controlled air volumes. This design eliminates the need for hydraulic shocks and allows a weight reduction of approximately 4 kilograms per axle. A further advantage is the fact that the system is completely maintenance free. In the reporting year, the technical concept of SAF Air Damping was validated and transferred to a development project. SAF-HOLLAND plans to develop the system to market maturity by 2017.

### \_\_ SAF Direct

In addition, in the reporting year a development project for SAF Direct drum brakes was initiated and the first prototypes were installed into vehicles. These are the first drum brakes for vehicles of between 7.5 and 12 tons, which do not use camshafts or slack adjusters. The pneumatically controlled drum brakes with a maintenance-free mechanism and integrated automatic wear adjustment is an ideal partner for the aluminum composite brake drum. The newly designed SAF Direct system offers weight savings of approximately 20 kilograms per axle.

### \_\_ Carbon suspension

Our concept for CFRP suspension with components made from carbon-fiber reinforced plastic is at an early stage of development. The extremely stable carbon fibers are 60% lighter than steel and 40% lighter than aluminum. This forward-looking construction can be used for all brake types, sizes and handlebar variants. In comparison with conventional systems, it offers weight savings of approximately 30 kilograms per axle. However, carbon is very expensive for manufacturing and has thus not been used in series production so far. In the reporting year we initiated the first tests and concept studies, however market launch is not to be expected before 2018.

### \_\_ 30 priority applications in financial year 2015

The number of newly registered innovations is proof of the success of our research and development activities. In the reporting year, we were able to expand our portfolio of internationally transacted priority applications by 30 new registrations. As a priority application is always the first filing of a patent family, the aforementioned increase was accompanied by numerous related sub-applications or additions.

#### NUMBER OF PRIORITY APPLICATIONS

	2015	2014	2013	2012	2011
Number of priority applications	30	41	26	20	32

## ECONOMY AND INDUSTRY ENVIRONMENT

### Overall economic development

In 2015, once again the global economy failed to gather momentum. Whilst growth in most developing economies accelerated slightly, development in the emerging countries was largely disappointing. The primary reason for this was the weakened growth in China (6.9% in 2015, following 7.3% in 2014), triggered by the transformation of an economy driven mainly by export and the manufacturing industry into a consumer and service-driven economy. This resulted in a fall in the price of numerous commodities, particularly crude oil and base metals. This subsequently affected economic development in commodity-exporting emerging countries. The large oil producing countries such as Russia (-3.7%) and the Gulf States in particular, but also countries such as Canada (1.2%), Australia (2.4%) and Brazil (-3.8%) had to fight against

economic headwind. India (7.3%) was the only country where the economy gained momentum over the course of the year. The International Monetary Fund (IMF) was therefore forced to reduce its expectations for global growth of 2015 several times. Despite a forecast of 3.5% growth in the global economy in January 2015, the IMF reduced its forecasts to just 3.1% in January 2016.

In most developed economies, the low oil price – in conjunction with an expansive monetary policy – had the effect of an economic stimulus program. As a result, total growth here increased from 1.9% in the previous year to 2.0%. The largest growth stimulus once again came from the USA, despite a weak first quarter due to weather conditions. For the USA, the IMF estimates GDP growth in 2015 at 2.5%. Starting at a low basis of just 0.9% growth in 2014, the IMF estimates growth acceleration to 1.5% for the euro zone. Alongside the already discussed factors, the euro zone also benefited from the devaluation of the euro against the US dollar. Despite continued extremely expansive monetary and fiscal policies, economic development in Japan was disappointing with a growth of just 0.6%.

### Industry-specific development

The differing development in the global economy was clearly reflected in the development of the commercial vehicle markets. Whilst our two core markets, Western Europe and the USA, achieved pleasing growth rates, the markets in many emerging countries recorded partially dramatic downturn. Overall the global market for heavy-duty commercial vehicles recorded a decrease of 2 to 3% in 2015.

#### — Europe: Double-digit growth in the EU commercial vehicles market

In 2015, the development of the European commercial vehicles market was characterized by strongly conflicting trends. In the countries of the European Union, the total market increased surprisingly strongly by 12.4%. However, this growth was almost completely outweighed by the decline of more than 40% in Russia.

Within the EU, market growth was relatively balanced across the individual weight classes. Registrations in the heavy trucks over 16 tons segment, which is the most relevant vehicle class for SAF-HOLLAND, increased by 19.4%. In comparison, growth in medium-duty trucks over 3.5 tons (+16.2%) and light trucks (+11.6%) was slightly lower.

The comparatively high growth in Southern Europe is particularly noticeable when considering regions for the higher weight classes. According to industry association ACEA, Spain, Italy and France all recorded double-digit growth rates. As in the previous year, these countries continued to benefit from catch-up effects following many years of purchasing restraint. In Germany, the number of newly registered heavy trucks increased by 5.3%.

According to estimates by CLEAR, the Western European trailer market recorded a growth rate of 1.4% in the reporting year. Catch-up effects from countries such as Italy, Spain and the Netherlands were particularly responsible for this increase; but the United Kingdom also recorded strong growth. Parallel to the situation in the European commercial vehicles market, these growth rates were largely balanced by the slump in the Russian trailer market, through which the total European market remained at approximately the level of the previous year.

#### — North America: Steadying of demand in the second half of the year

Over the course of the full year, the North American market for medium-duty (class 5 to 7) and heavy trucks (class 8) showed strong growth once again. Based on information from WardsAuto, there was a total growth in sales of 10.6%. As in the previous year, growth was largely driven by increasing freight volumes and rates. The production of trucks in class 8, which is relevant for SAF-HOLLAND, increased by 12.9% to 248,804 units.

However, over the course of 2015 slowing momentum was observed in sales figures, particularly since the summer months. The key triggers for this correction were on the one hand the excessively high orders in the fourth quarter of 2014 and on the other hand the gradual weakening of US-American industrial production in 2015. As a result, orders received for class 8 trucks have been decreasing since March 2015, a trend, which became more noticeable over the course of the year.

The situation is similar in the North American trailer market. On the one hand, the delivery figures increased by 9.6% in the USA and 9.7% in Canada in comparison with 2014. On the other hand, according to information from market research institution FTR, orders received decreased by around 13% compared with the previous year. However, since mid of 2015 a stabilization of orders received has been recorded and the absolute order volume is at a continued high level.

#### **\_\_ BRIC countries: Market collapse in Brazil, Russia and China – growth in India**

After a decline in the Brazilian commercial vehicles market in the previous year, the downward trend gained momentum in 2015 due to the effects of the recession. According to the industry association Anfavea, new registrations of trucks declined by a total of 48.0% in comparison with the previous year. New registrations of the vehicle classes of medium-duty and heavy trucks, which are relevant for SAF-HOLLAND, have more than halved and recorded a drop of 49.3% and 60.7% respectively.

The Russian commercial vehicles market was equally weak. As a result of the deep recession triggered by sanctions from the West and the sharp drop in oil prices, the number of newly registered trucks decreased by 41.9% according to AUTOSTAT.

According to data from the manufacturer's association CAAM, the Chinese commercial vehicles market recorded a decline in sales of 10.3% in 2015. The cooling of the overall economy was more clearly noticeable in the medium-duty and heavy trucks segment, where sales figures decreased by 17.7% and 25.9% respectively. In the bus segment, in which SAF-HOLLAND has been represented since its takeover of Corpco in 2014, there was only a decrease of 1.9%.

The upward trend in the Indian commercial vehicles market, which began in the previous year, has noticeably strengthened in the reporting year. Driven by a significant economic recovery, increases of 9.6% and 35.6% were recorded in medium-duty and heavy trucks respectively.

## **SIGNIFICANT EVENTS IN FINANCIAL YEAR 2015**

#### **\_\_ Change in the Management Board**

Jack Gisinger, member of the Management Board, retired at the end of the year 2015. Jack Gisinger began his professional career in the company in the year 1980 and held a number of senior positions in engineering and management. He has been responsible for the Powered Vehicle Systems Business Unit since the merger of SAF and Holland in 2006.

In order to ensure a smooth transfer in the general management, Mike Kamsickas succeeded Gisinger as President of Powered Vehicle Systems already in June 2015. Mike Kamsickas looks back on more than 30 years of professional experience in the automobile and commercial vehicles sector and has held various international management positions.

#### — **First-time placement of a promissory note loan**

In order to expand and give greater flexibility to the corporate financing, SAF-HOLLAND issued a promissory note loan for the first time in November 2015. As a result of strong demand, the originally targeted emission volume of EUR 125 million was increased to EUR 200 million. The promissory note loan consists of tranches with maturities of 5, 7 and 10 years and with both variable and fixed interest rates. SAF-HOLLAND thus secures an advantageous interest rate level over the long term in the currently favorable interest environment.

Together with the expansion of the credit lines to EUR 156 million, this placement allows the company to significantly expand its financial flexibility and to establish the foundation for the successful implementation of strategy 2020 which, in addition to organic growth of the company, also includes external growth through complementary cooperations, joint ventures and acquisitions.

#### — **Conclusion of the German plant consolidation**

At the end of September, and thus earlier than originally planned, the consolidation of the German plant network was successfully completed. The focus of this measure, which stretched over a period of nearly two years, was the move of the Wörth plant, including all machines and production lines, to the two plants at the main location in Bessenbach. At the same time, construction measures were undertaken in Bessenbach for the modernization and expansion of the production space. Once production operations in Wörth had been completed, activities to sell the property began and it was possible to draw these to a successful close in December.

The German plant consolidation allows for an even greater degree of flexibility in production at the Bessenbach location. Plant 1 at that location now covers the entire value chain and enables the optimal coordination of the individual production processes. We thus tap into a broad range of advantages, in particular further increases in productivity, improved delivery times and lower costs.

The consolidation of our German plants was one of the key components of our program to improve earnings in the Trailer Systems Business Unit. The goal of this package of measures was to increase the adjusted EBIT margin of the Business Unit to about 6% by the end of 2015 based on the level of 2.2% in financial year 2013. The margin level of 6.2% achieved in the reporting period impressively underscores the success of our program.

#### — **Sale of the AerWay product line to Salford Inc.**

In December, SAF-HOLLAND completed the planned sale of the AerWay product line to the Canadian Salford Inc. AerWay's business related for the most part to soil loosening and cultivation equipment. The unit had 38 employees working at SAF-HOLLAND's Canadian subsidiary, SAF-HOLLAND Canada Limited, in Norwich, Canada, and operated within the Trailer Systems Business Unit. Since the merger of SAF, Germany and Holland, USA in 2006, AerWay has been a non-core business.

In financial year 2014, the AerWay product line generated sales in the mid single digit million range and a return that was in line with the average for the Group. The purchase price was in the low single digit million range.



## SALES AND EARNINGS PERFORMANCE, NET ASSETS AND FINANCIAL POSITION

### COMPARISON OF FORECAST AND ACTUAL BUSINESS DEVELOPMENT

Although the environments in a number of important sales markets such as Brazil, Russia and Australia were much more difficult than originally anticipated and other emerging markets also showed greater weakness than in the prior year, it was nonetheless generally possible for the SAF-HOLLAND Group to largely meet or exceed its financial targets in 2015.

	Actuals 2014	Forecast 2015 (March 2015)	Adjustment May 2015	Adjustment August 2015	Actual business development
Sales	EUR 959.7 million	Between EUR 980 million and EUR 1,035 million	–	At the upper end or slightly above the planned corridor	EUR 1,060.7 million
Adjusted EBIT	EUR 70.7 million	–	Approximately EUR 90 million	Somewhat > than EUR 90 million	EUR 94.0 million
Adjusted EBIT margin	7.4%	9-10%	Lower end of the corridor of 9-10%	–	8.9%

This applies in particular for sales, which were well above the originally targeted corridor of EUR 980 million to EUR 1,035 million. Following very strong growth in the first two quarters of 2015, we had already raised our expectations at time of the publication of the half-year report in August and presented the prospect of sales at the upper end or slightly above the originally planned range. With sales of EUR 1,060.7 million in 2015 which were positively affected by favorable currency effects, this increased forecast was reached or slightly surpassed.

On the earnings side, we had targeted a significant increase in the adjusted EBIT margin to 9 to 10% after 7.4% in the previous year, this in accordance with the medium-term planning for 2015 that was formulated already in 2010. With the publication of the report on the first quarter, we substantiated this target and forecast an adjusted EBIT of approximately EUR 90 million or an adjusted EBIT margin at the lower end of the 9 to 10% range. In August we raised the target for adjusted EBIT slightly, holding out the prospect of a figure somewhat above EUR 90 million: With an adjusted EBIT of EUR 94.0 million generated in 2015, the absolute target was surpassed slightly; our expectations for the adjusted EBIT margin was largely achieved with 8.9% despite the difficult market environment.

In May 2015, we also issued a medium-term forecast for earnings per share. Also under full consideration of the share equivalents for the convertible bonds issued in 2014, management anticipated an increase of about 30%. In August 2015, this expectation was also adjusted slightly upward to an increase of at least 30% forecast. With diluted earnings per share for 2015 amounting to EUR 0.99 the group achieved an increase of 43% and thus managed to surpass the upwardly adjusted forecast.

SAF-HOLLAND's dividend policy generally calls for between 40 and 50% of available net earnings to be distributed to shareholders in the form of a dividend. The Board of Directors will therefore recommend to the Annual General Meeting on April 28, 2016 an increase of 25.0% in the dividend distribution of EUR 0.40 per share (previous year: EUR 0.32) and thus a sum of EUR 18.1 million (previous year: EUR 14.5 million). This corresponds to a distribution ratio of 38.6% of the available net earnings, in the determination of which the purely account-

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ting-related and non-cash earnings from the valuation of intercompany foreign currency loans in the amount of EUR 4.7 million after taxes were not taken into consideration. With this distribution ratio, the targeted range was nearly achieved at the lower end.

## SALES AND EARNINGS PERFORMANCE

### Group sales well over EUR 1 billion for the first time

In financial year 2015, SAF-HOLLAND increased Group sales by 10.5% to EUR 1,060.7 million (previous year: EUR 959.7 million). The two core markets of Europe and North America as well as the other regions all contributed to the increase in sales. It should be taken into consideration here that some markets that are important for SAF-HOLLAND were extremely weak and remained well below the originally planned figures for sales and earnings. This applied in particular for Brazil, Russia and Australia. In these markets, sales for the Group in 2015 were a total of nearly EUR 13.0 million below the figures for the previous year. In addition, demand from Russia in the original equipment business which came to a virtual standstill had an impact on sales development in Western Europe, which would have otherwise been much stronger.

GROUP SALES 2011–2015 (EUR million)



The strong increase in sales in the Group was noticeably supported by the development of exchange rates. A key factor here was, in particular, the development of the US dollar which, on an annual average, saw an appreciation against the euro of 16.5% to EUR 1.11 (previous year: EUR 1.33). Adjusted for exchange rate effects, the Group achieved an increase in sales in the reporting year of 2.2% to EUR 980.5 million (previous year: EUR 959.7 million).

In the second half of 2015, the sales dynamics weakened somewhat. This development reflected the noticeable decrease in US truck production in this period as well as the already-described weakness in demand for commercial vehicles in many emerging markets. Within the Group, SAF-HOLLAND was able to more than compensate for the partially weaker market environment in several regions among other things by means of the strong development in Western Europe as well as increases in the Chinese subsidiaries. The generally solid aftermarket business also made a contribution to the positive sales development.

Accordingly, Group sales rose 3.0% in the final quarter of 2015. While sales in Europe, the Group's most important region, increased by 8.8%, slight decreases were recorded in North America as well as in the emerging markets in other regions. Furthermore, the contribution of the exchange rate effects from translation decreased.

## SALES DEVELOPMENT BY REGION

EUR million	2015	2014	Q4/2015	Q4/2014
Europe	521.9	496.5	127.1	116.8
North America	421.3	363.9	92.2	93.8
Other	117.5	99.3	23.9	25.6
<b>Total</b>	<b>1,060.7</b>	<b>959.7</b>	<b>243.2</b>	<b>236.2</b>

**— Sales in largest sales region Europe increases by 5%**

In the region Europe, SAF-HOLLAND achieved sales growth in financial year 2015 of 5.1% to EUR 521.9 million (previous year: EUR 496.5 million). With a share of Group sales of 49.2% (previous year: 51.7%), Europe remained the Group's most important sales market. The economic recovery in the euro zone and the associated increase in customers' investments in the modernization of their truck and trailer fleets contributed to the positive sales development. In addition, there were catch-up effects in particular from countries in Southern Europe including Spain, Portugal and Italy.

The difficult market situation in Russia, on the other hand, had a dampening effect. The drop in the price of oil in combination with a significant drop in the value of the national currency, the rubel, and the sanctions imposed by the West led to a noticeable drop in demand in the transport sector. The recessionary economy in the Russian Federation also impacted other Eastern European countries and the bordering Scandinavian region.

In the fourth quarter of 2015, the sales dynamics in the region picked up once again. In Europe, as compared to the same quarter in the previous year, SAF-HOLLAND recorded sales growth of 8.8% to EUR 127.1 million (previous year: EUR 116.8 million) and thus clearly surpassed the growth rate of 4.0% in the first nine months of the financial year 2015.

**— North America: sales development benefits from exchange rates**

In the region North America, SAF-HOLLAND increased sales in financial year 2015 by 15.8% to EUR 421.3 million (previous year: EUR 363.9 million). It should be taken into consideration here that the appreciation of the US dollar against the euro made a major contribution to the strong expansion of sales in the region. Due to the disproportionately high earnings growth, the region increased its share of Group sales to 39.7% (previous year: 37.9%). Adjusted for currency effects, the region recorded sales of EUR 352.3 million (previous year: EUR 363.9 million).

In the fourth quarter of 2015, the Group generated sales in the region North America of EUR 92.2 million (previous year: EUR 93.8 million). Adjusted for currency effects, sales totaled EUR 81.6 million. The decrease as compared to the high level of the comparable prior-year quarter mainly reflects drops in production in the North American truck market as well as the continuing weakness of a number of market segments for vocational trucks that SAF-HOLLAND supplies with suspension systems. Beyond this, many customers also reduced their inventories toward the end of the year. This effect was also felt in the spare parts business which developed slower in the fourth quarter than in the rest of the year.

**— Highest growth rates in the region Other: China as regional growth driver**

In the other regions outside the core markets of Europe and North America, SAF-HOLLAND achieved a sales increase in 2015 of 18.3% to EUR 117.5 million (previous year: EUR 99.3 million). Despite the sharp weakness in demand in several emerging markets that are allocated to this region, the Group's highest percentage sales growth was accounted for by the other regions. The Chinese and ASEAN markets as well as the Middle East countries in particular contributed to this development. The region's share of Group sales in financial year 2015 thereby increased to 11.1% (previous year: 10.4%). When adjusted for exchange rate effects, sales also increased significantly by 7.1% to EUR 106.3 million.

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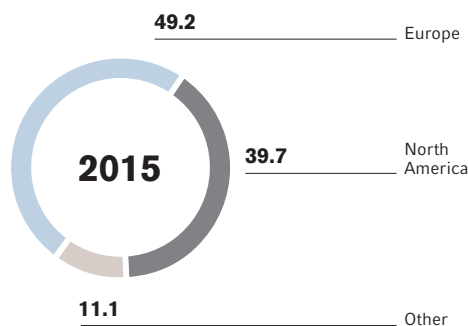
Business development in the respective individual markets was quite varied. Particularly in the Chinese market, SAF-HOLLAND was able to expand sales noticeably as compared to the market development. The Xiamen location benefited on the one hand from a large number of specifications from North American fleets which order their vehicles in China and equip them with products from SAF-HOLLAND and, on the other hand, from the addition of cost-efficient standard applications for emerging markets to the product program. Good growth rates in sales and earnings were also achieved at Corpco, a subsidiary acquired in the previous year which is well-positioned with special air suspension systems for electric and inter-city buses and, in future, also for trucks in technological growth niches.

In Central America and parts of South America, the positive sales development continued in 2015. The main contributing factors were the successful expansion of business activities at the Parts Distribution Center in Querétaro, Mexico as well as the sales offices in Colombia, Peru and Argentina. As previously mentioned, the Brazilian market was, by contrast, extremely weak – something that was reflected in the sales development of our subsidiary. Also disappointing was the development in Australia where, due to the drop in the price of various raw materials, customers have postponed their new purchases and the transport sector as a whole recorded corresponding decreases.

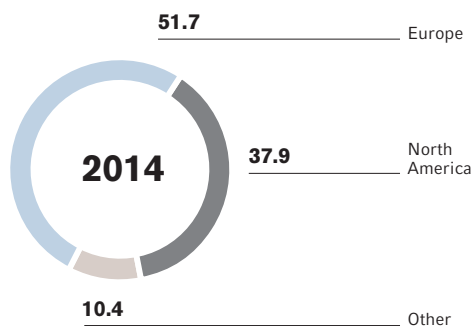
SAF-HOLLAND also achieved high growth rates in the Middle East. The main reasons behind this were, in addition to the expansion of the program, the close positioning to the customer with the Parts Distribution Center in Dubai, where the capacities and technological competences were significantly expanded in 2015.

In the fourth quarter of 2015, sales in other regions outside of the core markets declined slightly to EUR 23.9 million (previous year: EUR 25.6 million). The reduction was, among other things, due to the already described weaknesses in Brazil and Australia.

SHARE OF GROUP SALES BY REGION in %



SHARE OF GROUP SALES BY REGION in %



**Gross profit improved to EUR 202.9 million**

The Group’s gross margin in the reporting period improved by almost one percentage point to 19.1% (previous year: 18.2%). Accordingly, gross profit climbed to EUR 202.9 million (previous year: EUR 174.6 million). A significant contribution was also made by the successfully implemented efficiency enhancement measures in the Trailer Systems Business Unit where the gross margin improved by approximately 200 basis points as compared to the previous year. In addition to savings effects from the plant consolidation in Germany, there were also optimizations in the manufacturing at other Group locations as well as product mix effects. The raw material prices, which generally declined over the course of the year, are usually transferred to the customers for the most part.

The strict cost discipline in the Group made a noticeable contribution to the improvement in the operating margin. The remaining cost categories increased due to the rise in business volume and as a result of exchange rate effects, yet sales, administration and research and development costs increased at a lower percentage rate than sales. Correspondingly, it was possible to consistently improve the respective expense ratios.

Selling expenses in 2015 thus increased to a total of EUR 61.4 million (previous year: EUR 57.7 million) but their share of Group sales decreased to 5.8% (previous year: 6.0%).

Despite the growth-related capacity expansions in several central functions which became necessary in the reporting period, general administrative expenses in total remained unchanged at EUR 44.6 million (previous year: EUR 44.6 million), which meant that there was a decline in the expense ratio to 4.2% (previous year: 4.6%). In the comparative basis of the previous year, an amount of EUR 2.3 million was included for provisions which were attributable to the phantom share program which was established in financial year 2010.

In 2015, the Group once again spent more on research and development than in the previous year and thus assumes a leading role in the trailer market with regard to the investment in new products. The Group increased research and development expenses by 6.6% to EUR 20.9 million (previous year: EUR 19.6 million). The R&D ratio (not including development costs capitalized) was nearly unchanged from the previous year at 2.0% (previous year: 2.1%). Due to the large number of newly-launched projects which in the years to come will gradually contribute to organic sales growth, the capitalized development costs in financial year 2015 increased to EUR 3.7 million (previous year: EUR 2.3 million). This was countered by slightly increased standard depreciation on capitalized development costs of EUR 0.5 million (previous year: EUR 0.4 million).

Other operating income increased to EUR 3.3 million (previous year: EUR 2.0 million). The increase is attributable, among other things, to higher profits from asset disposals in the amount of EUR 1.4 million (previous year: EUR 0.1 million), primarily from the sale of the property in Wörth, Germany, which was no longer necessary for operations.

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#### **Operating result grows at a disproportionately high rate**

SAF-HOLLAND increased its operating result in 2015 by EUR 24.6 million to EUR 79.3 million (previous year: EUR 54.7 million). In the fourth quarter, we recorded an improved operating result of EUR 14.6 million (previous year: EUR 7.9 million) also due to the increase in other operating income.

The net finance result for financial year 2015 improved to EUR -4.0 million (previous year: EUR -7.7 million). The main reason for this improvement was the reduction in interest expenses by EUR 0.5 million to EUR 9.0 million (previous year: EUR 9.5 million) as well as EUR 1.4 million lower finance expenses relating to derivative financial instruments which amounted to EUR 0.8 million (previous year: EUR 2.2 million). It should be taken into consideration here that the non-cash expenses from the compounding interest component for the current convertible bond in the amount of EUR 0.6 million (previous year: EUR 0.2 million) are included in the interest expense. Furthermore, the expenses from the dissolution or amortization of transaction costs in connection with the refinancing of bank credit lines all in all came in EUR 1.9 million lower than in the previous year.

Finance income from unrealized and realized exchange rate gains, which result from the valuation of intercompany foreign currency loans and dividends built on the level of the previous year and reached EUR 8.5 million (previous year: EUR 8.7 million).

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## INCOME STATEMENT

EUR million	2015		2014	
Sales	1,060.7	100.0%	959.7	100%
Cost of sales	-857.8	-80.9%	-785.1	-81.8%
<b>Gross profit</b>	<b>202.9</b>	<b>19.1%</b>	<b>174.6</b>	<b>18.2%</b>
Other operating income	3.3	0.4%	2.0	0.2%
Selling expenses	-61.4	-5.8%	-57.7	-6.0%
Administrative expenses	-44.6	-4.2%	-44.6	-4.6%
Research and development costs	-20.9	-2.0%	-19.6	-2.1%
<b>Operating result</b>	<b>79.3</b>	<b>7.5%</b>	<b>54.7</b>	<b>5.7%</b>
Finance Result	-4.0	-0.4%	-7.7	-0.8%
Share of net profit of investments accounted for using the equity method	2.3	0.2%	2.0	0.2%
<b>Result before tax</b>	<b>77.6</b>	<b>7.3%</b>	<b>49.0</b>	<b>5.1%</b>
Income tax	-25.9	-2.3%	-16.3	-1.7%
<b>Result for the period</b>	<b>51.7</b>	<b>4.9%</b>	<b>32.7</b>	<b>3.4%</b>
Number of shares <sup>1)</sup>	45,361,112		45,361,112	
<b>Undiluted earnings per share in EUR</b>	<b>1.14</b>		<b>0.72</b>	
<b>Diluted earnings per share in EUR</b>	<b>0.99</b>		<b>0.69</b>	

<sup>1)</sup> Weighted average number of ordinary shares.

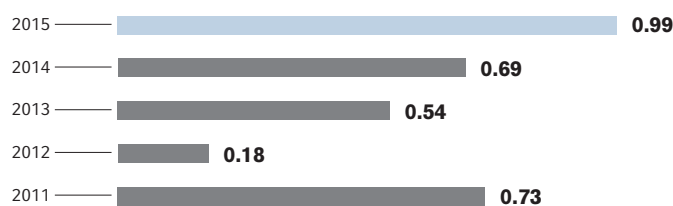
**Result for the period rises by more than half**

Result before tax in 2015 increased significantly to EUR 77.6 million (previous year: EUR 49.0 million). An income tax rate of 33.4% which was nearly unchanged from the previous year (previous year: 33.3%), resulted in an increase in the result for the period for the Group of EUR 19.0 million to a total of EUR 51.7 million (previous year: EUR 32.7 million).

Based on an unchanged figure of 45.4 million ordinary shares issued, undiluted earnings per share in 2015 came in at EUR 1.14 (previous year: EUR 0.72).

Taking into consideration the impact on profit and loss as well as the share equivalents for the convertible bonds issued in 2014, diluted earnings per share increased by 43.5% to EUR 0.99 (previous year: EUR 0.69).

## DEVELOPMENT OF EARNINGS PER SHARE (diluted; in EUR)



In the fourth quarter of 2015, earnings before taxes amounted to EUR 14.4 million (previous year: EUR 6.4 million) and the result for the period reached EUR 9.6 million (previous year: EUR 3.9 million).

### Dividend increase of 25% proposed

SAF-HOLLAND's dividend policy generally calls for between 40 and 50% of available net earnings to be distributed to shareholders in the form of a dividend. The purely accounting-related and non-cash earnings from the valuation of intercompany foreign currency loans in the amount of EUR 4.7 million after taxes were not taken into consideration in the measurement of the available net earnings.

The Board of Directors therefore proposes to the Annual General Meeting on April 28, 2016 the distribution of a 25% higher dividend for financial year 2015 of EUR 0.40 per share (previous year: EUR 0.32 per share). This corresponds to a planned distribution amount of EUR 18.1 million (previous year: EUR 14.5 million) or a payout ratio of 38.6% of the available net earnings. In relation to the year-end closing price of the SAF-HOLLAND share in 2015 of EUR 12.49, this corresponds to an attractive dividend yield of 3.2% (previous year: 2.9%).

#### RECONCILIATION OF ADJUSTED EARNINGS FIGURES

EUR million	2015	2014
Result for the period	51.7	32.7
Income taxes	25.9	16.3
Finance Result	4.0 <sup>1)</sup>	7.7 <sup>2)</sup>
Depreciation and amortization from PPA	7.0 <sup>3)</sup>	6.1
Restructuring and integration costs	5.4 <sup>4)</sup>	7.9 <sup>5)</sup>
<b>Adjusted EBIT</b>	<b>94.0</b>	<b>70.7</b>
as a percentage of sales	8.9	7.4
Depreciation and amortization	15.3	13.6
<b>Adjusted EBITDA</b>	<b>109.3</b>	<b>84.3</b>
as a percentage of sales	10.3	8.8
Depreciation and amortization	-15.3	-13.6
Finance Result	-4.0 <sup>1)</sup>	-7.7 <sup>2)</sup>
<b>Adjusted earnings before taxes</b>	<b>90.0</b>	<b>63.0</b>
Income taxes	-27.8 <sup>6)</sup>	-19.3 <sup>7)</sup>
<b>Adjusted result for the period</b>	<b>62.2</b>	<b>43.7</b>
as a percentage of sales	5.9	4.6
Number of shares <sup>8)</sup>	45,361,112	45,361,112
<b>Adjusted earnings per share in EUR<sup>9)</sup></b>	<b>1.37</b>	<b>0.96</b>

<sup>1)</sup> The finance result includes EUR 6.8 million of unrealized foreign currency exchange gains from the valuation of intercompany foreign currency loans at the closing rate.

<sup>2)</sup> The finance result includes EUR 8.4 million of unrealized foreign currency exchange gains from the valuation of intercompany foreign currency loans at the closing rate.

<sup>3)</sup> The depreciation and amortization from PPA includes losses from the disposal of AerWay in the amount of EUR 0.6 million.

<sup>4)</sup> Restructuring and integration costs as well as expenses relating to other periods comprise aperiodic expenses in the amount of EUR 1.1 million.

<sup>5)</sup> Restructuring and integration costs include aperiodic expenses of EUR 2.2 million.

<sup>6)</sup> A uniform tax rate of 30.90% was assumed for the adjusted result for the period.

<sup>7)</sup> A uniform tax rate of 30.60% was assumed for the adjusted result for the period.

<sup>8)</sup> Weighted average number of ordinary shares.

<sup>9)</sup> Adjusted earnings per share calculations include minority results in the amount of EUR 0.1 million (previous year: EUR 0.1 million).

### Adjusted EBIT margin reaches 8.9%

The SAF-HOLLAND Group's EBIT adjusted for the effects from purchase price allocation as well as one-time restructuring and integration costs surpassed the figure from the previous year by EUR 23.3 million, increasing to EUR 94.0 million (previous year: EUR 70.7 million). The adjusted EBIT margin improved by 150 basis points to 8.9% (previous year: 7.4%). It was thus only slightly below the range of 9 to 10% which was the medium-term target corridor defined in 2013 for financial year 2015. It should be taken into consideration here that, due to the market situation, earnings contributions from Russia, Brazil and Australia came in below the figures for the previous year. The figure achieved in these three markets was a total of EUR 3.5 million lower than the planned figure. Overall adjusted EBIT nevertheless reached the lower end of the target corridor.

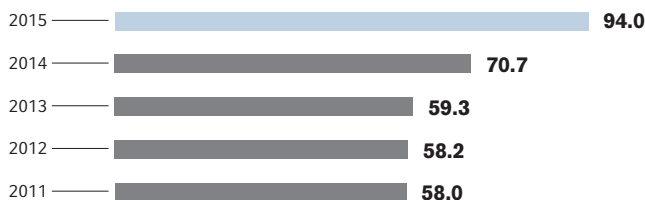


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DEVELOPMENT OF ADJUSTED EBIT 2011–2015 (EUR million)

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Depreciation and amortization from the purchase price allocation increased to EUR 7.0 million (previous year: EUR 6.1 million). Included in this position are also disposal losses in the amount of EUR 0.6 million which result from the sale of the AerWay product line. Restructuring and integration costs, on the other hand, decreased in 2015 to a total of EUR 5.4 million (previous year: EUR 7.9 million). Thus, the overall earnings quality was further improved.

The most significant one-time expenses in financial year 2015 included expenses for the plant consolidation in Germany in the amount of EUR 3.2 million. In connection with the sale of the AerWay product line, one time expenses in the amount of EUR 0.7 million occurred, primarily for severance payments. As a consequence of a relevant court decision which has its origins in 2003, SAF-HOLLAND in 2015 had a one-time expense for provisions for payment claims to the insolvency administrator of a former customer amounting to EUR 0.6 million which was also classified as non-recurring.

In the previous year 2014, net one-time expenses totaled EUR 7.9 million. They included for the most part expenses for the closing of the location in Würth and the plant consolidation in Germany, expenses for the restructuring of the European subsidiaries and the expenditures for the changed vesting conditions of the phantom share program.

Accordingly, in 2015 earnings before taxes adjusted for the special one-time items mentioned increased to EUR 90.0 million (previous year: EUR 63.0 million). After taxes, the adjusted result for the period rose to EUR 62.2 million (previous year: EUR 43.7 million).

Correspondingly, undiluted earnings per share adjusted for special items – on the basis of an unchanged number of shares at 45.4 million – increased to EUR 1.37 (previous year: EUR 0.96). The adjusted diluted earnings per share – taking into consideration effects on profit and loss and the share equivalents of the convertible bonds issued in 2014 – amounted to EUR 1.18 for 2015 (previous year: EUR 0.82).

In the fourth quarter of 2015, EBIT adjusted for one-time expenses and earnings increased to EUR 20.4 million (previous year: EUR 15.1 million). Adjusted earnings before taxes increased to EUR 18.9 million (previous year: EUR 12.5 million) while the adjusted result for the period surpassed the same period from the previous year by EUR 4.2 million, reaching EUR 12.9 million (previous year: EUR 8.7 million).

## FIVE-YEAR OVERVIEW OF SALES AND EARNINGS PERFORMANCE

EUR million	2015	2014	2013	2012	2011
Sales	1,060.7	959.7	857.0	859.6	831.3
Adjusted EBIT	94.0	70.7	59.3	58.2	58.0
as a percentage of sales	8.9	7.4	6.9	6.8	7.0
Adjusted EBITDA	109.3	84.3	71.1	72.7	72.0
as a percentage of sales	10.3	8.8	8.3	8.5	8.7
Adjusted earnings before taxes	90.0	63.0	41.5	41.0	34.9
as a percentage of sales	8.5	6.6	4.8	4.8	4.2
Adjusted result for the period	62.2	43.7	28.8	28.4	24.2
as a percentage of sales	5.9	4.6	3.4	3.3	2.9
Adjusted earnings per share in EUR	1.37 <sup>1)</sup>	0.96 <sup>1)</sup>	0.63 <sup>1)</sup>	0.68 <sup>2)</sup>	0.66 <sup>3)</sup>

<sup>1)</sup> On the basis of 45,361,112 shares.<sup>2)</sup> On the basis of 41,546,655 shares.<sup>3)</sup> On the basis of 36,502,894 shares.

## Performance of the Business Units

## PERFORMANCE BY BUSINESS UNIT

EUR million	Trailer Systems Business Unit		Powered Vehicle Systems Business Unit		Aftermarket Business Unit		Adjustments/ Eliminations		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Sales	612.7	544.4	180.0	169.5	268.0	245.8	–	–	1,060.7	959.7
Cost of sales	-544.9	-494.8	-149.7	-140.8	-192.4	-174.9	29.2	25.4	-857.8	-785.1
<b>Gross profit</b>	<b>67.8</b>	<b>49.6</b>	<b>30.3</b>	<b>28.7</b>	<b>75.6</b>	<b>70.9</b>	<b>29.2</b>	<b>25.4</b>	<b>202.9</b>	<b>174.6</b>
as a percentage of sales	11.1	9.1	16.8	16.9	28.2	28.8	–	–	19.1	18.2
Other operating income and expense	-29.8	-29.1	-16.7	-16.9	-33.2	-32.5	-29.2	-25.4	-108.9	-103.9
<b>Adjusted EBIT</b>	<b>38.0</b>	<b>20.5</b>	<b>13.6</b>	<b>11.8</b>	<b>42.4</b>	<b>38.4</b>	<b>–</b>	<b>–</b>	<b>94.0</b>	<b>70.7</b>
as a percentage of sales	6.2	3.8	7.6	7.0	15.8	15.6	–	–	8.9	7.4

## Trailer Systems: Adjusted EBIT margin reaches target of 6%

The Trailer Systems Business Unit, SAF-HOLLAND's largest segment, achieved a sales increase of 12.5% to EUR 612.7 million in financial year 2015 (previous year: EUR 544.4 million). Exchange rate effects, particularly the strong US dollar, had a favorable impact. The Business Unit's share in Group sales increased to 57.8% (previous year: 56.7%). Sales growth was mainly buoyed by the two core markets. In Western Europe, the Business Unit benefited from the continuation of the moderate economic recovery and the fact that the fleet operators made catch-up and modernization investments. New product launches also had a positive effect, making it possible to gain market share, above all with medium-sized customers.

Gross profit for Trailer Systems reached EUR 67.8 million (previous year: EUR 49.6 million) and the gross margin increased to 11.1% (previous year: 9.1%). This was primarily attributable to good development in the USA, the successful implementation of the package of measures to increase profitability of the Business Unit laid out in 2013 and to a generally favorable product mix. With the complete transfer of the plant in Wörth to the two plants at the Bessenbach location and the restructuring in the USA and Canada, the foundation was laid for further initiatives to make the flow of materials more flexible and for the optimization of the manufacturing processes.

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The Business Unit generated an EBIT, adjusted for special items, of EUR 38.0 million (previous year: EUR 20.5 million). This corresponds to an adjusted EBIT margin of 6.2% (previous year: 3.8%). The target associated with the package of measures to increase Trailer Systems' adjusted EBIT margin to around 6% by the end of 2015 was thus achieved.

#### **\_\_ Powered Vehicle Systems: Improved margin despite second-half weakness in the US truck market**

Sales for the Powered Vehicle Systems Business Unit in financial year 2015 increased by 6.2% to EUR 180.0 million (previous year: EUR 169.5 million). The share accounted for by suspension systems and components for trucks and buses declined to 17.0% of total sales (previous year: 17.7%). The company recorded a positive development in European truck business which was attributed to an improved market environment, a growing export business and the introduction of new products. By contrast, the Business Unit in North America faced an increasingly challenging market environment over the course of the year, which meant that sales flattened out from the third quarter onward. The sales development in North America was partly offset by positive currency effects in the translation into the Group reporting currency Euro, due to the Powered Vehicle Systems Business Unit generating the majority of its sales in North America, particularly in areas that trade using the US dollar.

Despite the declining industry trend in the second half of the year 2015 in the USA, which resulted in lower than expected sales volumes, the Powered Vehicle Systems Business Unit saw an increase in gross profit to EUR 30.3 million (previous year: EUR 28.7 million) in 2015. The gross margin remained nearly unchanged at 16.8% (previous year: 16.9%).

Adjusted EBIT increased to EUR 13.6 million (previous year: EUR 11.8 million) in 2015. The adjusted EBIT margin improved to 7.6% (previous year: 7.0%) but, from a full-year perspective, remained below the medium-term target corridor of 8 to 9%. Through the quick adjustment of capacities and variable cost structures in North America in line with demand, the Business Unit was able to achieve an adjusted EBIT margin of 7.6% in the fourth quarter of 2015 (previous year: 7.9%).

#### **\_\_ Aftermarket remains on expansion course**

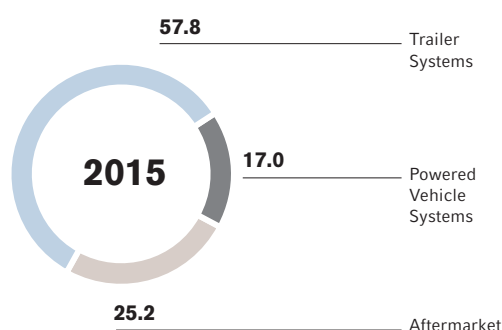
The Aftermarket Business Unit increased its sales in 2015 to EUR 268.0 million (previous year: EUR 245.8 million). About a quarter of the sales in the Group were thus accounted for by the spare parts business. At the end of the financial year 2015, the aftermarket business' share of Group sales was 25.2% (previous year: 25.6%).

In North America, the Aftermarket Business Unit expanded its sales structures primarily in the large-area states where the company had previously been significantly under-represented. With the completion of the sales network, SAF-HOLLAND has put itself in a position to take advantage of the increasing medium term demand. In recent years, the market environment for the aftermarket business in North America has been rather difficult. Record new registrations and an increased share of new vehicles in the fleets shaped the picture. However, these vehicles now present, with a delay, the basis for the spare parts business in the coming years and will successively lead to a corresponding growing need for wear parts.

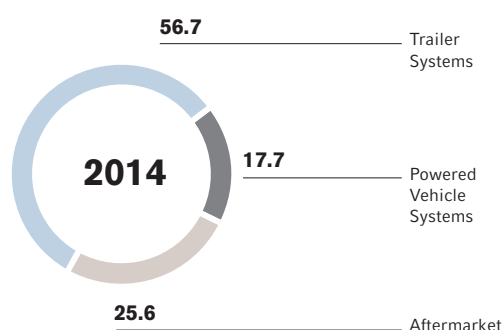
Also contributing to sales to an increasing extent were the brands GoldLine and SAUER GERMANY QUALITY PARTS which, with their spare parts program are targeted toward special vehicles at higher age in their so-called "second life". A further market segment has thus been opened up for the Aftermarket Business Unit, one which in the coming years will be expanded and which will play an important role in the growth plans for the strategy 2020.

The further international expansion also required initial investment in the expansion of the regional Parts Distribution Center for example in Dubai and in the ASEAN area in Malaysia and in the expansion of sales offices and the associated start-up costs. Gross profit increased to EUR 75.6 million (previous year: EUR 70.9 million) with lower gross margin of 28.2% (previous year: 28.8%). Economies of scale effects and an effective cost management meant that it was possible to nevertheless increase the adjusted EBIT margin to 15.8% (previous year: 15.6%). The adjusted EBIT margin was thus once again within the targeted medium-term range of 15 to 16%. Adjusted EBIT surpassed the previous year, reaching EUR 42.4 million (previous year: EUR 38.4 million).

SHARE OF GROUP SALES BY BUSINESS UNIT in %



SHARE OF GROUP SALES BY BUSINESS UNIT in %



## NET ASSETS

### Increase in balance sheet total

Due mainly to the cash inflows from the issue of a promissory note loan in the amount of EUR 200 million at the end of November 2015, there was a clear increase in the balance sheet total by 37.7% to EUR 888.5 million in the reporting year (previous year: EUR 645.2 million). Non-current assets increased to EUR 380.3 million (previous year: EUR 363.9 million). The largest share of this increase was accounted for by property, plant and equipment which, as a result of new purchases of equipment and machines as well as building expansions in the course of the plant consolidation in Germany grew to EUR 127.8 million (previous year: EUR 117.0 million). Investments in property, plant and equipment in the amount of EUR 22.2 million clearly exceeded relevant depreciation in the amount of EUR 13.5 million. Increased intangible assets in the amount of EUR 145.4 million (previous year: EUR 142.4 million) are attributable to higher capitalized development costs.

Current assets increased to EUR 508.2 million (previous year: EUR 281.2 million). The majority of this increase is related to the previously mentioned issue of the promissory note loan, the cash inflows from which the company had reported at the end of 2015 mainly in cash and cash equivalents and other short-term investments. Cash and cash equivalents increased accordingly as of the balance sheet date to EUR 145.7 million (previous year: EUR 44.2 million) and other short-term investments to EUR 115.0 million (previous year: EUR 0.0 million).

SAF-HOLLAND also made further progress in the management of working capital. The inventory volume as of December 31, 2015 decreased despite the increased business volume to EUR 118.0 million (previous year: EUR 122.2 million). The inventory reduction during the year continued as planned in the fourth quarter of 2015. After the inventories were already reduced as of September 30, 2015 by EUR 11.1 million to EUR 125.6 million, there was a further reduction as of December 31, 2015 in line with the business development by EUR 7.6 million. As of December 31, 2015, the days of inventory outstanding were further reduced to 53 days (previous

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year: 56 days). This is still above our medium term target of 45 days, but it is, however, related to the higher inventories and the structural problems in several peripheral markets as well as to the further expansion of the Parts Distribution Centers. Trade receivables expanded as a result of the business expansion to EUR 116.5 million (previous year: EUR 103.0 million) with a target of 43 days (previous year: 39 days) which, in comparison with the third quarter (50 days) had declined considerably. In the fourth quarter of 2015, trade receivables in accordance with the business development recorded a decline by EUR 27.7 million as compared to the comparable figure in the third quarter of 2015. Net debt for full-year 2015 decreased in comparison to the previous year by EUR 14.7 million to EUR 122.4 million.

FIVE-YEAR OVERVIEW OF NET ASSETS

EUR million	2015	2014	2013	2012	2011
Balance sheet total	888.5	645.2	536.4	536.7	541.3
Equity	287.8	248.6	222.2	197.9	175.6
Equity ratio	32.4%	38.5%	41.4%	36.9%	32.4%
Net debt <sup>1)</sup>	122.4	137.1	123.0	141.8	159.7

<sup>1)</sup>Including cash and cash equivalents as well as other short-term investments of EUR 115.0 million (previous year: EUR 0.0 million).

**Adjusted equity ratio of 45.3%**

Equity increased as of the reporting date to EUR 287.8 million (previous year: EUR 248.6 million) due primarily to the result for the period generated in the financial year of EUR 51.7 million. Due to the disproportionately expanded balance sheet total, the equity ratio decreased to 32.4% (previous year: 38.5%). If the balance sheet total is adjusted for cash and cash equivalents as well as other short-term investments which exceed the figure of approximately EUR 7 million that is targeted by SAF-HOLLAND, this would result in a mathematical equity ratio for financial year 2015 of 45.3% (previous year: 40.9%). On this basis, the company has thus more than reached its target figure for the equity ratio of approximately 40%.

On the liabilities side, non-current liabilities amounted to EUR 475.4 million (previous year: EUR 265.0 million). The increase was mainly attributable to the rise in interest bearing loans and bonds to EUR 379.3 million (previous year: EUR 177.8 million) as a consequence of the issue of the promissory note loan. Furthermore, there was an increase in deferred tax liabilities to EUR 47.7 million (previous year: EUR 40.5 million).

Current liabilities, on the other hand, decreased to EUR 125.3 million (previous year: EUR 131.6 million). The main reasons for this development were lower trade payables in the amount of EUR 89.9 million (previous year: EUR 94.4 million) as a result of business development as well as declines in other provisions and income tax liabilities. This was countered by an increase in other liabilities to EUR 22.8 million (previous year: EUR 18.4 million).

Non-current and current liabilities from interest bearing loans and bonds as of December 31, 2015 amounted to EUR 383.2 million (previous year: EUR 181.3 million). Subtracting cash and cash equivalents and other short-term investments to which a major portion of the cash inflows from the placement of the promissory note loan were allocated, results in a net debt of EUR 122.4 million (previous year: EUR 137.1 million).

**Expansion of the financing volume**

After SAF-HOLLAND in the previous year had already placed its financing on a broader basis with the issue of a convertible bond and the early refinancing of bank credit lines, it was possible

to further increase the financial flexibility of the Group in the reporting year with the expansion of credit lines, an improvement in the conditions and the issue of a promissory note loan.

In October 2015, a new syndicated loan agreement was signed with a bank consortium which replaced the existing financing and which secured the financing of the Group with short and long term funds at more favorable interest rate conditions and which includes the option for an extension until 2020. The new credit agreement includes a revolving credit line of approximately EUR 150 million and can be utilized in various currencies. The available credit line, valued as of the period-end exchange rate, has thus increased to approximately EUR 158 million (December 31, 2014: EUR 110.9 million).

In November, the company for the first time in its history placed a promissory note loan with a total volume of EUR 200 million. As a result of strong demand, the originally targeted emission volume of EUR 125 million was increased to EUR 200 million. The repayment profile consists of 5, 7, and 10-year maturities with variable and fixed interest rates. The company thus secures an advantageous interest rate over the long term in the currently favorable interest rate environment. The transaction was accompanied by Commerzbank, HSBC, IKB and UniCredit.

The company has thus not only expanded its financing volume and increased its financial flexibility, but also created the necessary scope for financing the company growth and for targeted acquisitions and joint ventures within the context of the strategy 2020.

#### Significant increase in total liquidity

As of December 31, 2015 total liquidity, which consists of cash and cash equivalents, other short-term investments as well as the agreed credit line, was at EUR 409.2 million (previous year: EUR 146.9 million). The increase as compared to the previous year can be explained by the higher cash, the other short-term investments as a result of the placement of the promissory note loan and the expansion of the credit lines.

#### SUMMARIZING THE DETERMINATION OF OVERALL LIQUIDITY

kEUR	12/31/2015				
	Amount drawn valued as of the period-end exchange rate	Agreed credit lines valued as of the period-end exchange rate	Cash and cash equivalents	Other short-term investments	Total liquidity
Facility A	5,923	120,000	–	–	114,077
Facility B	42	32,088	–	–	32,046
Other Facility	3,339	5,648 <sup>1)</sup>	145,748	115,000	263,057
<b>Total</b>	<b>9,304</b>	<b>157,736</b>	<b>145,748</b>	<b>115,000</b>	<b>409,180</b>

<sup>1)</sup> Bilateral credit line for the activities of the Group in China.

kEUR	12/31/2014				
	Amount drawn valued as of the period-end exchange rate	Agreed credit lines valued as of the period-end exchange rate	Cash and cash equivalents	Other short-term investments	Total liquidity
Facility A	5,822	85,000	–	–	79,178
Facility B	–	20,568	–	–	20,568
Other Facility	2,356	5,360 <sup>1)</sup>	44,165	–	47,169
<b>Total</b>	<b>8,178</b>	<b>110,928</b>	<b>44,165</b>	<b>–</b>	<b>146,915</b>

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## FINANCIAL POSITION: CASH FLOWS

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### Principles and objectives of financial management

Our financial management primarily pursues three goals: placing the company's financing on a wide basis; securing the growth path in the long term; and offering the utmost in flexibility in addition to adequate financing conditions.

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### Solid cash flows with increased cash conversion

Cash flow before change of net working capital increased in 2015 by EUR 28.7 million to EUR 105.4 million (previous year: EUR 76.7 million). Result before tax increased by EUR 28.6 million to EUR 77.6 million (previous year: EUR 49.0 million) and thereby had a significant impact on the increase of the cash flow before change of net working capital. Additional amortization and depreciation of intangible assets and property, plant and equipment of EUR 21.7 million (previous year: EUR 19.7 million) also had a positive impact. The higher investments in the previous years and changes of the euro-dollar exchange rate were also key to the increase in amortization and depreciation by EUR 2.0 million. The increased allowance of current assets by EUR 2.6 million to EUR 4.6 million (previous year: EUR 2.0 million), which did not affect liquidity, had a further positive effect. The decrease in finance expenses of EUR 3.6 million to EUR 13.2 million (previous year: EUR 16.8 million) also had an impact, which is primarily the result of lower reversal of transaction costs and decreased finance expenses due to derivative financial instruments in 2015. Changes in the remaining items influenced the cash flow before change of net working capital by EUR -11.7 million (previous year: EUR -10.8 million).

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### Net working capital improves gradually

Without consideration of receivables in the amount of EUR 2.0 million resulting from the sale of property in Wörth, Germany, net working capital as of December 31, 2015 amounted to EUR 116.6 million (previous year: EUR 102.7 million). The item primarily increased by EUR 13.9 million in comparison with the previous year as a result of sales. In comparison with the end of the first six months as of June 30, 2015, the capital tied up in net working capital could, however, be noticeably reduced by EUR 24.8 million. In relation to Group sales, this represents a ratio of 12.0% (previous year: 10.9%). In the medium-term, a ratio of between 12 and 13% is planned, because the expansion of business outside of the core regions of Europe and North America tends to impact inventories and trade receivables as a result of the increased distances and different payment behavior. In addition and as a result of cost considerations, we will significantly reduce factoring, which could increase net working capital.

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### Net cash flow from operating activities increases significantly

The reduction of inventories as well as the lower increase in trade receivables in comparison with the previous year had a positive impact on net cash flow from operating activities. Overall, cash flow from operating activities before income taxes increased significantly by EUR 30.7 million to a high level of EUR 79.5 million (previous year: EUR 48.8 million). The net cash flow from operating activities after income taxes increased by EUR 27.1 million and reached EUR 63.1 million (previous year: EUR 36.0 million). The positive development continued in the fourth quarter of 2015, in which net cash flow from operating activities increased by 42.1% in comparison with the same quarter of the previous year and at EUR 33.1 million (previous year: EUR 23.3 million) exceeded the already high level of the same quarter of the previous year.

The cash conversion rate (cash flow from operating activities before income tax payments divided by adjusted EBIT) as an indicator for the ability of the company to generate cash inflow from the operating business was able to be increased to 84.6% (previous year: 69.0%).

#### Free cash flow considerably higher

Net cash flow from investing activities of EUR -139.1 million (previous year: EUR -29.5 million) primarily resulted from the already discussed purchase of other short-term investments in the amount of EUR 115.0 million (previous year: EUR 0.0 million), to be considered in connection with inflows from the issuance of a promissory note loan. Investments in property, plant and equipment increased by EUR 1.7 million to EUR 22.2 million (previous year: EUR 20.5 million). The increase of intangible assets of EUR 5.9 million (previous year: EUR 4.2 million) primarily resulted from the capitalization of development costs in the amount of EUR 3.7 million as well as software purchases. Alongside the sale of the property in Wörth, Germany, proceeds from the sale of property, plant and equipment of EUR 3.7 million (previous year: EUR 0.6 million) particularly include the sale of the previous AerWay activities. No payments for acquisitions were made in financial year 2015, whereas in the previous year EUR 5.4 million was spent on the takeover of an 80% stake in Corpco Beijing Technology and Development Co., Ltd.

The free cash flow (net cash flow from operating activities less investments in property, plant and equipment and intangible assets) increased significantly in the past financial year by EUR 23.7 million to EUR 35.0 million (previous year: EUR 11.3 million).

#### Net cash flow from financing activities influenced by promissory note loan

Significant items in the net cash flow from financing activities in financial year 2015 included proceeds from the promissory note loan in the amount of EUR 200.0 million. This was countered by proceeds from the convertible bond placement in the previous year in the amount of EUR 100.2 million and the repayment of bank loans in the amount of EUR 64.3 million. In addition, higher dividend payments of EUR 14.5 million (previous year: EUR 12.2 million) also had an impact here.

Overall, in 2015 there was a net increase in cash and cash equivalents of EUR 100.2 million (previous year: EUR 19.2 million). Including exchange rate effects, cash and cash equivalents increased to EUR 145.7 million (previous year: EUR 44.2 million).

#### FIVE-YEAR OVERVIEW OF FINANCIAL POSITION

EUR million	2015	2014	2013	2012	2011
Cash flow from operating activities before income tax paid	79.5	48.8	63.0	59.5	46.5
Cash conversion rate	84.6%	69.0%	106.2%	102.2%	80.2%
Net cash flow from investing activities	-139.1	-29.5	-23.5	-21.3	-12.1
Net cash flow from financing activities	176.2	12.6	-24.9	-29.3	-22.3
Investments	28.1	30.1	23.2	22.3	15.6
as a percentage of sales	2.6	3.1	2.7	2.6	1.9
Free cash flow <sup>1)</sup>	35.0	11.3	30.8	31.7	25.5

<sup>1)</sup> Net cash flow from operating activities less investments in property, plant and equipment and intangible assets.



Sales and Earnings Performance,  
Net Assets and Financial Position  
Employees

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### Slight decrease in the investment ratio

In financial year 2015, payments for investments in property, plant and equipment and intangible assets as well as acquisitions amounted to a total of EUR 28.1 million (previous year: EUR 30.1 million) and thereby remained slightly below the prior-year figure. The decrease in 2015 can be explained by the acquisition of Corpco in 2014, for which SAF-HOLLAND spent EUR 5.4 million net of cash. In relation to the significantly increased sales, the investment ratio in 2015 was significantly lower than in the previous year, at 2.6% (previous year: 3.1%).

In 2015, the focus of investment activities included the Parts Distribution Centers in Malaysia and Dubai and the plant consolidation in Germany, as part of which a new production hall was established in Bessenbach. Additional machines and plants were also purchased, including new welding cells.

### EVALUATION OF THE CURRENT ECONOMIC SITUATION BY THE MANAGEMENT BOARD

Despite a challenging overall economic and industry specific environment, we look back at a successful financial year 2015. We significantly exceeded our sales forecast. This development was also boosted by exchange rate effects, especially the appreciation in the US dollar against the euro. With the conclusion of the program to increase earnings in the Trailer Systems Business Unit, we were able to significantly improve the adjusted EBIT margin of the Group as compared to the prior year and, with 8.9% (previous year: 7.4%), we largely reached the targeted corridor of 9 to 10%.

We achieved important milestones in the reporting year also from a strategic perspective. With the growth strategy 2020, SAF-HOLLAND is gearing its business model toward the global megatrends. In order to better present the objectives of this growth strategy from an organizational perspective, we transitioned our Group structure to a regional set-up as of January 1, 2016. In addition, at the end of 2015 we created the necessary scope for the financing of our growth with, among other things, the first-time placement of a promissory note loan. We thus see SAF-HOLLAND extremely well-positioned to benefit from structural market growth in the emerging market countries in the years to come.

## EMPLOYEES

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### Employee structures adjusted

SAF-HOLLAND operates in a highly competitive environment. Market-appropriate and flexible personnel structures are therefore an important success factor for the company. In order to ensure the required level of flexibility, we rely on more than just a permanent workforce, we also rely on fixed-term contracts and support from temporary workers and, particularly in Germany, on operational flexi-time models.

Over the course of the year, an average of 3,325 people worked for the Group, including temporary workers (previous year: 3,346). As of December 31, 2015, SAF-HOLLAND employed 3,167 people worldwide, including temporary workers (previous year: 3,262). The change to the total number of employees primarily affects North America. Here on the one hand the number of employees in Canada decreased by 38 as a result of the sale of the AerWay product line. On the other hand, we adjusted our employee structures in the US-American subsidiaries as a result of the demand normalization in the North American truck market.

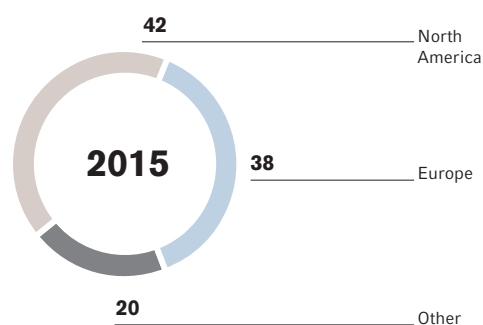
With the plant consolidation in Germany, completed in the reporting year, the majority of the total of around 150 employees in Würth were transferred to new employment relationships in Bessenbach or left the company as part of natural fluctuation or as a result of retirement.

#### DEVELOPMENT OF EMPLOYEE NUMBERS BY REGION

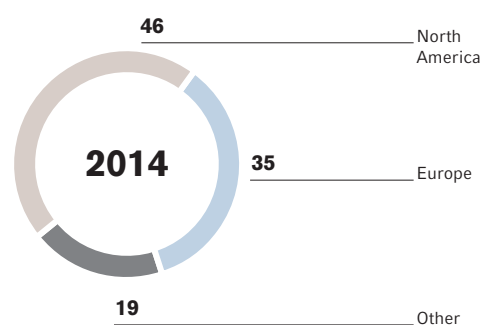
	2015	2014	2013	2012	2011
Europe	1,203	1,148	1,247	1,159	1,130
North America	1,325	1,515	1,498	1,497	1,615
Other	639	599	424	403	410
<b>Total (Dec. 31)</b>	<b>3,167</b>	<b>3,262</b>	<b>3,169</b>	<b>3,059</b>	<b>3,155</b>
<b>Annual average</b>	<b>3,325</b>	<b>3,346</b>	<b>3,106</b>	<b>3,118</b>	<b>3,107</b>

As in previous years, the largest share of our employees, 42%, worked for our North American subsidiaries on the balance sheet date (previous year: 46%). 38% of our employees were working with our European subsidiaries (previous year: 35%), and a further 20% were working at locations outside of the two core markets (previous year: 19%).

EMPLOYEES BY REGION (12/31/2015) in %



EMPLOYEES BY REGION (12/31/2014) in %













#### Sales per employee significantly increased

Sales per employee increased by 11.2% to kEUR 319.0 following kEUR 286.8 in the previous year. However, positive currency effects on sales are also to be taken into consideration here. Adjusted for exchange rate effects, a growth in sales of 2.8% per employee was recorded, which is primarily the result of efficiency enhancements in production.

Adjusted for restructuring and integration costs and non-period expenses, personnel expenses in the reporting year increased to EUR 178.0 million (previous year: EUR 167.3 million). Average personnel expenses per employee – not including temporary workers – amounted to kEUR 56.0 (previous year: kEUR 52.6).

Employees  
Sustainability

PERSONNEL EXPENSES PER EMPLOYEE	SALES PER EMPLOYEE
excluding restructuring and integration costs and temporary workers (kEUR)	including temporary workers (kEUR)
2015 —  <b>56.0</b>	2015 —  <b>319.0</b>
2014 —  <b>52.6</b>	2014 —  <b>286.8</b>
2013 —  <b>52.0</b>	2013 —  <b>275.9</b>
2012 —  <b>52.1</b>	2012 —  <b>275.7</b>
2011 —  <b>48.2</b>	2011 —  <b>267.6</b>

## SUSTAINABILITY

Sustainability is a key element of our corporate philosophy. In accordance with our self-image as a corporate citizen, we assume social responsibility. This includes a responsible approach to dealing with our employees, the environment and society in general.

The basis of our corporate activity is thereby always our overriding corporate objective: SAF-HOLLAND wants to be the most highly regarded supplier of best-in-class components, systems and services that ensures the success of our global fleet customers. We pursue this objective while considering our seven corporate values: innovation, cost consciousness, reliability, respect, teamwork, communication and honesty.

### Social responsibility

#### — Comprehensive Code of Conduct

In order to meet our social responsibilities, it is necessary to comply with laws, to act ethically and morally and to operate sustainably. We aim to maintain a corporate culture in which these values are firmly anchored. For this purpose, we approved a Code of Conduct in 2013, which is binding for all employees of the Group.

- The Code of Conduct forbids illegal business practices, such as market or price fixing, bribery, corruption and insider trading. The Code also prohibits all forms of discrimination, child or forced labor as well as intellectual property theft of third parties.
- At the same time, the Code also emphasizes the right of all employees to fair treatment, equal opportunities and the highest possible level of occupational safety. Finally, the Code deals with topics such as the correct handling of confidential data, conflicts of interest and cooperative collaboration with authorities.
- The Code of Conduct is available to our employees in both of our Group languages, English and German. If they have any questions, employees can contact the Compliance Officer at any time.

#### \_\_\_ Objectives for the proportion of women in management positions determined

As a company in accordance with Luxembourg corporate law, SAF-HOLLAND S.A. is not subject to the requirements of the German law for the equal participation of men and women in management positions. Only the German locations of SAF-HOLLAND GmbH are subject to the application of the legal standards approved in 2015. However, the Group is committed to diversity in the appointment of candidates to management positions in the company and particularly aims to increase the proportion of women in diverse areas of the Group.

With a quota of one third, the proportion of women on the Board of Directors, control and management committee of SAF-HOLLAND S.A. has already exceeded the women's quota of 30% as required in supervisory boards by German law since the previous year.

In addition, SAF-HOLLAND has set clear goals for the proportion of women for the German locations in the second and third management levels below the Management Board (vice presidents and directors). By mid 2022, the company aims to achieve a proportion of 12.5% women at each of these management levels. A proportion of 9% should be reached at director level by mid-2017. These objectives are comparable with the current 12% proportion of women in the overall German workforce.

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### Social responsibility

#### \_\_\_ Strong identification of employees with the company

Our employees make a key contribution to our economic success. Their strong identification with SAF-HOLLAND is reflected by the unusually long average employment within the company of 13.4 years across the Group. In our core subsidiaries in Germany and the USA, the average length of service is even higher, at 14 and 16 years respectively. In financial year 2015, we once again had numerous company anniversaries of employees who have been with the company for over 30 years. We see this as evidence of our high attractiveness as an employer and the strong identification of our employees with the company.

Appreciation for our employees is at the core of our corporate culture. SAF-HOLLAND encourages the commitment of its employees in many different ways, supports lifelong learning and continued development, offers an attractive working environment and ensures the highest standards of occupational safety. As a globally active company, we place great value on the cooperation between people of different cultures.

#### \_\_\_ Multi-year assurance of location and job security

Since 2013, there is a location guarantee for the plants in Bessenbach which will run until the end of 2018 and an employment guarantee which will run until end of 2017. In case of significant changes in market conditions, the employment guarantee, which relates to 842 employees, can be adjusted accordingly.

#### \_\_\_ Diverse professional training initiatives

As a producing company, SAF-HOLLAND has traditionally focused on technical professions, particularly within the areas of engineering and mechanical engineering. Alongside a variety of apprenticeships, SAF-HOLLAND also offers its employees a wide range of qualification and training possibilities. In addition, we also offer young people the possibility of a dual training program.

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**Sustainability**

The North American location in Holland became part of an education initiative from the US state of Michigan at the end of 2014. As part of this support, a total of 46 production employees completed professional training for qualified specialists directly at the plant during the first quarter of 2015. The training focused on knowledge and skills in the areas of industrial engineering as well as in CNC-controlled production.

Within the scope of our management development efforts, the focus in the reporting year remained on employee management skills and increasing motivation. The program also concentrated on training related to intensifying our lean management and value analysis activities, product training as well as learning opportunities in the areas of engineering and sales.

**— Offer of job orientation for refugees**

The high number of refugees from crisis regions presents society, and Europe in particular, with great challenges. For the economy, immigration offers the opportunity to gain new workers for the future. People with good educational and professional qualifications could be quickly employed in the company. We want to offer an opportunity to people who do not have these qualifications or who want to gain an initial professional orientation. We have therefore agreed to offer internships at the German location in Bessenbach as part of "perspective for refugees", an initiative of the association for professional support ('Gesellschaft zur beruflichen Förderung, GbF') in Aschaffenburg. We would like to meet our social responsibility as a company and make a concrete contribution to helping some new residents to find a new professional home. We believe that this is a key step in successful integration into society. The first six-week internship program in production will start in early 2016.

**— New concept for idea management introduced**

In February of the reporting year, SAF-HOLLAND started the introduction of the new idea management "My Idea" at the German locations. The program, developed from the operating proposal system, focuses primarily on the topics of occupational safety, cost reduction and quality. The aim is the stronger integration of the practical knowledge of employees and the exploitation of potential in these areas.

The program has had great success. The total number of submitted suggestions for improvement increased from 20 in the previous year to 281 in the reporting year. The implementation of suggestions for improvement resulted in cost savings for the company of around kEUR 80. The program will start in the USA and China in 2016.

## SAF-HOLLAND KEY FIGURES – PERSONNEL 2015

**Key figures for the locations in Germany, the USA and China**

Average number of employees (not including temporary employees)	2,653
Fluctuation rate	9.74%
Average number of sick days per employee per year	8.39
Employees with collective agreements	1,852
Proportion of part-time employees	1.5%
Employees with severe disabilities	59
Employees in management positions	182
Of whom women	25
Of whom local	172
Work-related deaths	0
Employees on maternity leave <sup>1)</sup>	2

**Key figures for the locations in Germany**

Average number of employees (not including temporary employees)	1,022
Vocational training rate	4.5%
Interns and thesis students	5
Total suggestions for improvement submitted	281
Already successfully implemented suggestions for improvement	118
Rejected suggestions for improvement	71

<sup>1)</sup> This figure does not include employees on maternity leave in the USA.

**Responsibility for the environment****\_\_ Climate protection through weight reduction**

With our product portfolio, we make a direct contribution towards climate protection and conservation of resources. The constant weight reduction of our products and components not only allows more economical operation for our customers, but also contributes towards reducing fuel consumption and thereby reducing CO<sub>2</sub> and pollutant emissions. Our efforts to improve the service life of our products and to adapt them to the highest safety standards are also oriented towards sustainability. You can find more detailed information about our innovative new developments in all aspects of lightweight concepts in the “Research and Development” chapter from page 68.

**\_\_ Conservation of resources in manufacturing**

We are continually working to reduce energy and material consumption in production processes. We are also doing everything we can to minimize noise, dust and exhaust emissions produced during manufacturing. Our aim is to keep the “ecological footprint” of our activities as small as possible. The majority of our plants, especially in North America, have certified environmental management systems in accordance with the international norm ISO 14001.

Sustainability starts with product design. We create ecological assessments, which systematically record and analyze the environmental impact of our products and systems. Where possible, we rely extensively on the use of materials that are recyclable and which can be returned to the production cycle at the end of their useful lives.

**\_\_\_ Legal regulations regarding energy audit exceeded**

As part of the implementation of EU energy efficiency directives into national law, all companies in Germany have been obligated to undertake so-called energy audits since the end of 2015 (DIN EN 16247-1). The aim of the systematic examination of companies' energy use is to improve energy efficiency and decrease energy consumption. SAF-HOLLAND has fulfilled this requirement through the certification of the globally valid ISO 50001 standard, which exceeds the requirements of the European directive.

**\_\_\_ Development of an internal Group environment reporting system**

With a view to fulfilling the requirements of the EU directive for the disclosure of non-financial information, SAF-HOLLAND is currently developing a comprehensive reporting system for the area of environment. The aim is to provide information on ecological topics, such as emissions, use of resources and amount of waste, in the next reporting year. SAF-HOLLAND plans to complete the development of the reporting system over the course of financial year 2016.

## OPPORTUNITIES AND RISK REPORT

### \_\_ Risk management system

SAF-HOLLAND has a comprehensive risk management system implemented by the Management Board on a Group-wide basis. Through the ongoing observation of relevant markets and regions, customers and suppliers as well as internal processes, the system is geared toward the structural recording of potential risks at an early stage, disclosing and communicating them. Using a clearly defined reporting system, all risks that are recognized as significant and for which there is a reasonable probability of occurrence, are tightly monitored, documented and evaluated so that targeted counter-measures can be taken. A risk management manual that, in terms of its efficiency and appropriateness, is continually developed and available throughout the Group at all times. This manual defines the risk management processes, the limits that are to be observed and the use of financial instruments for financial risk management as well as supplementary group guidelines which ensure a uniform Group approach.

The evaluation of risks is carried out using various metrics including, among others, parameters for their probability of occurrence and for the potential damage they may cause. For each risk, control instruments and – insofar as it is possible – counter-measures are defined. Individual risks are summarized in risk fields, each of which has an established risk policy.

Risk management limits itself exclusively to the recognition of risks and not the identification of opportunities.

### \_\_ Risk management in accounting

Group Accounting brings together all key responsibilities including the consolidation of financial data and the preparation of quarterly and annual financial statements. The financial key figures that are collected in the individual business units and regions are reported to this department for the purpose of consolidation. Mandatory directives, standardized specifications and defined processes must be complied with throughout.

An internal control and risk management system serves to ensure orderly accounting that is in compliance with regulatory requirements. This system encompasses monitoring measures that are process integrated and process independent. These measures are conducted both systematically and on a random basis. The Group Accounting department, for example, regularly reviews in a process integrated way the application of corporate accounting guidelines. The data that is delivered to the Group Accounting department is also subject to technical data validations.

Independent of processes, Internal Auditing reviews the effectiveness of the internal control and risk management system and its compliance with the specifications, regulations and directives. Accounting systems of the business units and the subsidiaries are included in these controls. Internal Auditing forwards its audit reports to the respective department heads, to the Management Board and to the auditors and reports directly to the Board of Directors. The Board of Directors receives a semi-annual report on the results of the independent internal auditing. The corporate accounting process is also monitored externally via audits of the consolidated financial statements conducted by independent auditors.

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### Evaluation of the risk situation

The criteria “probability of occurrence” and “risk exposure” are used for the evaluation of risks. Through the assessment of the risks in accordance with the above-mentioned criteria, we divide the risks according to the graphic shown below into “limited”, “middle” and “high” risks. Risk exposure is quantified before any measures to limit the risk at the level of adjusted earnings before interest and taxes (adjusted EBIT).



Opportunities and Risk Report

**RISK CATEGORIES**

	Extent of risk in kEUR		Probability of occurrence				
	< 1,500	1,501-3,000	< 10%	10-30%	30-70%	70-90%	> 90%

Risk areas	Individual risks	Individual risk 2015 compared with previous year	Total risk 2015 compared with previous year
Financial risks	Receivables default risks	unchanged	higher
	Currency risk	higher	
	Interest rate risks	unchanged	
	Financing risks	lower	
	Impairment risks	unchanged	
	Investment risks	unchanged	
Human resources risks	Risks of loss of know-how	unchanged	unchanged
	Strike risks	unchanged	
Legal and regulatory risks	Liability risks	lower	lower
	Brand and Copyright risks	lower	
	Environmental risks	unchanged	
	Trade risks	higher	
Operative risks	Procurement risks	unchanged	unchanged
Strategic risks	Loss of a customer	lower	lower
	Competition risks	lower	
	Business risks in specific regions	lower	
Technology risks	Marketing risks	unchanged	unchanged
	Risks through technological progress	unchanged	
	Risks from loss of cooperations	unchanged	
IT risks	Risks through system failures and cyber crime	lower	lower
Other risks	Compliance risks	unchanged	lower
	Risks from individual business relationships	lower	

Those risks that can be directly influenced by the Group are manageable and sufficient care has been taken in the form of depreciation, allowances, and provisions. From today's perspective, there are no risks that would jeopardize the continued existence of SAF-HOLLAND. As compared to the previous year, the company's risk profile has further improved with the continued strong equity capitalization and the optimized liquidity situation contributing to this development.

**Company rating**

SAF-HOLLAND has had a company rating from rating agency Euler Hermes since 2012. In September 2013, Euler Hermes raised the rating about the soundness and future viability of

SAF-HOLLAND from BBB- to BBB with a stable outlook. This assessment from the rating agency was confirmed in the years that followed, most recently on April 7, 2015.

## OVERVIEW OF RISKS

The risks described below are, in general, relevant for all business units. They are thus carefully recorded, controlled and evaluated. Precautionary measures are jointly coordinated both at Group level and in the subsidiaries.

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### General economic risks

The business development of SAF-HOLLAND is impacted generally by economic developments and, in particular, by the related tendencies in transport volumes and the willingness of logistics to invest in the transport of goods that is associated with it.

We do not anticipate that the current weakness in demand in many emerging markets, caused and/or intensified by the fall in the price of oil, will have sustainably negative effects on the transport sector and thus also on our business. We believe, for one thing, that the fundamental conditions for strong structural growth in the transport sector in these countries remain intact, regardless of potential short-term fluctuations. For another thing, the share of sales of our two core markets of Europe and North America amounted to nearly 90% in financial year 2015, which means that a potential weakening in the emerging market countries would have a more limited impact at Group level.

In addition, the investment cycles in the truck and trailer sector are generally not the same since the funds to invest that are available to fleet operators are limited. Investments in new trucks also often depend on the introduction of new emission requirements which usually make new vehicles more expensive. The same applies to the respective market segments and regions. As a result of the geographic positioning of our business units and our product-side diversification across the respective segments, we are in a position to better compensate economic fluctuations.

We also counter the risks from fluctuations in the business with original equipment with our continually expanding presence in the spare parts business, which is not only much less vulnerable to economic fluctuations, but for the most part is also independent from major customers. This makes this business a stabilizing factor within the Group and thus improves its risk position. Our expansive service network and the global spare parts and service availability which it ensures, contribute to our strong positioning in the aftermarket business.

We are also achieving a greater degree of independence from the development of demand for trucks and trailers through our intensified activities in the bus niche market. Here – primarily in developing and emerging countries such as in China and in the ASEAN market – the market tendencies are determined by the development of macro-economic infrastructure and the trend towards more comfort.

In individual countries, political changes can also influence business development. We counter this through intensive observation and analysis of political risks both prior to and following our entry into the market.

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## Financial risks

### \_\_\_ Receivables default risk

We counter the risks related to the non-payment of customer receivables with, among other things, liquidity checks conducted on a preventive basis and with a corresponding receivables management. This includes the sale of receivables (factoring) within the scope of liquidity management. On a global scale, a substantial portion of customer receivables are hedged through commercial credit insurance. In addition, we also work with so-called house limits. We view the receivables default risk as limited.

### \_\_\_ Currency risks

Due to its global business activities, the Group is exposed to foreign currency risks from investing, financing and operating activities. The individual subsidiaries operate primarily in their respective national currencies. At Group level, there are generally only limited risks from foreign currency valuation with regard to individual transactions. The generation of sales on the one hand and costs on the other hand are, in most of the Group's currency zones largely the same, which allows transaction risks to be contained to a significant extent. In relation to the development of Group sales, there are risks from the translation of the respective national currencies into the Group's reporting currency, Euro. Depending on the exchange rate development of the relevant national currencies, fluctuation risks, for example with regard to forecasts that are issued, cannot be ruled out. These risks are offset by a corresponding opportunity potential. If currency risks are hedged through financial instruments, the financial instruments relate exclusively to the basic business risk that is to be hedged. A net impact on the earnings and asset situation is thus largely excluded.

### \_\_\_ Interest rate risks

The Group is exposed to interest rate risks as a result of its financing activities. Market-induced interest rate changes can in particular have an effect on the interest burden in connection with floating-rate loans. Changes in interest rates affect the interest-related cash flow. There are currently relatively limited risks for the Group because the scope of variable interest rates from financing is also relatively limited. The majority of external financing comes from the fixed-interest rate corporate bond as well as the convertible bonds which also has a fixed interest rate and parts of the promissory note loan.

### \_\_\_ Financing risks

We generally counter the risk of insufficient liquidity with our traditional and equally conservative and forward-looking Group-wide strategy of securing liquidity. Through the diversification of financing sources and structuring of the maturities, a concentration of risk in the liquidity area is thus avoided. The currently relevant liquidity situation is monitored throughout the Group on a daily basis. In addition, management continually evaluates adherence to the financial covenants as required by the long-term credit agreement. The liquidity risks are thus classified as not significant.

Supplementary information on liquidity and on corporate financing can be found in the management report on pages 85ff.

### \_\_\_ Impairment risks

Impairment risks can arise as a result of the need for unscheduled depreciation or amortization on company assets. We counter these risks with stringent medium-term budget planning and monthly reporting both with regard to the actual development as well as on the basis of a rolling planning process. Risks of this nature did not increase in the reporting period.

### **\_\_ Investment risks**

Investments are reviewed, evaluated and decided upon in a multi-stage process in line with their respective magnitude. In this way, we ensure that they meet the demands of the company strategy, especially with regard to the associated return and security requirements. Investment risks include, among other things, risks related to statutory approval, principal's risk and capacity utilization risk. The investment risk, in our view, is limited.

Principal's risks associated with construction activities at the Keilberg plant and at our location in Bessenbach have been covered by means of a principal insurance. There is no capacity utilization risk in connection with the move of the plant in Wörth to the existing Keilberg plant and the Frauengrund plant in Bessenbach because only existing capacities are being moved and not significantly changed.

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### **Human resources risks**

In the human resources area, risks arise primarily as a result of the loss of managers and knowledge bearers in key positions. We counter these with an institutionalized succession planning and Group-wide knowledge management. Risks that arise from work stoppages could also become relevant. Precautions are taken through the establishment of trusting and respectful dealings with our works councils and union representatives. In Germany, company agreements were reached that secure jobs and, at the same time, help to improve the competitive situation of SAF-HOLLAND. In North America, similar agreements are in place with various local unions. Worldwide, about 40% of our employees are unionized.

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### **Legal and regulatory risks**

#### **\_\_ Liability risks**

Legal disputes and tax issues generally generate complex questions. They are also linked to unknowns that result from the circumstances of each individual case and the business partner or authority that is involved. We therefore review legal disputes and administrative procedures on an individual basis. We evaluate the possible results with internal experts and – wherever necessary – in consultation with external legal and tax professionals. We also conduct third-party comparisons. Insofar as an outflow of funds in a quantifiable amount is likely to a sufficient degree, we passivate the present value.

Trial risks are generally risks that arise from legal disputes and that could result in financial obligations for the Group. There are currently two such issues of relevance for SAF-HOLLAND. As part of bankruptcy proceedings with a former customer of SAF-HOLLAND that have been ongoing since 2003, the bankruptcy administrator has already demanded repayment of funds already paid to SAF-HOLLAND by the customer. In the reporting year, SAF-HOLLAND received a court order to repay the relevant amount. SAF-HOLLAND is currently looking into the possibility of an appeal. In addition, a customer made legal claims against a Group company as a result of supposedly defective equipment. In the previous year, risks that still remained with regard to fee payment from a consulting company from 2009, on the other hand, have now been decided in court and paid.

Tax risks can arise from an audit of previous financial years if the financial authorities evaluate tax-related processes differently than SAF-HOLLAND. We have classified such risks as limited. In addition, in the case of changes to the respective national regulations, tax risks may arise from the calculation and application of internal transfer prices and their recognition. In this

regard, SAF-HOLLAND has established a closely-knit control system. Such risks are classified as not significant also because we have introduced measures in order to effectively limit these risks.

Interest carry-forward utilization risks are risks that could arise if interest carry-forwards cannot be fully utilized for tax purposes in the following years. From the perspective of SAF-HOLLAND, this risk is to be classified as limited because existing interest carry-forwards are available with no time limit.

The risk that tax loss carry-forwards cannot be fully utilized for tax purposes due to a utilization limitation is similarly classified. This risk is, in our view, also to be evaluated as immaterial.

We maintain sufficient insurance coverage for risks that result from operational interruptions or production downtimes. There are also plans in place for external procurement in order to ensure that our ability to deliver continues in case of supplier problems. In addition, SAF-HOLLAND ensures that a balance is achieved in the relationship between the complexity of the production processes and the relevant requirements. Potential reductions in the level of vertical production also serve this goal.

Quality risks cannot in principle be ruled out. In order to limit such quality risks to as much as possible, SAF-HOLLAND manufactures throughout the Group in accordance with strict quality standards and thus effectively minimizes the potential risks arising from product defects. Our quality assurance begins already with product development and is consistently applied throughout the entire value chain. The effectiveness of the integration of quality and systematic thinking is demonstrated with a process management system. It is additionally confirmed for the US-American and European locations of the Trailer Systems and Aftermarket Business Units through certification in accordance with the international quality standard DIN ISO 9001:2008. The system performance of the welding technology at the German plant in Bessenbach has been proven by the certification in accordance with ISO 3834-2. The plants in China and Brazil, in addition to the international quality standard DIN ISO 9001:2008, also meet the specific requirements of the automotive industry in accordance with ISO/TS-16949. This high standard is also met by all plants in the Powered Vehicle Systems Business Unit.

#### — Brand and copyright risks

In light of the competitive strength of our products and solutions, the abuse of brands and copyrights belonging to SAF-HOLLAND can lead to economic damage. We counter such risks with the permanent and intensive worldwide observation of relevant patent applications and market developments, especially in the spare parts segment. We generally pursue the policy of reaching competitive exclusion or exclusivity agreements with our suppliers. This includes, among other things, ensuring that the delivered parts bear our brand. Against this backdrop, brand and copyright risks are classified as immaterial.

#### — Environmental risks

Close attention is paid to compliance with relevant environmental regulations in all of SAF-HOLLAND's activities. In many cases, we go well beyond these regulations. In order to meet these requirements, we rely on permanent monitoring which recognizes the respective, constantly developing provisions and the growing demands of the relevant standards and, when necessary, initiates and monitors their implementation. Our internationally recognized certifications, especially with regard to product quality and system performance, also make an important contribution to environmentally friendly production. The majority of our plants, especially in North America, have certified environmental management systems in accordance with the international norm ISO 14001.

### \_\_ Trade risks

Trade risks can arise as a result of the tightening of restrictions, especially in the area of international trade. We counter such risks with a permanent and intensive observation of international political developments.

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## Operative risks

### \_\_ Procurement risks

Procurement risks and thus the danger of limited production and delivery capabilities can arise from bottlenecks in supply or a substantial rise in the price of material or components. With regard to the price risks, the developments on the raw-materials markets, and with regard to supply risk the dependencies on individual suppliers are of primary importance. To limit this risk potential, SAF-HOLLAND relies on a multiple supplier strategy in relevant areas. We agree on multi year framework contracts with core suppliers and have defined volumes and prices. A part of our customer contracts is linked to the price development of scrap steel, for example, or there are negotiation clauses with the possibility of offsetting rising raw material prices – in general with a time delay.

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## Strategic risks

### \_\_ Loss of a customer, competition risk

The principal industry-specific risks include dependence on individual customers. At SAF-HOLLAND, sales distribution by customer roughly corresponds to the customers' market share. Worldwide in the truck business, nearly half of the OEM business is determined by ten major customers. The trailer sector, on the other hand, is shaped by a largely polypolistic market structure with several hundred customers in both North America and Europe.

There are also a large number of small and mid-sized customers who, however, are highly significant in their respective niches or markets. SAF-HOLLAND has strengthened its presence and market leadership in particular among this heterogenous group of customers over the last years with the development of new and specific applications. With its continual internationalization and global positioning as a partner of the commercial vehicles industry, the Group has additionally improved its risk profile.

We view the risk from a small number of German trailer producers toward an expansion of their manufacturing capabilities to include their own axle manufacturing as manageable. This relates for the most part to the standard axle part and in terms of quantities is only imaginable for two or three manufacturers. It should be taken into consideration here that SAF-HOLLAND's customer base on the trailer manufacturer side consists of more than 350 companies in Europe alone.

In the USA and Brazil, by contrast, the opposite trend is being seen. Here, the first trailer manufacturers are switching to the procurement of entire axle systems. In Brazil, one trailer manufacturer has begun to transfer his formerly inhouse axle production to SAF-HOLLAND.

We behave proactively by expanding our technological edge with innovations and by further raising the entry barriers. Our research and development activities in the Trailer Systems Business Unit are concentrated on trailer components such as axle and suspension systems and are based on special technological expertise which is being expanded on an ongoing basis. The relatively high research and development expenses of SAF-HOLLAND which can be distributed over a large number of produced axle and suspension systems, require a leading technological position, for example when it comes to weight reduction or the introduction of new materials and components. This is likely not sustainably possible for a trailer manufacturer with limited axle production volumes. In addition, we continue to acquire successful mid-tier customers, expand

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**Opportunities and Risk Report**

the growing segment for vocational trucks and strengthen our involvement in additional markets outside of Western Europe.

In addition, we are expanding and diversifying our product spectrum on an ongoing basis and in line with the changing and increasing requirements of the fleet operators. Here especially our high level of quality, the extensive guarantees for our products and, not least, the dense aftermarket network all represent decisive competitive factors. In this way, we are able to effectively counteract potential volume risks.

On the cost side, SAF-HOLLAND's high production volumes open up sustainable advantages which we are tapping into both in procurement as well as with regard to economy of scale effects.

#### **\_\_ Business risks in specific regions**

Risks related to certain individual regions which go beyond the risk factors already listed in this overview were not foreseeable in the reporting year or were classified as not significant.

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#### **Technology risks**

##### **\_\_ Marketing risks**

Marketing risks represent a permanent challenge which we counter with appropriate measures. These include, in particular, the continuous observation of the competition and its product offerings.

Furthermore, a focus of our market observations is on a permanent exchange of information and ideas with our customers in order to recognize changes in demand behavior at an early stage and to be able to develop new, needs-oriented solutions from this. The information that is gained in this manner supports targeted evaluations and also allows us to avoid undesirable technological and conceptual developments that do not meet the needs of the market. All of SAF-HOLLAND's significant strategies are supported by action plans.

Guarantee assurances to our customers are insured in advance. The precautions include, among other things, intensive test series and supplier commitments. Exchange programs or recalls occur only in exceptional cases. Affected suppliers are also involved in relation to absorbing the costs.

In the truck market, legal regulations can impact demand behavior. For example, customers will often move vehicle purchases forward prior to stricter emission regulations taking effect in order to avoid the additional costs of lower emission engines. In the following year, this could lead to a corresponding drop in sales volume. In order to be able to react to such fluctuations in a timely manner, we carefully follow regulatory developments in our country markets. In addition, we actively contribute to groups and organizations that deal with the continuing development of standards, reference values and other regulations. In addition, the forecasts and actual figures for vehicle registrations and production are evaluated regularly. Insurance coverage has generally been taken out against risks arising from legal regulations, such as product liability.

##### **\_\_ Risks through technical progress**

Theoretically, it is imaginable that we would fail to sufficiently recognize new developments in general technical progress. Risks that arise as a result of this are countered with a comprehensive monitoring through a small group of engineers in the area of advanced process technology. We record and document the technological progress in our industry with our annual research and development report. We thus recognize technical advances that relate to our product spectrum as well as to the materials we use and the manufacturing processes we apply at an early stage.

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### \_\_ Risks from loss of cooperations

In general, the termination of a cooperation with a business partner can lead to the loss of expert knowledge and thus also to procurement or sales opportunities. We counter this through the observation of developments in both the procurement and the sales markets. We also fundamentally seek only cooperations on the basis of contractually arranged strategic alliances.

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## IT risks

### \_\_ Risks through system failures and cybercrime

Information technology risks are risks that could arise from the failure of IT systems. Such outages can arise from internal hard and/or software outages or errors, but also as a result of cybercrime.

We minimize risks of this nature by establishing needs-oriented, high performance structures that are in line with industrial standards. Our comprehensive IT security concept that is always kept fully up to date ranges from access limitations and controls through to data security measures. There are back-ups for important hardware structures. The probability of a production breakdown resulting from an IT failure is thus significantly reduced. We also ensure the security of comprehensive high-priority IT projects for example through efficient, transparent project management, the inclusion of the top management and the use of experienced external consultants.

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## Other risks

### \_\_ Compliance risks

Risks that result from non-compliance with laws and regulations are countered with the Code of Conduct which has been approved on a Group-wide basis and which we continuously review to ensure that it is up to date and supplement whenever needed, and the use of internal auditing. In this regard, SAF-HOLLAND orients itself toward generally valid ethical and moral principles.

### \_\_ Risks from individual business relationships

Risks that arise from the individual relationship with a business partner are generally limited by the broad diversification of our upstream and downstream business customer base and, in many cases, by a multiple supplier strategy. Any risks that are recognized are managed individually by internal work groups and also in cooperation with the respective business partner.

## OVERVIEW OF OPPORTUNITIES

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### Global megatrends as growth driver for freight traffic

The global markets for trucks and trailers will benefit over the long term from a number of global megatrends, which we will take advantage of for our further expansion. The most important of these is the general demographic development. Over the course of the next 25 years, the United Nations expects growth in the global population of nearly 25% to just under 9.2 billion people in 2040. Population growth in the developing and emerging market countries will be six times greater than in the industrialized nations. Among the developing and emerging market countries, particular relevance is given to the so-called Next-11 countries (Egypt, Bangladesh, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam) in addition to the BRIC countries Brazil, Russia, India and China.



Opportunities and Risk Report

Population growth will drive the second megatrend, the globalization of the economy, and in the course of growing international exchange of goods, it will significantly increase the need for tighter and globally networked transport infrastructure. The expansion of the road networks will play a key role here because particularly the developing and emerging market countries have more ground to gain economically and the road networks there have the highest development need. Currently, the general economic dynamic of the emerging countries is waning. In order to counteract this development, the governments that are affected are investing intensively in their transport infrastructure as part of their economic stimulus programs. For instance, China has directed some 60% of its infrastructure investment to the expansion of its road network. The Indian government also plans to massively expand the country's road network.

Because in these regions in particular more and more people are migrating to the cities, the share of urban dwellers is expected to increase from the current level of approximately 50% to a total of two thirds of the population by 2050. Trucks and trailers are the most important means of supplying these metropolitan areas with goods.

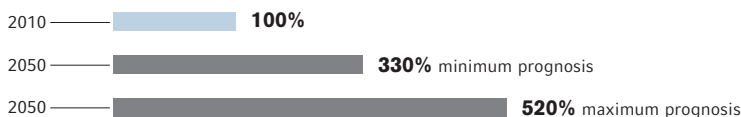
In the course of this development – population growth combined with migration to cities – the social middle classes in particular will benefit in the emerging market countries, especially in the Asia Pacific area. Their share of both the local and the global population will also increase at an above-average rate as will their disposable incomes. The Organization for Economic Cooperation and Development (OECD) estimates that their share of the total world population there attributable to the middle classes will increase to more than half by 2020 and to two thirds by 2030. It would thus be ten times greater than in North America and five times greater than in Europe. Furthermore, the OECD estimates that the purchasing power of the global middle class will increase more than two and a half times by 2030.

The third megatrend is thus clear cut: in these regions, by far the largest increase in the exchange of goods and in infrastructure needs is anticipated. According to the OECD, global freight volumes will more than double by the year 2050 and, depending on the economic environment, may even see a four-fold increase. By 2050, Asia including China and India will then be responsible for more than 50% of global land transport. Today they have a share of 35%. Freight volumes will increase by at least two and a half times, with optimistic outlooks calling for a more than six-fold increase.

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DEVELOPMENT OF THE GLOBAL LAND TRANSPORT VOLUME

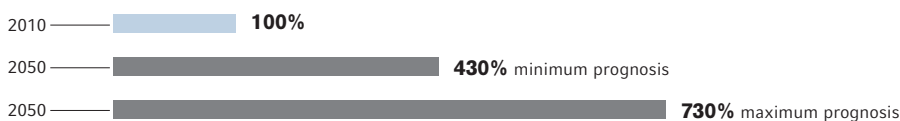
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DEVELOPMENT OF THE LAND TRANSPORT VOLUME OUTSIDE THE OECD

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### Long-term growth in the global market for trucks and trailers

Trucks and trailers are important links in the transport chain and in the strongest growing regions they are the most important link. Increasing quantities of cargo and expanded road networks are boosting demand. A marketing analysis from the consulting company Deloitte Consulting forecasts an average annual growth of 3.1% in global sales of medium and heavy trucks in the period from 2014 to 2024. Only about a third of the expected global growth in the coming years will be accounted for by the three regions Europe, USA and Japan. In contrast, Deloitte Consulting expects the greatest growth in India, the ASEAN countries as well as in the Middle East and Eastern Europe. By the year 2024, India will advance to become the world's second biggest market for medium and heavy trucks after China. According to these forecasts, nearly three quarters of the global truck market will be located outside the established industrialized nations by the year 2024.

The sustainable upswing in the global commercial vehicle market will not be driven exclusively by the expansion of fleets. With new and thus also better roads and infrastructure networks as well as an increasing share of more demanding shipped goods for the end user, the need for more premium transport equipment and components will grow at the same time. The safety requirements are increasing at the international level and are becoming increasingly strict. In addition, the requirements for compliance with standards related to environmentally-compatible transport are continually rising around the world. The increasing demands, especially with regard to lower CO<sub>2</sub> emissions, cannot be met with older vehicles. As a result, this development also promotes the sale of trucks and trailers. Furthermore, increasing attention is being paid in the formulation of legislation on the combination of trucks and trailers. This will noticeably foster the trend toward lighter construction, the use of material combinations and technological innovations in the years to come – a trend that SAF-HOLLAND is aggressively driving forward.

These developments offer SAF-HOLLAND good opportunities to expand the respective local business both in terms of volume and quality. In emerging countries, for instance, we can initially supply manufacturers and end customers with product components that are specifically aligned with current regional needs. In the course of the increasing quality demands on the international markets, we can then shift to higher quality systems via technology transfer. The initiatives for resource conservation and climate protection open up additional opportunities for us because our weight-optimized components contribute to reduced fuel consumption and thus allow for lower greenhouse gas emissions. The increasing safety requirements also enhance our opportunities on the market because products from SAF-HOLLAND are traditionally durable and designed to provide the highest possible level of safety. Our Group-wide quality management system makes a significant contribution here.

In recent years, the growing inventory of vehicles on the roads and the significant increase in the number of SAF-HOLLAND products on the market have provided a promising foundation for further growth in the aftermarket business. Through the supply of spare parts in original equipment quality combined with special guarantee packages, SAF-HOLLAND has opened up an additional segment with the launch of the SAUER GERMANY QUALITY PARTS and Gold-Line brands. With somewhat lower cost parts from the brand tailored specifically for vehicles with a higher service age, we now also provide for trucks and trailers in their so-called "second life" and thus cover the entire life cycle. There is additional potential here, especially in the regional markets where a lot of trucks with an advanced service age are on the roads. In the emerging market countries, this opens up not only additional sales potential, but the trade brands also play an important role in the early positioning in the target markets of the strategy 2020. Here we can deliver the special qualities that characterize trucks and trailers in countries: above all else robust, reliable and affordable.

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## **Opportunities from new regulatory requirements and structural drivers**

### **\_\_ Use of megatrailers in Europe**

The approval of megatrailers (extended truck and trailer combinations) or giga liners on German roads and throughout Europe has been a point of discussion in the European Union for some time. Through the use of metatrailers, it is possible to reduce the number of vehicles on the road and also to reduce fuel consumption and CO<sub>2</sub> emissions. Such megatrailers have now been approved for use in a number of Scandinavian countries as well as in the Netherlands and Spain. Major field tests have been underway in Germany for several years. Critics fear an even greater shift of transport volumes from rail lines to roads should these vehicles be approved.

If megatrailers are approved for use throughout the European Union in the coming years, this could provide a temporary economic boom to the industry. The important German market plays a very important role in this regard. The better operational efficiency of the giga liners or megatrailers with lower costs per mile or kilometer as compared to traditional truck and trailer combinations would give those fleet operators who are willing to invest an economic advantage and would lead to a multi-year boost in the purchase of new vehicles. Beyond this temporary demand effect, we could also benefit from the fact that the requirements for megatrailers in terms of durability, safety and comfort would tend to increase. As a result of our technological positioning, we are also well-equipped to deal with this development.

### **\_\_ New standards for commercial vehicles in China being prepared**

In the course of the progressing industrial development in China, not only is the need for modern infrastructure rising rapidly, but so is the need for a tight transport network throughout the entire country. A further standardization of the entire logistics chain is gaining a degree of importance that should not be underestimated. Because uniform standards are the only way to achieve the economy of scale effects and cost degression in the transport sector that are sought by the government with regard to the optimization of costs per mile or kilometer.

One important aspect is the comprehensive introduction and enforcement of internationally standardized transport pallets, which to date have been relatively uncommon in China. This would provide a foundation for fast and massive efficiency gains. Because only with such standardized containers and storage, loading and transport equipment the automation in logistics can be moved forward. This aspect is becoming increasingly important in China, because especially in the logistics area the rising wage costs will represent an ever more significant cost factor. The government is also targeting the reduction of the maximum weight of a truck from 55 to 49 tons, the so-called "maximum gross vehicle train weight". This would increasingly shift the focus of the truck and trailer manufacturers to weight reduced and technologically more demanding solutions. With our developments and products, we have extremely competitive solutions for these requirements – solutions that would noticeably support the expansion of market share in such a market environment.

Following the completion of preliminary discussions with the industry, the Chinese government could possibly be in a position to introduce the current international standard GB1589, which regulates the dimensions of road vehicles and thus also the dimensions of transport vehicles, already in the current year. The enforcement of such uniform standards should have a significant impact on the overall truck and trailer industry in China. For trailers in particular, there would be an opportunity for a strong increase in demand beyond the scope expected to date because in this segment there is still a great deal of diversity and weight has, to date, played only a minor role, despite massive damage to the expensive road network.

#### \_\_\_ Opportunities from acquisitions

In the past, SAF-HOLLAND has proven its ability to successfully strengthen its market position and accelerate its growth through acquisitions, not least through the successful merger between the German SAF and the North American Holland. Within the scope of the strategy 2020, the company is pursuing the objective of generating a part of its sales and earnings growth in the coming years through international cooperations, joint ventures or targeted acquisitions. For both the original equipment business and the aftermarket business, SAF-HOLLAND is conducting ongoing market observations and potential analyses in the relevant regions.

In recent years, the willingness on the part of potential sellers, primarily from the area of family-run companies was somewhat limited, making it difficult for SAF-HOLLAND to find attractive companies at reasonable conditions. In light of the currently difficult economic environment in a number of markets, we expect better opportunities in the future to expand or round off our market position in selected markets by means of an anticyclical approach.

#### \_\_\_ E-bus growth niche offers perspectives in China

With its acquisition of China's Corpco, we increased our activities in the bus segment and therefore increasingly benefit from developments in this market segment. Especially in the fast-growing metropolitan areas in the emerging markets, public transport is becoming increasingly important because bus lines reduce individual traffic and thus also noticeably reduce inner-city traffic volumes and the emissions burden. In India, for example, in the 2014/2015 fiscal year, some USD 1.2 billion was invested in 100 so-called smart cities. They are characterized by a strong public transportation system in which buses play an important role.

China, too, is intensifying its efforts to expand bus lines. There, e-mobility is seeing a massive increase in importance. In 2009, the Chinese government set a goal of replacing as many of its conventional city buses as possible with electric buses. Industry experts state that this will result in an estimated demand of 50,000 to 100,000 electric buses a year. In the first nine months of 2015 alone, the production of e-buses in China with about 34,000 units increased to more than six times the figure from the comparable period in the previous year. At an international level, too, Chinese providers are already today successful on the market for e-buses. These environmentally friendly vehicles from China have long been driving on the streets of European cities like Milan, Barcelona, London and Amsterdam. E-mobility is of course also an important topic for our Chinese subsidiary Corpco, where we set ourselves apart through innovations: our air suspension system named "J Beam" is tailored specifically for electrically operated 9-meter buses through an innovative new design which creates urgently needed space for the storage batteries.

#### \_\_\_ Global businesses need global presence with regional expertise

Our company is already today well positioned in the established commercial vehicle markets as it is in most of the attractive markets of emerging economies. We want to expand this presence over the entire value chain with organic growth and through acquisitions in both the original equipment business and in the Aftermarket.

From a medium-term perspective, we want to instrumentalize for ourselves the advancing market consolidation with acquisitions, joint ventures and cooperations that comes about as a result of the necessity of a global presence and, under our own strength, consistently leverage diverse growth potential in the global truck and trailer markets. Our international reputation will give us a significant boost in this regard.

In order to further strengthen the clout of our international market presence and to position ourselves even closer to our customers, we have established with "Strategy 2020" a new Group structure based on three regions – EMEA/India, Americas, APAC/China. The structure

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is described in greater detail on page 57 of this management report. All regions will offer SAF-HOLLAND's entire product range in a positioning that has been optimized for the characteristics of the respective markets. Our objective is to better tap into the considerable growth potential of our products and markets in a more regional needs-oriented manner.

## EVENTS AFTER THE BALANCE SHEET DATE

No events of relevance for this report occurred after the balance sheet date.

## OUTLOOK

### ECONOMIC ENVIRONMENT

#### Global economy to grow by 3.4% in 2016

At the beginning of 2016, signs point to further growth in the global economy although economic risks have increased in comparison with the previous year. In light of weak growth in China, the prospect of increasing interest rates in the USA, falling commodity prices, growing political tension in the Middle East and the refugee crisis in Europe, economists at the International Monetary Fund (IMF) and the World Bank are expecting a tense 2016. For 2016, the IMF expects sustainable growth to 3.4%, following 3.1% in 2015. The predictions for 2016 and 2017, however, have already been revised several times. Experts believe that changes to interest rates in the USA, introduced in 2015, could particularly cause problems for emerging and developing countries, because these countries have taken out a large part of their loans in US dollars. The recent dramatic drop in the price of crude oil and other commodities presents difficulties for emerging countries, which export raw materials. However, it is expected that governments and central banks will not remain inactive during a global slowdown and will revert to an easing of monetary policy and further supportive measures. The affected regions are expected to record strongly differing economic development in 2016. In comparison, North America and Western Europe should demonstrate a sound development. Because the SAF-HOLLAND Group generates almost 90% of its sales in these two regions, the regional position for 2016 is considered to be favourable.

#### Europe: Constant economic recovery

In the euro zone, the IMF expects a continuation of the economic upturn. After a long period of stagnation, this upturn is driven by catch-up effects as well as robust domestic demand and increasing consumption. Lending by banks is increasing and unemployment is decreasing in most member states. In total, economic growth of 1.7% is expected for 2016. However, it should be noted that the economy in the euro zone is currently benefiting noticeably from the devaluation of the euro against the dollar, the expansive monetary policy of the ECB and the drop in oil price, and that structural problems in some states continue to be approached with caution.

#### North America: Increasing economic growth in the USA

In the USA, the IMF expects a similar story for 2016 as in 2015. The continued strong growth in employment, moderate wage increases, the further recovery of the real estate market and the low oil price will particularly encourage private consumption. For 2016, the IMF predicts renewed growth of 2.6%, following 2.5% in 2015. The USA will therefore remain one of the most important engines of growth in the global economy.

### \_\_\_ Emerging countries: Concerns about the economy in China overshadow more positive development in the Next-11 markets

The economic situation in the emerging countries is very different. The situation is currently characterized by concerns about increasing development in China, although the prospects for Chinese growth remain at an extremely high level of 6.3%.

The forecasts for commodity-dependent countries such as Russia, Brazil and Australia are also very conservative. Despite the extremely low level, which has already been reached, it is still possible that these economies will contract again in 2016. A trend reversal could occur in 2017, depending on the continued development of commodity prices but also on the implementation of structurally necessary measures.

In contrast, the situation is more positive in many of the Next-11 markets, particularly in the ASEAN region. As a result of positive effects through the lifting of sanctions, the World Bank expects growth in Iran to triple to 5.8%. The transport sector in particular has shown huge potential through a decade of pent-up demand. Continued high economic growth of 5% or more is predicted for states such as Indonesia, Pakistan, the Philippines, Vietnam and Bangladesh. SAF-HOLLAND plans to position itself more strongly in these markets as part of strategy 2020 and to expand the market position through joint ventures or cooperations.

#### ECONOMIC DEVELOPMENT IN IMPORTANT MARKETS

	2016	2017
Euro zone	1.7%	1.7%
Germany	1.7%	1.7%
United States	2.6%	2.6%
Brazil	-3.5%	0.0%
Russia	-1.0%	1.0%
India	7.5%	7.5%
China	6.3%	6.0%

Source: IWF (World Economic Outlook, January 2016).

### Industry trend in trucks and trailers: Diverse developments in the regional markets

The global commercial vehicle markets will continue to develop very differently depending on the region in 2016. However, generally stable development of the commercial vehicles business is anticipated in the course of further growth in the world economy, after 2015 was characterized by a partially extremely weak market development in important individual markets. This particularly applies to Brazil and Russia.

### \_\_\_ Solid market situation in the core market Western Europe expected

A continuation of the recovery is expected for the European commercial vehicles market. Pent-up demand, which remains in place following years of limited investment in combination with an economic recovery that is picking up speed in many European countries, is supporting demand for trucks and trailers. The advanced age of the vehicle fleets is also contributing to this development. The pent-up demand and associated renewal of the fleets should proceed for some time to come, particularly in the trailer market. With regard to Western Europe, SAF-HOLLAND continues to operate in a comparatively sound market environment.

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**Outlook**

Industry experts anticipate that new vehicle registrations of trailers in 2016 could increase by an amount in the middle single digit percentage range. For Europe as a whole, however, only moderate growth in trailer sales is anticipated for 2015 because the solid development of the Western European trailer production is diminished by the noticeable weakness of what was largest Eastern European trailer market, Russia. The Russian market has now fallen behind Poland and Turkey. This trend is likely to continue in 2016.

**\_\_ Russia: Continued market weakness in the medium-term**

Industry experts anticipate the Russian truck market to stabilize at a low level in 2016. Forecasts for the trailer sector are only slightly better. An increase in demand for trailers is expected for most Eastern European states parallel to the anticipated slight increase of GDP and investment. The uncertainty in the Russian market poses a risk for the entire region. Demand from the Russian Federation states also plays an important role in the Western European market. Alongside new vehicles, Russian and other Eastern European fleet operators particularly purchase used trucks and trailers. The loss of these sales markets also had an impact on Western Europe. Western European freight forwarders, who often sell their used vehicles on the Eastern European markets, are frequently keeping their fleets for longer and are temporarily deferring the purchase of new vehicles. In the medium-term, the lifting of sanctions or improved financing conditions and an end to the devaluation spiral of the ruble should ensure a satisfaction of demand, pent-up over years.

Despite this, overall trailer sales figures are expected to increase for the entire European market, in spite of the already discussed limitations resulting from Russia's economic situation. According to estimates by the market research institution ACT Research, more than 231,000 vehicles will be sold in 2016, overtaking the strong previous year by more than 3%. Other industry experts are even more optimistic, expecting growth rates in the high single digit percentage range. However, SAF-HOLLAND believes that this would require sustainable recovery in Russia. In its planning, the company is therefore anticipating moderate growth in the total European trailer production.

The recovery of the European truck market is likely to continue in 2016, although at a moderate rate. Industry experts anticipate that new registrations of heavy trucks over 16 tons in the region will increase by up to 5%.

**\_\_ North America: Trailer demand solid, truck market on course for normalization following record years**

Following three record years in succession, the market for heavy trucks in North America will weaken in 2016. Market research institutions such as FTR and ACT anticipate that the number of Class 8 new registrations in 2016 could decrease by up to over 20% compared with the record year 2015. Following more than 320,000 vehicles produced in 2015, the market will return to a normal level of between 250,000 and 270,000 units in 2016. Around 10% of the Group sales of SAF-HOLLAND are generated through the truck business in North America, primarily through the fifth wheel business. SAF-HOLLAND plans to be able to partially compensate for the market development in the series business with the help of newly initiated orders from the more profitable business with the public sector, an expansion of activities with suspension systems for vocational trucks, for example for waste collection vehicles as well as the introduction of new products.

The situation in the US-American trailer market is more positive. The catch-up effect in this segment following the crisis was not as strong as with heavy trucks, which means that in light of a continued stable economic development in the USA, replacement in trailers demand will be higher among fleet operators than in the Class 8 truck area. Moderately decreasing production figures are to be expected for 2016. FTR refers to the historically high order backlog and the long delivery times of manufacturers and anticipates another relatively solid year for trailers in the North American region in 2016.

As in previous years, SAF-HOLLAND sees an opportunity for further market share gains in trailer axles and suspensions with its young product portfolio, which is characterized by further newly introduced products. The fact that the first trailer manufacturers are starting to move from the procurement of axles to complete axle systems including suspension and brake systems is structurally advantageous. In the medium-term, this gives SAF-HOLLAND the opportunity to increase sales per trailer through the sale of complete axle modules.

Improved prospects for the USA should present themselves for our Aftermarket business in the coming years. The spare parts business in North America was in a difficult market environment, which was characterized by significant investments in new vehicles and record highs in first time registrations for trucks and trailers. In the coming years, these vehicles will offer a sound foundation for the delivery of spare and replacement parts, because over time, the fleets require service and maintenance. The indicator of the American association HDMA shows that manufacturers, dealers and repair shops anticipate a slightly positive to positive development for 2016 and beyond in the spare parts business.

#### **— South America: Success towards the end of the year at the earliest**

With a view to the Brazilian commercial vehicles market, experts do not anticipate a noticeable improvement in the sales situation in the country despite vehicle production decreasing for many years. In an environment characterized by difficult political and structural conditions, a stagnation or slight contraction of the market is expected despite the advanced fleet age and pent-up demand from truck manufacturers. In light of the existing risks, it is possible that the new registration figures will slightly decrease again in the Brazilian trailer market. Market volume for the South American country has thus fallen to close to a third of its 2013 level. However, this extremely low comparable basis should allow the foundations to be laid for the trucks and trailer market of the largest economy in South America over the course of the year and should lead to at least moderate growth in 2017.

#### **Growth niches in China**

There is an uneven picture in Asia's volume markets. In the Indian market, which is currently less important for SAF-HOLLAND, demand for Class 8 trucks will slightly increase in 2016. Industry experts expect a slight upturn of up to 5% in deliveries of heavy trucks and trailers in China despite the slowdown in the country's overall growth momentum projected for 2016. As a result of the strong market and product advantages, SAF-HOLLAND believes itself to be well positioned to expand its currently small market shares, particularly in the areas of trailer axles and bus suspension systems. As already discussed in the opportunities and risk report, the legal requirements for heavy commercial vehicles in China, currently under revision, could also have a positive effect.

In China, SAF-HOLLAND plans to benefit from the increased use of road-friendly air suspension systems. In the medium term at the latest, this development is likely to have a positive impact on both the truck as well as the trailer business. A first large reference contract from Corpco to begin at the end of 2017 for suspension systems for heavy trucks shows that growth potential can be achieved in the Chinese market even in this important product group – supported by the technological advantages and the scale of the products.



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**Outlook**

Good prospects remain in place for the bus market. Worldwide, this commercial vehicles segment is expected to increase by 3.6% in 2016. Increasing passenger traffic in particular in numerous emerging countries will ensure increasing demand. Industry analysts expect, for example, that the Indian market for buses will record average annual growth rates in the high single digit percentage range until the year 2020. At the same time, there is an increasing trend towards more comfort – away from mechanical suspension and towards air suspension. The market segment for electric buses, which is strongly promoted in China and other Asian countries such as Indonesia and in which SAF-HOLLAND is well-positioned with specifically designed J-Beam suspension systems, will likely grow by an average of 19% per year over the same period.

Despite the predominant risks in 2016, Brazil, Russia and Australia with its important special vehicles market remain an attractive sales region in the medium-term with increasing transport volumes. An investment backlog, together with a high fleet age, has developed in these countries as a result of the longstanding weak sales situation. With corresponding political signals and recovery of the commodity prices important for these markets, this should provide positive stimulus for truck and trailer demand in the future. The situation in Iran is also encouraging, where numerous construction and infrastructure projects are now planned following the lifting of sanctions, which will result in a high demand for transport capacity and thus in the modernization and expansion of fleets. SAF-HOLLAND will also expand the Aftermarket business here.

**COMPANY OUTLOOK: SOLID SALES AND EARNINGS DEVELOPMENT IN A MORE DIFFICULT MARKET ENVIRONMENT**

SAF-HOLLAND pursues a medium to long-term oriented company development, which will be implemented as part of the already discussed strategy 2020 and will take advantage of growth opportunities, particularly through the rolling out of the business across markets outside of the current core markets, expansion of the product portfolio and complementary joint ventures and acquisitions.

From today's perspective, we expect that the generally solid business development of SAF-HOLLAND will continue in financial year 2016. However, we are faced with a more difficult market environment. The regional positioning of the Group with strong emphasis on the core markets of North America and Europe and the resulting economic diversification offers a stable starting position.

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**Focus on product development**

In 2016 we will continue to develop and launch new products at a high level and thereby distinguish ourselves from the competition. As already discussed in the research and development report (see p. 68ff), the topics of weight reduction and therefore CO<sub>2</sub> savings, new developments in braking technology as well as the digitalization of processes will play a key role. The company thus expects research and development costs as a percentage of sales to remain constant in 2016.

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### **Investments in further optimization of the international production network**

SAF-HOLLAND's business model generally allows lower capital intensity in comparison with other companies in manufacturing.

Alongside the standard capital expenditure for maintenance and replacement, for strategic reasons an increasing amount of investment in expansion is to be expected in 2016. This will also cover the increasing share of new products. In order to take advantage of additional cost saving potential, further optimization of the production network in North America will also be investigated in 2016. The increased development of centers of competence, the focusing of manufacturing at the locations as well as the launch of new suspension systems will be at the forefront.

Within information technology, the expansion of the data technology networking of the production locations is on the agenda. In North America, the focus is on the introduction of a new software solution, which optimally connects design, flow of materials and production, makes a key contribution to cost savings and positively influences the net working capital requirements. In China, we will begin implementing SAP as an enterprise resource planning system in 2016, starting with the Xiamen location, thereby improving transparency and laying the foundations for further process optimization.

The investment planned for the expansion or intensification of our business activities in new regions will primarily be made in the area of engineering and in the roll-out of regional development capacities as well as testing centers. Overall, the Group anticipates payments for investments in property, plant and equipment and intangible assets in the amount of around EUR 28 million in 2016. Investments will therefore remain virtually unchanged and the investment rate will be largely stable compared with 2015.

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### **Sustainable dividend policy**

SAF-HOLLAND generates a solid operating cash flow and pursues a sustainable dividend policy. We intend to continue to allow our shareholders appropriate participation in the success of the company. Provided the equity ratio is around 40%, we in general intend to pay out between 40 and 50% of the available net earnings to our shareholders as a dividend. Special factors, such as the issue of the promissory note loan with a volume of EUR 200 million in November 2015, which initially result in a balance sheet extension and a temporarily lower equity ratio, will be correspondingly adjusted.

At the Annual General Meeting on April 28, 2016 the Board of Directors will recommend a dividend distribution of EUR 0.40 per share (previous year: EUR 0.32), an increase of 25.0%. This corresponds to a distribution amount of EUR 18.1 million (previous year: EUR 14.5 million) or 38.6% of the available net earnings and a dividend yield of 3.2% (previous year: 2.9%).

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### **General statement of the Management Board on the anticipated development of the company**

Our planning is based on the expectation that the world economy will grow by around 3% in 2016 and that economic growth in our current core markets of North America and Europe will continue at a moderate rate. Some of the important regional markets for SAF-HOLLAND, such as Brazil, Russia or Australia, remain at a very low level and improvement – taking into account the already low prior-year basis – is likely no sooner than towards the end of the year.

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**Outlook**

Provided that the industry trend in these markets does not cool down further, despite the challenging market environment, we are currently expecting constant or slightly increased organic sales for the Group in financial year 2016 in comparison with the previous year.

In this context it should be noted that the AerWay agricultural product line, which was no longer part of SAF-HOLLAND's core business and was sold in December 2015 will no longer contribute towards the sales and earnings of the SAF-HOLLAND Group in the financial year 2016. In financial year 2015, AerWay contributed EUR 6.8 million, which was slightly below 1% of the total Group sales of EUR 1,060.7 million, with an operating margin at approximately the Group average.

Despite the expected significant weakening in the US market for heavy trucks of about 20% as compared to the high level of the previous year on the one hand and the sale of the AerWay activities on the other hand, for 2016 we aim to achieve sales of between EUR 1,050 and 1,070 million.

In light of the planned advance investments for the expansion of business as part of strategy 2020, for 2016 we anticipate a solid adjusted EBIT margin between 8 and 9% following 7.4% in 2014 and 8.9% in 2015.

In accordance with the objectives of our strategy 2020, additional Group sales and earnings contributions can occur through cooperations, joint ventures or acquisitions concluded over the course of the year. This requires corresponding opportunities arising, which are at a reasonable price, have a manageable risk profile and can be realized.

In taking the promissory note loan, SAF-HOLLAND has laid the financial foundations for strategy 2020, particularly for external growth aspects. For full-year 2016, this will result in an increase in interest expense by around EUR 3.5 million, which will initially not be compensated or overcompensated by operating earnings.

Despite the difficult market environment in some key markets as a result of the situation, the Management Board expects continued solid development in the sales and earnings performance, net assets and financial position for the Group in financial year 2016. The financial position will remain at a good level through continued investment discipline and Group-wide optimization of the net working capital. Following completion of the relocation of the Wörth, Germany plant to the Bessenbach location and optimizations in North America and at some of the international subsidiaries, the Group plans to maintain net working capital ratio at between 12 and 13%, despite the decrease in factoring, which is planned for cost reasons.

Overall, the SAF-HOLLAND Group considers itself to be in a promising position to reach the sales, earnings and returns objectives established as part of the medium-term strategy 2020.

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

kEUR	Notes	2015	2014
Sales	(4)	1,060,704	959,683
Cost of sales	(5.1)	-857,778	-785,051
<b>Gross profit</b>		<b>202,926</b>	<b>174,632</b>
Other operating income	(5.2.1)	3,281	1,984
Selling expenses	(5.2.2)	-61,415	-57,699
Administrative expenses	(5.2.3)	-44,547	-44,617
Research and development costs	(5.2.4)	-20,942	-19,614
<b>Operating result</b>	(4)	<b>79,303</b>	<b>54,686</b>
Finance income	(5.2.5)	9,290	9,098
Finance expenses	(5.2.5)	-13,247	-16,802
Share of net profit of investments accounted for using the equity method	(6.3)	2,264	1,988
<b>Result before tax</b>		<b>77,610</b>	<b>48,970</b>
Income tax	(5.3)	-25,911	-16,292
<b>Result for the period</b>		<b>51,699</b>	<b>32,678</b>
Attributable to			
Equity holders of the parent		51,627	32,643
Non-controlling interests		72	35
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurements of defined benefit plans		2,937	-13,175
Income tax effects on items recognized directly in other comprehensive income	(6.10)	-341	4,283
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange differences on translation of foreign operations	(6.10)	-774	9,210
Changes in fair values of derivatives designated as hedges, recognized in equity	(6.10)/(7.1)	274	1,438
Income tax effects on items recognized directly in other comprehensive income	(6.10)	-76	-391
<b>Other comprehensive income</b>		<b>2,020</b>	<b>1,365</b>
<b>Comprehensive income for the period</b>		<b>53,719</b>	<b>34,043</b>
Attributable to			
Equity holders of the parent		53,741	33,854
Non-controlling interests		-22	189
<b>Undiluted earnings per share in EUR</b>	(7.2)	<b>1.14</b>	<b>0.72</b>
<b>Diluted earnings per share in EUR</b>	(7.2)	<b>0.99</b>	<b>0.69</b>

Consolidated Statement of  
Comprehensive Income  
Consolidated Balance Sheet

## CONSOLIDATED BALANCE SHEET

kEUR	Notes	12/31/2015	12/31/2014
<b>Assets</b>			
<b>Non-current assets</b>			
		<b>380,252</b>	<b>363,955</b>
Goodwill	(6.1)	52,985	50,248
Intangible assets	(6.1)	145,372	142,363
Property, plant and equipment	(6.2)	127,750	116,971
Investments accounted for using the equity method	(6.3)	14,102	11,805
Financial assets	(7.1)	1,368	118
Other non-current assets	(6.4)	3,668	3,042
Deferred tax assets	(5.3)	35,007	39,408
<b>Current assets</b>			
		<b>508,260</b>	<b>281,241</b>
Inventories	(6.5)	118,008	122,156
Trade receivables	(6.6)	116,535	102,964
Income tax assets		1,611	2,732
Other current assets	(6.7)	8,279	9,108
Financial assets	(7.1)	3,079	116
Other short-term investments	(6.8)	115,000	-
Cash and cash equivalents	(6.9)	145,748	44,165
<b>Total assets</b>			
		<b>888,512</b>	<b>645,196</b>
<b>Equity and liabilities</b>			
<b>Total equity</b>			
	(6.10)	<b>287,800</b>	<b>248,597</b>
<b>Equity attributable to equity holders of the parent</b>			
		<b>285,818</b>	<b>246,593</b>
Subscribed share capital		454	454
Share premium		268,644	268,644
Legal reserve		45	45
Other reserve		436	436
Retained earnings		36,338	-773
Accumulated other comprehensive income		-20,099	-22,213
<b>Shares of non-controlling interests</b>			
		<b>1,982</b>	<b>2,004</b>
<b>Non-current liabilities</b>			
		<b>475,417</b>	<b>264,997</b>
Pensions and other similar benefits	(6.11)	37,336	37,493
Other provisions	(6.12)	8,042	6,799
Interest bearing loans and bonds	(6.13)	379,276	177,797
Finance lease liabilities		1,509	1,773
Other financial liabilities	(7.1)	707	-
Other liabilities	(6.15)	838	685
Deferred tax liabilities	(5.3)	47,709	40,450
<b>Current liabilities</b>			
		<b>125,295</b>	<b>131,602</b>
Other provisions	(6.12)	7,202	10,134
Interest bearing loans and bonds	(6.13)	3,917	3,543
Finance lease liabilities		465	399
Trade payables	(6.14)	89,940	94,363
Income tax liabilities		756	4,704
Other financial liabilities	(7.1)	178	45
Other liabilities	(6.15)	22,837	18,414
<b>Total equity and liabilities</b>			
		<b>888,512</b>	<b>645,196</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2015									
Attributable to equity holders of the parent									
kEUR	Subscribed share capital	Share premium	Legal reserve	Other reserve	Retained earnings	Accumulated other comprehensive income	Total amount	Shares of non-controlling interests	Total equity (Note 6.10)
As of 01/01/2015	454	268,644	45	436	-773	-22,213	246,593	2,004	248,597
Result for the period	-	-	-	-	51,627	-	51,627	72	51,699
Other comprehensive income	-	-	-	-	-	2,114	2,114	-94	2,020
<b>Comprehensive income for the period</b>	-	-	-	-	<b>51,627</b>	<b>2,114</b>	<b>53,741</b>	<b>-22</b>	<b>53,719</b>
Dividend	-	-	-	-	-14,516	-	-14,516	-	-14,516
As of 12/31/2015	454	268,644	45	436	36,338	-20,099	285,818	1,982	287,800

2014									
Attributable to equity holders of the parent									
kEUR	Subscribed share capital	Share premium	Legal reserve	Other reserve	Retained earnings	Accumulated other comprehensive income	Total amount	Shares of non-controlling interests	Total equity (Note 6.10)
As of 01/01/2014	454	265,843	22	436	-21,145	-23,424	222,186	-	222,186
Result for the period	-	-	-	-	32,643	-	32,643	35	32,678
Other comprehensive income	-	-	-	-	-	1,211	1,211	154	1,365
<b>Comprehensive income for the period</b>	-	-	-	-	<b>32,643</b>	<b>1,211</b>	<b>33,854</b>	<b>189</b>	<b>34,043</b>
Dividend	-	-	-	-	-12,248	-	-12,248	-	-12,248
Appropriation to legal reserve	-	-	23	-	-23	-	-	-	-
Addition of shares of non-controlling interests	-	-	-	-	-	-	-	1,815	1,815
Convertible bond	-	2,823	-	-	-	-	2,823	-	2,823
Transaction costs	-	-22	-	-	-	-	-22	-	-22
As of 12/31/2014	454	268,644	45	436	-773	-22,213	246,593	2,004	248,597



Consolidated Statement of Changes  
in Equity  
Consolidated Cash Flow Statement

## CONSOLIDATED CASH FLOW STATEMENT

kEUR	Notes	2015	2014
<b>Cash flow from operating activities</b>			
<b>Result before tax</b>		<b>77,610</b>	<b>48,970</b>
- Finance income	(5.2.5)	-9,290	-9,098
+ Finance expenses	(5.2.5)	13,247	16,802
+/- Share of net profit of investments accounted for using the equity method	(6.3)	-2,264	-1,988
+ Amortization / depreciation of intangible assets and property, plant and equipment	(5.2.7)	21,741	19,673
+ Allowance of current assets	(6.5)/(6.6)	4,576	2,010
+/- Loss/Gain on disposal of property, plant and equipment		-236	364
+ Dividends from investments accounted for using the equity method		19	18
<b>Cash flow before change of net working capital</b>		<b>105,403</b>	<b>76,751</b>
+/- Change in other provisions and pensions		-6,540	-1,027
+/- Change in inventories		4,271	-14,040
+/- Change in trade receivables and other assets		-14,976 <sup>1)</sup>	-18,645 <sup>1)</sup>
+/- Change in trade payables and other liabilities		-8,632	5,779
<b>Cash flow from operating activities before income tax paid</b>		<b>79,526</b>	<b>48,817</b>
- Income tax paid	(5.3)	-16,439	-12,769
<b>Net cash flow from operating activities</b>		<b>63,087</b>	<b>36,048</b>
<b>Cash flow from investing activities</b>			
- Purchase of other short term investments	(6.8)	-115,000	-
- Purchase of property, plant and equipment	(6.2)	-22,166	-20,520
- Purchase of intangible assets	(6.1)	-5,898	-4,223
+ Proceeds from sales of property, plant and equipment		3,666	623
- Payments for acquisition of subsidiaries net of cash		-	-5,396
+ Interest received		248	58
<b>Net cash flow from investing activities</b>		<b>-139,150</b>	<b>-29,458</b>
<b>Cash flow from financing activities</b>			
- Dividend payments to shareholders of SAF-HOLLAND S.A	(6.10)	-14,516	-12,248
+ Proceeds from promissory note loan	(6.13)	200,000	-
- Paid transaction costs relating to the issuance of the promissory note loan		-805	-
- Paid transaction costs relating to the conclusion of the new finance agreement		-525	-
- Paid transaction costs relating to the issuance of the convertible bond		-	-771
+ Proceeds from convertible bond placement		-	100,200
- Payments for replacement interest rate swaps		-	-1,142
- Payments for finance lease		-432	-280
- Interest paid		-8,415	-9,930
- Repayments of current and non-current financial liabilities	(6.13)	-	-64,275 <sup>2)</sup>
+/- Change in drawings on the credit line and other financing activities	(6.13)	942	1,080
<b>Net cash flow from financing activities</b>		<b>176,249</b>	<b>12,634</b>
<b>Net increase in cash and cash equivalents</b>		<b>100,186</b>	<b>19,224</b>
+/- Effect of changes in exchange rates on cash and cash equivalents		1,397	1,085
<b>Cash and cash equivalents at the beginning of the period</b>	(6.9)	<b>44,165</b>	<b>23,856</b>
<b>Cash and cash equivalents at the end of the period</b>	(6.9)	<b>145,748</b>	<b>44,165</b>

<sup>1)</sup> As of December 31, 2015, trade receivables in the amount of EUR 25,6 million (previous year: EUR 21.7 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.

<sup>2)</sup> Repayment of facilities A1 and A2.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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*For the period January 1 to December 31, 2015*

## 1 \_ CORPORATE INFORMATION

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

The consolidated financial statements of SAF-HOLLAND S.A. and its subsidiaries (the "Group") as of December 31, 2015 were authorized for issue in accordance with the resolution of the Board of Directors on March 9, 2016. Under Luxembourg law, the financial statements must be approved by the shareholders.

## 2 \_ ACCOUNTING AND VALUATION PRINCIPLES

### 2.1

#### **BASIS OF PREPARATION**

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

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, which are measured at fair value.

The balance sheet presents current and non-current assets as well as current and non-current liabilities. The statement of comprehensive income is prepared according to the function of expense (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 presented in euros. Unless otherwise stated, all values are presented in thousands of euros (kEUR). Due to rounding, the figures presented in the table 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 or loss as soon as they become known. The following section details the key assumptions made concerning the future and other main sources of estimation uncertainty at the balance sheet date that could have a

significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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#### **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 whenever there is an indication of impairment. The Group's impairment tests as of October 1, 2015 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.

The assumptions are based on the information available at the time. In particular, expected business development reflects current conditions as well as realistic assessments of the future development of the global and industry-specific environment. The main planning assumptions are based on forecast unit volumes for the truck and trailer market as determined by market research companies and planning discussions with the Group's key customers. Although management believes that the assumptions used to calculate the recoverable amount are appropriate, 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 assumptions for determining the recoverable amount of the various cash-generating units as well as intangible assets with indefinite useful lives, including a sensitivity analysis, are discussed in more detail in Note 6.1. As of December 31, 2015, the carrying amounts of goodwill totaled EUR 53.0 million (previous year: EUR 50.2 million), and intangible assets with indefinite useful lives amounted to EUR 33.5 million (previous year: EUR 32.7 million).

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#### **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, 2015, the carrying amounts of property, plant and equipment totaled EUR 127.8 million (previous year: EUR 117.0 million) and those of intangible assets with finite useful lives amounted to EUR 111.9 million (previous year: EUR 109.7 million). Further details are given in Notes 6.1 and 6.2.

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#### **Deferred tax assets**

At each balance sheet date, the Group assesses whether the realization of future tax benefits is sufficiently probable to recognize deferred tax assets. Among other things, this requires management to assess the tax benefits arising from the available tax strategies and future taxable income and to take into account additional positive and negative factors. This assumption is based on expected taxable income as assessed in the corporate planning. The reported amount of deferred tax assets could decline, if estimates are lowered for projected

taxable income and for tax benefits achievable through available tax strategies, or if changes in current tax legislation restrict the timing or amount of future tax benefits.

Deferred tax assets are recognized for all unused tax loss carry-forwards to the extent that it is probable that taxable profits will be available against which the losses can be utilized. Deferred tax assets for all unused interest carry-forwards 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, 2015, the carrying amount of deferred tax assets for tax loss carry-forwards amounted to EUR 2.9 million (previous year: EUR 2.6 million). Unrecognized tax loss carry-forwards amounted to EUR 24.7 million (previous year: EUR 37.2 million). In addition, as of December 31, 2015, the carrying amount of recorded deferred tax assets for tax interest carry-forwards was EUR 22.3 million (previous year: EUR 29.3 million). Further details are given in Note 5.3.

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#### **Pensions and other similar benefits**

The cost of defined benefit pension plans and post-employment medical benefits is determined using actuarial valuations. These actuarial valuations involve making assumptions about discount rates, future salary and wage increases, mortality rates, future pension increases, expected staff turnover and healthcare cost trends. All assumptions are reviewed as of the balance sheet date. Management based the determination of the appropriate discount rates on interest rates for corporate bonds in the respective currency with a minimum AA rating. In addition, bonds with higher default risks or which offer much higher or lower returns in terms of their risk classification compared with other bonds (statistical outliers) are not considered. Bonds are adjusted to the expected term of the defined benefit obligations by extrapolation. Mortality rates are based on publicly available mortality tables for a given country. Future wage, salary and pension increases are based on expected future inflation rates for a given country as well as the structure of the defined benefit plan.

Due to the long-term nature of the pension plans, such estimates are subject to significant uncertainties. As of December 31, 2015, the carrying amount of pensions and other similar benefits was EUR 37.3 million (previous year: EUR 37.5 million). Further details, including a sensitivity analysis, are given in Note 6.11.

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#### **Other provisions**

The recognition and measurement of other provisions is based on an estimate of the probability of the future outflow of benefits, taking into account 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, 2015, other provisions amounted to EUR 15.2 million (previous year: EUR 16.9 million). Further details are given in Note 6.12.

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#### **Share-based payment transaction**

The Group initially measures 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 on each balance sheet date as well as on the settlement date. Estimating the fair value of share-based payment transactions entails determining an appropriate

valuation technique, which is selected according to the terms and conditions of the agreements. When estimating fair value, this technique requires various inputs for which assumptions must be made. The main inputs are the expected life of the option, the volatility of the share price and the forecast dividend yield. The expected volatility is based on the mean of the historical time congruent volatility of a peer group which has been derived from Bloomberg. The term of the volatility is based on the remaining life of term of the performance share unit program. Due to the past restructuring of the Group, the actual historical volatility of the Group was not used, since in management's view, it is not representative of the future share price performance. In 2015, the carrying amount of provisions was EUR 4.3 million (previous year: EUR 4.4 million). Further details are given in Note 6.12.

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#### **Derivative financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from an active market, it is determined by using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. As of December 31, 2015, the carrying amount of derivative financial instruments was EUR 0.2 million (previous year: EUR 0.2 million). Further details are given in Note 7.1.

### **2.3**

#### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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##### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of SAF-HOLLAND S.A. and its subsidiaries as of December 31 each year. The financial statements of the consolidated subsidiaries, associates and joint ventures are prepared for the same reporting period as the parent company using consistent accounting policies.

All receivables and payables, sales and income, expenses and unrealized gains and losses from inter-company 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 controls an investee where SAF-HOLLAND 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 company. An entity is deconsolidated as soon as the parent loses control over it.

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### **Business combinations**

Business combinations are accounted for using the acquisition method. Under this method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at acquisition date including the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share measured at fair value of the acquiree's identifiable net assets. Acquisition costs 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 either in profit or loss or in accumulated other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss.

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

If the Group loses control over a subsidiary, it

- derecognizes the assets (including goodwill) and liabilities of the subsidiary,
- derecognizes the carrying amount of any non-controlling interest in the former subsidiary,
- derecognizes the cumulative translation differences recorded in equity,
- recognizes the fair value of the consideration received,
- recognizes the fair value of any investment retained,
- recognizes any surplus or deficit in profit or loss,
- reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, if required by IFRS.

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### **Investments in associates and joint ventures**

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

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 which it does not control or is not able to play a leading role in the decision processes. Significant influence is generally assumed, if the Group holds between 20% and 50% of the voting rights.

A joint venture is a joint arrangement whereby the parties have joint control of the arrangement and have 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 necessary to determine the existence of significant influence or joint control are similar to those required for the determination of control over subsidiaries. Investments in associates and joint ventures cease to be included in the consolidated financial statements using the equity method when the Group no longer exercises significant influence or no longer 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.

A comprehensive list of the Group's shareholdings is provided in Note 7.6.

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### Foreign currency translation

The consolidated financial statements are presented in euros, which is the Group's functional and presentation 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 closing rate. All exchange differences are recognized in profit or 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 on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the 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 on the translation are recognized in equity. On disposal of a foreign entity, the cumulative amount recognized in equity relating to that particular foreign operation is recognized in profit or loss. Exchange differences on borrowings 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 or loss. Deferred taxes attributable to exchange differences on those borrowings are also recognized directly in equity.

The most important functional currencies for 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 = 1.09075 (previous year: 1.21551) and EUR/CAD = 1.51309 (previous year: 1.41323). The weighted average exchange rates for these two currencies were EUR/USD = 1.10963 (previous year: 1.32679) and EUR/CAD = 1.41743 (previous year: 1.46516).

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### 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, from the acquisition date, allocated 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 acquiree are allocated to those units.

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### **Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost.

The cost of intangible assets acquired in a business combination is their 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 recognized as an intangible asset when the Group can demonstrate

- the technical feasibility of completing the intangible asset so that it will be available for internal use or sale,
- its intention to complete 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 development.

Following 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 there is an indication of impairment. Furthermore, the useful life and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Amortization is recognized in the expense category that corresponds to the intangible asset's function in the Group.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least once a year. The useful lives of these intangible assets are also reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

As a result of the Group's plans to continue to expand the acquired brands in the future, the 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.



## Accounting and Valuation Principles

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

	Customer relationship	Technology	Capitalized development cost	Brand	Service network	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	10–18 years	8–10 years	Indefinite	20 years	3–10 years

Gains or losses on the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period in which the asset is derecognized.

### Property, plant and equipment

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

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

The cost of replacing components or of overhauling plant and equipment are only capitalized if 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, if appropriate, adjusted prospectively at the end of each financial year.

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	3–14 years	3–10 years

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

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### **Borrowing costs**

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes 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 in which they are incurred.

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### **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 ownership of the leased asset are treated as finance leases. Under a finance lease, the Group capitalizes the leased property at fair value or, if lower, at the present value of the minimum lease payments and subsequently depreciates the leased asset over its estimated useful life or, if shorter, over the contractual term. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized immediately in profit or loss.

All other leases in which the Group is the lessee are treated as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the term of the lease.

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### **Investments accounted for using the equity method**

Under the equity method, investments in associates and joint ventures are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the investment. The Group's share of the profit or loss of the associate or joint venture is reported separately in the result for the period. Where there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. 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. The Group determines at each balance sheet date whether there is any objective evidence that investments in associates or joint ventures are impaired. If this is the case, the Group calculates the amount of the impairment as the difference between the fair value of the investment and the carrying amount of the investment and recognizes the amount in profit or loss.

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### 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 fiscal 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 or loss where the recoverable amount of the asset or cash-generating unit is less than the carrying amount. The recoverable amount is 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, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks 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 applies, the carrying amount of the asset (the cash-generating unit), except for goodwill, is increased to 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 reversal is recognized through profit or loss.

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### Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

When a financial asset or financial liability is recognized initially, the Group measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are 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 or loss:
  - Held for trading
  - Designated upon initial recognition at fair value through profit or loss (fair value option)

IAS 39 classifies financial liabilities into the following categories:

- Financial liabilities at amortized cost
- At fair value through profit or loss:
  - Held for trading
  - Designated upon initial recognition at fair value through profit or 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 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 at the measurement date. The 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 principal or the most advantageous market must be assessable to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, 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 fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

An analysis of fair values of financial instruments and further details on how they are measured 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 or 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 **held-to-maturity** category comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. After initial recognition, held-to-maturity 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 or loss. The accumulated measurement gains or losses previously reported in equity are only recognized in profit or 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 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, if the fair value is positive, and as liabilities, if 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 risks from recognized hedged items, 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 the estimated future cash flows. The fair value of forward exchange contracts is determined using the mean spot exchange rate applicable on the balance sheet date, taking into account the forward premiums and discounts for the residual term of each contract, compared with the contracted forward exchange rate. Interest rate swaps are measured at fair value by discounting the estimated future cash flows using interest rates with matching maturities.

Any measurement gain or loss is recognized immediately in profit or loss, unless the derivative is designated as a hedging instrument in 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 formally designates the hedge relationship and the risk management objective and strategy for undertaking the hedge. Depending on the type of hedge, 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 as dictated by those components. Convertible bonds are examples of instrument treated as such. The fair value of the share conversion rights is recognized separately in capital reserves at the date the bond is issued and therefore deducted from the bond liability. The fair values of conversion rights from bonds with below-market interest rates are calculated based on 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 term of the bond based on the market interest rate at the date of the issue for a comparable bond without a conversion right. The difference between the deemed interest and the coupon rate accrued over the term increases the carrying amount of the bond liability. The issuing costs of the convertible bond are deducted directly from the carrying amount of the debt component and the equity component 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 or loss, are tested for indications of impairment at each balance sheet date. Financial assets are treated as impaired, if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has a negative impact on the estimated future cash flows of the asset.

For financial assets measured at amortized cost, the impairment loss is the difference between the carrying amount of the asset and the present value of the expected future cash flows determined using the original effective interest rate of the financial asset. 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 or loss.

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

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### **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 are 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 (so-called transfer contract) and, at the same time, either (a) substantially transfers all risks and rewards associated with ownership of the financial asset, or (b) all risks and rewards associated with ownership of the financial asset are neither substantially transferred nor retained, but control of the asset has been transferred.

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 shall retain the associated risks and rewards. If the Group neither substantially transfers nor retains all risks and rewards associated with the ownership of this asset, nor transfers control of the asset, the Group recognizes the asset to the extent of its continuing involvement. 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 original carrying amount of the asset and the maximum amount of the consideration received that the Group could be required to repay.

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### **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 to make the sale.

Costs incurred in bringing each product to its present location and 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	– Cost of direct materials and labor, an appropriate proportion of manufacturing overheads based on normal operating capacity (but excluding borrowing costs), production-related administrative expenses and conveyance costs as well as production related depreciation.

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### Cash and cash equivalents

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

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### Other provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where 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 cost.

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### Share-based payment transaction

Members of the Management Board and certain managers in the Group receive share-based payments in the form of phantom shares and share units (share appreciation rights) in return for services rendered; these share appreciation rights can only be settled in cash (cash-settled share-based payment transactions). The cost of cash-settled share-based 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 until the vesting date with recognition of a corresponding liability. The liability is remeasured at fair value at each reporting date up to and including the settlement date. Changes in the fair value are assigned to the costs of the functional area. 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 revaluation on the respective balance sheet date. If a cash-settled share-based payment transaction is canceled, the relevant liability is derecognized with an effect on profit or loss.



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## **Pensions and other similar benefits**

### **\_\_ Defined benefit plans and similar obligations**

The cost of providing benefits under defined benefit plans is determined separately for each plan using the projected unit credit method. Revaluations of defined benefit plans include actuarial gains and losses, returns on plan assets (provided they are not included in net interest expense) as well as effects from limitation (so-called asset ceiling). The Group recognizes revaluations of defined benefit plans in other comprehensive income. All other expenses in connection with defined benefit plans are immediately recognized in the result for the period.

Past service cost is recognized immediately in profit or 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 refunds from the plan or reductions in future contributions to the plan. Insofar as, in connection with fund assets, payment obligations 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, taking into account the minimum funding requirements yet to be paid.

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

In the North American companies, existing obligations for the payment of post-employment medical benefits are classified as pensions and other post-employment benefit plans because they share the same feature of providing retiree assistance.

### **\_\_ Defined contribution plans**

The Group's obligations from defined contribution plans are recognized in profit or 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 this. 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.

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## **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 in force on the balance sheet date.

### **Deferred income tax**

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, as well as for tax loss carry-forwards and interest carry-forwards, except for:

- 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 accounting profit nor taxable profit or 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 enacted as of the balance sheet date. Deferred income tax assets and liabilities are offset, if 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 tax relating to items recognized directly in equity is recognized in accumulated other comprehensive income and not in profit or loss for the period.

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### **Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and 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 usually occurs on 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.

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### **Government grants**

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the relevant costs. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

## 2.4 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous year. Changes in IAS 19 "Defined benefit pension plans: employee contributions" as well as the changes from yearly improvement in IFRS (Cycle 2011-2013) have no mayor effect on the group financial statement.

## 2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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### IFRS 9 "Financial Instruments – Classification and Measurement"

IFRS 9, issued in July 2014, replaces the existing guidelines in IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 provides amended guidance on the classification and measurement of financial instruments, including a new model on expected credit losses for calculation of the impairment of financial assets as well as the new general accounting requirements for hedging instruments. It also carries over the guidelines on recognition and derecognition of financial instruments from IAS 39.

Application of IFRS 9 is required for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Group is currently assessing the impacts of adopting IFRS 9 on its consolidated financial statements.

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### 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 guidance for the recognition of revenue, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes".

Application of IFRS 15 is required for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

The Group is currently assessing the impacts of adopting IFRS 15 on its consolidated financial statements.

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### IFRS 16 "Leases"

In January 2016, the IASB issued the new IFRS 16 standard, which requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 "Leases". As a result of the first-time adoption, the majority of the liabilities 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 annual periods beginning on or after January 1, 2019.

In addition there were further changes in accounting policies which, however, have no effect on the Group’s net assets, financial position and results of operations.

### 3\_ SCOPE OF CONSOLIDATION

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#### Acquisitions

There were no business combinations in the reporting year. In the previous year, SAF-HOLLAND GmbH acquired 80% of voting shares in Corpco Beijing Technology and Development Co., Ltd., a non-listed company headquartered in China and specialized in the manufacturing of air suspensions.

The initial consolidation of Corpco Beijing Technology and Development Co., Ltd. was carried out in accordance with IFRS 3 using the acquisition method. The results of the acquired company were included in the Consolidated Financial Statements from the date of acquisition on January 2, 2014.

The purchase price in the amount of EUR 9.3 million was paid in cash.

The following disclosures show the final purchase price allocation and the values of main groups of assets acquired and liabilities assumed recorded at the time of the acquisition.

Accounting and Valuation Principles  
Scope of Consolidation

kEUR	Fair value as of acquisition date
Brand	402
Other intangible assets	63
Property, plant and equipment	2,564
Deferred tax assets	410
Inventories	5,049
Trade receivables	9,285
Other assets	119
Cash and cash equivalents	3,907
	<b>21,799</b>
Deferred tax liabilities	428
Interest bearing loans and borrowings	5,247
Trade payables	6,369
Other liabilities	681
	<b>12,725</b>
<b>Total of identified net assets</b>	<b>9,074</b>
Shares with non-controlling interests	-1,815
Goodwill from the acquisition	2,044
<b>Consideration transferred</b>	<b>9,303</b>

The goodwill in the amount of kEUR 2,044 includes non-separable intangible assets such as employee expertise and expected synergies.

The fair value of trade receivables amounted to kEUR 9,285 as of the acquisition date. The gross amount of trade receivables amounted to kEUR 9,322. At the acquisition date, receivables in the amount of kEUR 37 were written down.

Non-controlling interest in the acquiree is measured at the proportionate share measured at fair value of the acquiree's identifiable net assets and amounted to kEUR 1,815 as at the acquisition date.

The cash outflow due to the acquisition of the company is as follows:

kEUR	
Cash outflow	9,303
Cash acquired	3,907
<b>Actual cash outflow</b>	<b>5,396</b>

Corpco Beijing Technology and Development Co., Ltd., was allocated to the Powered Vehicle Systems Business Unit.

### Formations

There were no formations in the reporting year.

OOO SAF-HOLLAND Russia, Moscow, Russia, founded in the previous year, was included in the consolidated financial statements for the first time on June 30, 2014.

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#### **Deconsolidations**

No company was deconsolidated in the year under review.

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#### **Other changes**

The associate Lakeshore Air LLP, which was incorporated into the consolidated financial statements using the equity method, was dissolved in December 2015.

In the previous year, SAF-HOLLAND International Inc., USA, and QSI Air Ltd., USA, were merged into SAF-HOLLAND Inc., USA, as of December 31, 2014.

## **4 \_ SEGMENT INFORMATION**

For management purposes, the Group is organized into customer-oriented Business Units based on products and services and has the following three reportable operating segments:

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#### **Trailer Systems**

This Business Unit focuses on the manufacture and sale of axle and suspension systems, king-pins, couplers, landing legs and other components for the trailer industry.

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#### **Powered Vehicle Systems**

This Business Unit focuses on the manufacture and sale of components such as fifth wheels, suspension systems and lift axles for heavy-duty commercial vehicles in the truck, bus and recreational vehicle industry.

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#### **Aftermarket**

This Business Unit focuses on the sale of components such as parts for all available systems for trailers and powered vehicles.

Management monitors the operating results of its Business Units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on adjusted operating profit (adjusted EBIT). Thus, the determination of operating profit (EBIT) may deviate to a certain extent from the consolidated financial statements since it does not take into account any special items, such as depreciation and amortization of property, plant and equipment and intangible assets from the purchase price allocation (PPA), impairment and reversal of impairment or 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 are not allocated to operating segments. Transfer prices between the Business Units are determined under normal market conditions for transactions with third parties. There are no intersegment sales.

Scope of Consolidation  
Segment Information

A reconciliation from operating profit to adjusted EBIT is provided as follows:

kEUR	2015	2014
Operating result	79,303	54,686
Share of net profit of investments accounted for using the equity method	2,264	1,988
<b>EBIT</b>	<b>81,567</b>	<b>56,674</b>
Additional depreciation and amortization from PPA	7,041 <sup>1)</sup>	6,069
Restructuring and integration costs as well as non-period expenses	5,418 <sup>2)</sup>	7,912 <sup>3)</sup>
<b>Adjusted EBIT</b>	<b>94,026</b>	<b>70,655</b>

<sup>1)</sup> Losses arising from the disposal of assets from PPA relate to the sale of the AerWay product line and amount to kEUR 576.

<sup>2)</sup> Restructuring and integration costs as well as non-period expenses comprise aperiodic expenses in the amount of kEUR 1,020.

<sup>3)</sup> Restructuring and integration costs as well as non-period expenses comprise aperiodic expenses in the amount of kEUR 2,187.

Segment information for the period January 1 to December 31:

kEUR	2015				
	Business Units			Adjustments/ eliminations	Consolidated
	Trailer Systems	Powered Vehicle Systems	Aftermarket		
Sales	612,672	180,013	268,019	–	<b>1,060,704</b>
Cost of sales	-544,894	-149,715	-192,345	29,176 <sup>1)</sup>	<b>-857,778</b>
<b>Gross profit</b>	<b>67,778</b>	<b>30,298</b>	<b>75,674</b>	29,176	<b>202,926</b>
Gross margin	11.1%	16.8%	28.2%	–	<b>19.1%</b>
Selling and administrative expenses, research and development costs, other operating income, share of net profit of investments accounted for using the equity method	-33,514	-18,083	-35,168	-34,594 <sup>2)</sup>	<b>-121,359</b>
Adjustments	3,747 <sup>3)</sup>	1,407 <sup>3)</sup>	1,887 <sup>3)</sup>	5,418 <sup>4)</sup>	<b>12,459</b>
<b>Adjusted EBIT</b>	<b>38,011</b>	<b>13,622</b>	<b>42,393</b>	–	<b>94,026</b>
Adjusted EBIT margin	6.2%	7.6%	15.8%	–	<b>8.9%</b>
Depreciation	-12,724	-4,385	-4,632	–	<b>-21,741</b>

<sup>1)</sup> Restructuring and integration costs as well as non-period expenses (kEUR -3,522) and elimination of internal Group charges (kEUR 32,698).

<sup>2)</sup> Restructuring and integration costs as well as non-period expenses (kEUR -1,896) and elimination of internal Group charges (kEUR -32,698).

<sup>3)</sup> Eliminations in the Business Units relate to amortization and depreciation (kEUR 6,465) arising from the purchase price allocation, as well as disposals of PPA (kEUR 576).

<sup>4)</sup> Restructuring and integration costs as well as non-period expenses (kEUR 5,418) are not allocated to any Business Unit.

kEUR	2014				
	Business Units			Adjustments/ eliminations	Consolidated
	Trailer Systems	Powered Vehicle Systems	Aftermarket		
Sales	544,372	169,465	245,846	–	<b>959,683</b>
Cost of sales	-494,739	-140,760	-174,913	25,361 <sup>1)</sup>	<b>-785,051</b>
<b>Gross profit</b>	<b>49,633</b>	<b>28,705</b>	<b>70,933</b>	25,361	<b>174,632</b>
Gross margin	9.1%	16.9%	28.9%	–	<b>18.2%</b>
Selling and administrative expenses, research and development costs, other operating income, share of net profit of investments accounted for using the equity method	-32,209	-18,240	-34,236	-33,273 <sup>2)</sup>	<b>-117,958</b>
Adjustments	3,046 <sup>3)</sup>	1,323 <sup>3)</sup>	1,700 <sup>3)</sup>	7,912 <sup>4)</sup>	<b>13,981</b>
<b>Adjusted EBIT</b>	<b>20,470</b>	<b>11,788</b>	<b>38,397</b>	–	<b>70,655</b>
Adjusted EBIT margin	3.8%	7.0%	15.6%	–	<b>7.4%</b>
Depreciation	-11,889	-3,557	-4,227	–	<b>-19,673</b>

<sup>1)</sup> Restructuring and integration costs as well as non-period expenses (kEUR -4,631) and elimination of internal Group charges (kEUR 29,992).

<sup>2)</sup> Restructuring and integration costs as well as non-period expenses (kEUR -3,281) and elimination of internal Group charges (kEUR -29,922).

<sup>3)</sup> Eliminations in the Business Units relate to amortization and depreciation (kEUR 6,069) arising from the purchase price allocation.

<sup>4)</sup> Restructuring and integration costs as well as non-period expenses (kEUR 7,912) are not allocated to any Business Unit.

Finance income and expenses are not allocated to any Business Unit as the underlying financial instruments are controlled at Group level.

Geographic information is presented for the regions Europe and North America.

Business in the European 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 replacement parts for the trailer and commercial vehicle industry. In North 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 replacement parts for the trailer and commercial vehicle industry.

The following table presents information by geographical region:

kEUR	2015	2014
<b>Revenues from external customers</b>		
Europe	521,902	496,493
North America	421,284	363,897
Other	117,518	99,293
<b>Total</b>	<b>1,060,704</b>	<b>959,683</b>

The segment revenue information above is based on the locations of the customers.

kEUR	12/31/2015	21/31/2014
<b>Non-current assets</b>		
Europe	167,377	166,032
North America	159,740	140,417
Other	16,760	17,980
<b>Total</b>	<b>343,877</b>	<b>324,429</b>

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

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

In the reporting year as well as in the previous year, no customer reached a sales share of 10% of total sales.



## 5 \_ NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### 5.1 COST OF SALES

Cost of sales consists of the following:

kEUR	2015	2014
Cost of materials	698,163	631,594
Personnel expenses	115,241	107,055
Depreciation and amortization of property, plant and equipment and intangible assets	10,755	9,459
Repair and maintenance expenses	8,266	6,753
Warranty expenses	5,387	8,305
Temporary employees expenses	4,883	5,406
Restructuring and integration costs as well as non-period expenses	3,522	4,631
Other	11,561	11,848
<b>Total</b>	<b>857,778</b>	<b>785,051</b>

In financial year 2015, cost of sales included inventory usage of kEUR 837,308 (previous year: kEUR 760,267).

### 5.2 OTHER OPERATING INCOME AND EXPENSES

#### 5.2.1 Other operating income

Other operating income consists of the following:

kEUR	2015	2014
Gain from disposal of property, plant and equipment	1,427	17
Income from reimbursements	747	656
Other	1,107	1,311
<b>Total</b>	<b>3,281</b>	<b>1,984</b>

The gains from disposal of property, plant and equipment were mainly related to the sales of the product line AerWay and a property in Wörth am Main, Germany.

### 5.2.2 Selling expenses

The table below shows the breakdown of selling expenses:

kEUR	2015	2014
Personnel expenses	30,506	27,091
Expenses for advertising and sales promotion	9,413	8,966
Depreciation and amortization of property, plant and equipment and intangible assets	4,498	4,204
Expenses for distribution	4,405	4,944
Trade receivable allowance	2,240	762
Commissions	1,650	1,662
Restructuring and integration costs as well as non-period expenses	89	1,231
Other	8,614	8,839
<b>Total</b>	<b>61,415</b>	<b>57,699</b>

### 5.2.3 Administrative expenses

Administrative expenses are shown in the following table:

kEUR	2015	2014
Personnel expenses	21,911	22,612
Expenses for office and operating supplies	4,111	3,237
Depreciation and amortization of property, plant and equipment and intangible assets	3,415	3,285
Legal and consulting expenses	3,058	3,271
Travel costs	2,002	1,865
Restructuring and integration costs as well as non-period expenses	1,783	1,917
Other	8,267	8,430
<b>Total</b>	<b>44,547</b>	<b>44,617</b>

### 5.2.4 Research and development costs

Research and development costs consist of the following:

kEUR	2015	2014
Personnel expenses	10,349	10,517
Depreciation and amortization of property, plant and equipment and intangible assets	3,073	2,725
Testing costs	1,986	2,071
Restructuring and integration costs as well as non-period expenses	24	134
Other	5,510	4,167
<b>Total</b>	<b>20,942</b>	<b>19,614</b>

Development costs of kEUR 3,681 (previous year: kEUR 2,348) were capitalized in the financial year.

Payments by the Bavarian Ministry of Economic Affairs of kEUR 265 (previous year: kEUR 391) were offset against research and development costs as grants related to income.

Notes to the Consolidated Statement  
of Comprehensive Income**5.2.5 Finance Result**

Finance income consists of the following:

kEUR	2015	2014 <sup>1)</sup>
Unrealized foreign exchange gains on foreign currency loans and dividends	6,809	8,446
Realized foreign exchange gains on foreign currency loans and dividends	1,684	234
Finance income due to derivatives	560	189
Finance income due to pensions and other similar benefits	18	87
Interest income	203	136
Other	16	6
<b>Total</b>	<b>9,290</b>	<b>9,098</b>

<sup>1)</sup> Change in the disclosure compared to the presentation in the annual report 2014.

Unrealized foreign exchange gains on foreign currency loans and dividends primarily comprise unrealized foreign exchange gains on intercompany-foreign currency loans translated at the period-end exchange rate. Realized foreign exchange gains on foreign currency loans and dividends primarily result from the translation of dividend receivables in US dollar as of December 31, 2014 and their settlement in the second quarter of 2015.

Finance expenses consist of the following:

kEUR	2015	2014
Interest expenses due to interest bearing loans and bonds	-8,996 <sup>1)</sup>	-9,542 <sup>1)</sup>
Reversal of transaction costs	-468	-1,997
Amortization of transaction costs	-545	-903
Finance expenses due to pensions and other similar benefits	-1,111	-1,023
Finance expenses due to derivatives	-816	-2,230
Other	-1,311	-1,107
<b>Total</b>	<b>-13,247</b>	<b>-16,802</b>

<sup>1)</sup> Includes the non-cash interest expense of kEUR 633 (previous year: kEUR 189) for the convertible bond.

The reversal of transaction costs from the reporting period primarily result from the early reversal of capitalized transaction costs totaling kEUR 468 (previous year: kEUR 1,997) due to the refinancing which was finalized in October.

The amortization of transaction costs of kEUR 545 (previous year: kEUR 903) represents the contract closing fees recognized as expenses in the period in accordance with the effective interest method.

Finance expenses due to derivatives mainly resulted from the valuation of a derivative embedded in the contract of the promissory note loan, issued in November 2015. The variable interest bearing tranches of the promissory note loan include a so-called zero floor cap. This means that the development of the Euribor has a lower limit of 0%. As a so-called embedded derivative, the zero floor cap is assessed separately from the promissory note loan and has no impact on payments.

In the previous year, finance expenses in connection with derivative financial instruments were primarily influenced by the reclassification of the cash flow hedge reserve recorded in equity of kEUR 1,088 through profit or loss. The recycling of the cash flow hedge reserve resulted from the early repayment of interest rate swaps in the context of the refinancing in October 2012. The cash flow hedge flow reserve had been released to the finance result using the effective interest method over the original term of the swaps.

In addition, in the previous year, changes in the value of interest rate hedging recorded in equity to that date of kEUR 924 were reclassified to the finance result through profit or loss, because the hedge relationship for interest rate swaps was discontinued in the fourth quarter of 2014 as a result of a decrease in the bank loan due to issuing the convertible bond. Furthermore, expenses in the amount of kEUR 218 resulted from the early repayment of interest rate swaps in the previous year.

More details are illustrated in Notes 6.13 and 7.1.

### 5.2.6 Employee benefit expenses

Employee benefit expenses consist of the following:

kEUR	2015	2014
Wages and salaries	-155,673	-145,660
Social insurance contributions	-20,961	-20,526
Pension expenses	-1,079	-825
Termination benefits	-294	-264
<b>Total</b>	<b>-178,007</b>	<b>-167,275</b>

Social insurance contributions include expenses from defined contribution plans in the amount of kEUR 6,557 (previous year: kEUR 6,919).

### 5.2.7 Depreciation and amortization

Depreciation and amortization expenses by functional areas:

kEUR	Depreciation of property, plant and equipment		Amortization of intangible assets		Total	
	2015	2014	2015	2014	2015	2014
Cost of sales	-10,180	-8,732	-575	-727	<b>-10,755</b>	<b>-9,459</b>
Selling expenses	-1,220	-942	-3,278	-3,262	<b>-4,498</b>	<b>-4,204</b>
Administrative expenses	-1,227	-1,365	-2,188	-1,920	<b>-3,415</b>	<b>-3,285</b>
Research and development costs	-922	-842	-2,151	-1,883	<b>-3,073</b>	<b>-2,725</b>
<b>Total</b>	<b>-13,549</b>	<b>-11,881</b>	<b>-8,192</b>	<b>-7,792</b>	<b>-21,741</b>	<b>-19,673</b>

Depreciation and amortization of property, plant and equipment and intangible assets arising from the purchase price allocation amount to kEUR 6,465 (previous year: kEUR 6,069).

## 5.3 INCOME TAX

The major components of income taxes are as follows:

kEUR	2015	2014
Current income taxes	-15,882	-13,648
Deferred income taxes	-10,029	-2,644
<b>Income tax reported in the result for the period</b>	<b>-25,911</b>	<b>-16,292</b>

Notes to the Consolidated Statement  
of Comprehensive Income

The effective income tax rate for the Group for the year ended December 31, 2015 is 33.39% (previous year: 33.27%). The following table reconciles the actual to the expected income tax for the Group using the Group's corporate income tax rate of 30.90% (previous year: 30.60%). For German entities, as in the previous year, a corporate income tax rate of 27.20% was used, which comprised corporate income tax of 15.83% (including the solidarity surcharge) and trade tax of 11.37%. For the North American subgroup, a corporate income tax rate of 31.75% (previous year: 33.10%) was used, which comprised a federal tax rate of 29.50% and a state tax rate of 2.25%.

The expected income tax expenses based on the Group's income tax rate of 30.90% (current and deferred) deviate from those reported as follows:

kEUR	12/31/2015	12/31/2014
<b>Result before income tax</b>	<b>77,610</b>	<b>48,970</b>
Income tax based on Group's income tax rate of 30.90% (previous year: 30.60%)	-23,981	-14,985
Unused interest carry-forwards	-1,867	-
Unused tax loss carry-forwards	-1,096	-1,472
Use of previously not recognized tax loss carry-forwards	1,114	309
Income taxes resulting from previous year	55	-115
Other	-136	-29
<b>Income tax based on effective income tax rate of 33,39% (previous year: 33,27%)</b>	<b>-25,911</b>	<b>-16,292</b>

Deferred income tax as of the balance sheet date consists of the following:

kEUR	Consolidated balance sheet		Consolidated result for the period	
	12/31/2015	12/31/2014	2015	2014
Inventories	2,756	2,317	313	730
Pensions and other similar benefits	11,510	11,401	-406	-83
Other financial liabilities	25	21	225	-35
Other provisions	2,256	2,398	-407	291
Tax loss carry-forwards	2,904	2,592	347	-1,033
Interest carry-forwards	22,351	29,315	-8,459	-1,642
Recycling of the cash flow hedge reserve	-	-	-	391
Other	6,462	5,601	1,017	2,065
<b>Deferred income tax assets</b>	<b>48,264</b>	<b>53,645</b>		
Intangible assets	-35,828	-34,076	80	-1,315
Property, plant and equipment	-11,397	-10,184	-677	1,455
Inventories	-215	-	-215	7
Investments accounted for using the equity method	-5,319	-3,950	-477	-1,307
Other assets	-578	-287	-530	-62
Interest bearing loans and borrowings	-993	-1,094	101	118
Other	-6,636	-5,096	-941	-2,224
<b>Deferred income tax liabilities</b>	<b>-60,966</b>	<b>-54,687</b>		
<b>Deferred tax income</b>			<b>-10,029</b>	<b>-2,644</b>

As of the balance sheet date, deferred tax assets and liabilities of kEUR 13,257 (previous year: kEUR 14,237) were offset, having met the requirements for offsetting. The balance sheet thus includes deferred tax assets of kEUR 35,007 (previous year: kEUR 39,408) and deferred tax liabilities of kEUR 47,709 (previous year: kEUR 40,450).

The Group has tax loss carry-forwards of kEUR 41,319 (previous year: kEUR 47,180) that are available indefinitely or with defined time limits to several Group companies to offset against future taxable profits 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 carry-forwards of kEUR 24,727 (previous year: kEUR 37,181) due to insufficient taxable profits or opportunities for offsetting at the individual companies or other Group companies.

Unrecognized tax loss carry-forwards expire as follows:

kEUR	12/31/2015	12/31/2014
<b>Expiry date</b>		
Infinite	24,419	29,711
Within 5 years	308	4,048
Within 10 years	–	3,422
<b>Total</b>	<b>24,727</b>	<b>37,181</b>

In addition to tax loss carry-forwards, the Group has interest carry-forwards of kEUR 84,141 (previous year: kEUR 97,315), which are available indefinitely to various Group companies for use in the future as a tax deduction. Interest carry-forwards 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 2015, deferred income taxes amounting to kEUR -417 (previous year: kEUR 3,892) were recognized directly in equity.

Furthermore, temporary differences associated with investments in subsidiaries for which no deferred taxes have been recognized amounted to EUR 61.0 million (previous year: EUR 69.0 million).

**6 \_ NOTES TO THE CONSOLIDATED BALANCE SHEET****6.1  
GOODWILL AND INTANGIBLE ASSETS**

kEUR	Customer relationship	Technology	Develop- ment costs	Brand	Service network	Licences and software	Intangible assets	Goodwill
<b>Historical costs</b>								
<b>As of 12/31/2013</b>	<b>101,927</b>	<b>20,874</b>	<b>5,358</b>	<b>31,446</b>	<b>3,495</b>	<b>25,309</b>	<b>188,409</b>	<b>73,789</b>
Additions from initial consolidation	-	63	-	402	-	-	465	2,044
Additions	-	-	2,348	-	-	1,875	4,223	-
Disposals	-	-	-	-	-	84	84	-
Foreign currency translation	4,702	715	-	1,372	-	983	7,772	3,752
<b>As of 12/31/2014</b>	<b>106,629</b>	<b>21,652</b>	<b>7,706</b>	<b>33,220</b>	<b>3,495</b>	<b>28,083</b>	<b>200,785</b>	<b>79,585</b>
Additions	-	-	3,691	-	-	2,207	5,898	-
Disposals	-	345	10	439	-	166	960	-
Transfers	-	-7	-	-	-	-67	-74	-
Foreign currency translation	4,595	690	-	1,333	-	699	7,317	3,666
<b>As of 12/31/2015</b>	<b>111,224</b>	<b>21,990</b>	<b>11,387</b>	<b>34,114</b>	<b>3,495</b>	<b>30,756</b>	<b>212,966</b>	<b>83,251</b>
<b>Accumulated amortization</b>								
<b>As of 12/31/2013</b>	<b>22,571</b>	<b>13,803</b>	<b>764</b>	<b>454</b>	<b>1,356</b>	<b>10,343</b>	<b>49,291</b>	<b>28,385</b>
Additions	2,837	1,887	386	100	175	2,407	7,792	-
Disposals	-	-	-	-	-	67	67	-
Foreign currency translation	1,041	325	-	-14	-	54	1,406	952
<b>As of 12/31/2014</b>	<b>26,449</b>	<b>16,015</b>	<b>1,150</b>	<b>540</b>	<b>1,531</b>	<b>12,737</b>	<b>58,422</b>	<b>29,337</b>
Additions	3,054	1,948	515	100	175	2,400	8,192	-
Disposals	-	208	-	-	-	151	359	-
Foreign currency translation	1,077	330	-	8	-	-76	1,339	929
<b>As of 12/31/2015</b>	<b>30,580</b>	<b>18,085</b>	<b>1,665</b>	<b>648</b>	<b>1,706</b>	<b>14,910</b>	<b>67,594</b>	<b>30,266</b>
<b>Carrying amount 12/31/2014</b>	<b>80,180</b>	<b>5,637</b>	<b>6,556</b>	<b>32,680</b>	<b>1,964</b>	<b>15,346</b>	<b>142,363</b>	<b>50,248</b>
<b>Carrying amount 12/31/2015</b>	<b>80,644</b>	<b>3,905</b>	<b>9,722</b>	<b>33,466</b>	<b>1,789</b>	<b>15,846</b>	<b>145,372</b>	<b>52,985</b>

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

kEUR	2015		2014	
	Carrying amount	Remaining useful life in years	Carrying amount	Remaining useful life in years
Customer relationship "OEM"	29,358	31	30,329	32
Customer relationship "5th-Wheel"	12,752	23	13,312	24
SAP-Application	12,067	7.5	12,751	8.5

### 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. The recoverable amounts for the cash-generating units were thereby generally estimated above the carrying amount.

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.

To calculate the recoverable amount, a discounted cash flow method was used. A detailed five-year plan served as the basis for the discounted cash flow method, which is based on past experiences, current operating earnings and the best estimate of future developments by management as well as on market assumptions. For the value added from 2021, it will be supplemented by the perpetual annuity. The basis for the calculation of the perpetual annuity is the assumed long-term sustainably achievable result in consideration of the cyclical nature of the market environment.

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 used in the perpetual annuity.

The following table presents the discount factors after tax, which are applied during the impairment test for goodwill and intangible assets with indefinite useful lives:

	Pre-tax discount rate	
	2015	2014
Trailer Systems	10.22%	11.87%
Powered Vehicle Systems	11.06%	13.08%
Aftermarket	10.61%	12.42%

The allocation of the carrying amounts of goodwill and the brands SAF and HOLLAND to the cash-generating units remains unchanged from previous year. The impairment test of the brand SAF has been performed based on the cash-generating unit Trailer Systems and the impairment test of the brand Holland on the cash-generating unit Powered Vehicle Systems.

kEUR	Trailer Systems		Powered Vehicle Systems		Aftermarket		Total	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Goodwill	18,078	17,456	2,044	2,044	32,863	30,748	52,985	50,248
Brand	26,822	26,132	6,473	5,975	171	573	33,466	32,680

Within the scope of the value in use calculation, sensitivity analyses were carried out in relation to the main value drivers. For this purpose, alternative calculations were used without consideration of the assumed growth rate of the perpetual annuity and in consideration of an increase in the average cost of capital by 100 base points. All cash-generating units exceeded the relevant carrying amounts.



## Notes to the Consolidated Balance Sheet

In determining the sustainable cash flow, a discount of 10% was made in the detailed five-year plan. However, even with a discount of 10% in the detailed five-year plan, the recoverable amounts for the cash-generating units would be above the carrying amounts.

## 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
<b>Historical costs</b>					
<b>As of 12/31/2013</b>	<b>64,016</b>	<b>104,650</b>	<b>19,476</b>	<b>4,366</b>	<b>192,508</b>
Additions from initial consolidation	2,062	477	25	-	2,564
Additions	3,764	5,345	1,640	9,771	20,520
Disposals	209	3,687	875	-	4,771
Transfers	662	5,578	362	-6,602	-
Foreign currency translation	2,794	6,522	537	338	10,191
<b>As of 12/31/2014</b>	<b>73,089</b>	<b>118,885</b>	<b>21,165</b>	<b>7,873</b>	<b>221,012</b>
Additions	5,322	5,615	1,402	9,827	22,166
Disposals	4,748	4,286	989	25	10,048
Transfers	3,548	10,604	311	-14,389	74
Foreign currency translation	2,659	6,460	362	346	9,827
<b>As of 12/31/2015</b>	<b>79,870</b>	<b>137,278</b>	<b>22,251</b>	<b>3,632</b>	<b>243,031</b>
<b>Accumulated depreciation</b>					
<b>As of 12/31/2013</b>	<b>15,609</b>	<b>63,470</b>	<b>12,824</b>	<b>-</b>	<b>91,903</b>
Additions	2,418	7,370	2,093	-	11,881
Disposals	136	2,808	840	-	3,784
Transfers	32	-32	-	-	-
Foreign currency translation	559	3,065	417	-	4,041
<b>As of 12/31/2014</b>	<b>18,482</b>	<b>71,065</b>	<b>14,494</b>	<b>-</b>	<b>104,041</b>
Additions	2,733	8,527	2,289	-	13,549
Disposals	2,259	3,982	978	-	7,219
Foreign currency translation	806	3,829	275	-	4,910
<b>As of 12/31/2015</b>	<b>19,762</b>	<b>79,439</b>	<b>16,080</b>	<b>-</b>	<b>115,281</b>
<b>Carrying amount 12/31/2014</b>	<b>54,607</b>	<b>47,820</b>	<b>6,671</b>	<b>7,873</b>	<b>116,971</b>
<b>Carrying amount 12/31/2015</b>	<b>60,108</b>	<b>57,839</b>	<b>6,171</b>	<b>3,632</b>	<b>127,750</b>

The carrying amount of plant and equipment held under finance leases as of December 31, 2015 is kEUR 2,789 (previous year: kEUR 2,809). Additions during the year included kEUR 22 in plant and equipment held under finance lease (previous year: 65). Depreciation during the year amounted to kEUR 131 (previous year: kEUR 116). The present value of minimum lease payments amounted to kEUR 1,974 TEUR (previous year: kEUR 2,171). Undiscounted minimum lease payments amounted to kEUR 2,153 (previous year: kEUR 2,432).

### 6.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The following investments were accounted for using the equity method:

	Country of incorporation	% Equity interest
<b>Associates</b>		
Castmetal FWI S.A.	Luxembourg	34.1
<b>Joint Ventures</b>		
SAF-HOLLAND Nippon, Ltd.	Japan	50.0

Details on significant associates of the Group are presented in the following tables:

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

kEUR	FWI S.A.	
	12/31/2015	12/31/2014
Current assets	40,704	33,387
Non-current assets	9,707	8,355
Current liabilities	-10,760	-5,730
Non-current liabilities	-2,536	-6,043
Sales	42,193	41,364
Net profit of the financial year from continuing operations	7,455	5,977
Other comprehensive income	22	-58
<b>Total comprehensive income</b>	<b>7,477</b>	<b>5,919</b>
Group's share in total comprehensive income	2,549	2,015
Other equity holders	4,928	3,904

Reconciliation of the reported summarized financial information to the carrying amount of the investment in Castmetal FWI S.A. as shown in the consolidated financial statements:

kEUR	12/31/2015	12/31/2014
Net assets of the associate	37,115	29,969
Equity interest of the Group	34.09%	34.05%
Other adjustments	453	376
Carrying amount of the investment in Castmetal FWI S.A.	13,106	10,580

## Notes to the Consolidated Balance Sheet

The reconciliation item "Other adjustments" results from the disclosure of hidden reserves in the context of the acquisition of the investment and its amortization.

The summarized financial information on the joint venture "SAF-HOLLAND Nippon Ltd." and the associate Lakeshore Air, LLP, which was dissolved in 2015, is grouped together for reason of materiality below:

kEUR	12/31/2015	12/31/2014
Group's share in profit or loss	-285	10
Group's share in total comprehensive income	-285	10
Aggregate carrying amount of Group's share in these companies	996	1,225

#### 6.4 OTHER NON-CURRENT ASSETS

kEUR	12/31/2015	12/31/2014
Receivables from finance lease	1,000	-
VAT reimbursement claims	844	942
Claims from reinsurance	595	511
Defined benefit assets	279	197
Insurance premiums	129	109
Customer Loan	-	1,089
Other	821	194
<b>Total</b>	<b>3,668</b>	<b>3,042</b>

#### 6.5 INVENTORIES

kEUR	12/31/2015	12/31/2014
Raw materials	42,258	48,233
Work in progress	26,587	29,431
Finished and trading goods	41,657	37,236
Goods in transit	7,506	7,256
<b>Total</b>	<b>118,008</b>	<b>122,156</b>

Included in the cost of sales are allowances for inventories of kEUR 2,336 (previous year: kEUR 1,248). The inventory allowance is recorded on a separate allowance account and settled with the gross value of inventories.

kEUR	Allowance account
<b>As of 12/31/2013</b>	<b>5,275</b>
Charge for the year	1,510
Utilized	1,047
Released	262
Foreign currency translation	383
<b>As of 12/31/2014</b>	<b>5,859</b>
Charge for the year	2,412
Utilized	1,993
Released	76
Foreign currency translation	-8
<b>As of 12/31/2015</b>	<b>6,210</b>

The total amount of inventories, carried at their net realizable value, is EUR 15.9 million (previous year: EUR 35.5 million).

## 6.6 TRADE RECEIVABLES

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

kEUR	Carrying amount	Thereof neither impaired nor past due on the reporting date	Thereof impaired on the reporting date	Thereof not impaired on the reporting date and past due in the following periods					
				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 12/31/2015	116,535	76,568	411	10,599	12,595	4,942	2,124	8,279	1,017
Trade receivables as of 12/31/2014	102,964	73,756	1,236	14,393	4,335	4,133	1,757	2,673	681

The allowances on trade receivables are recorded in a separate allowance account and netted with the gross amount of trade receivables.

kEUR	Allowance account
<b>As of 12/31/2013</b>	<b>3,160</b>
Charge for the year	762
Utilized	54
Released	-
Foreign currency translation	85
<b>As of 12/31/2014</b>	<b>3,953</b>
Charge for the year	2,240
Utilized	1,865
Released	-
Foreign currency translation	-125
<b>As of 12/31/2015</b>	<b>4,203</b>

With respect to trade receivables that are not impaired and past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations. In Europe and USA, the Group has taken out trade credit insurance to hedge the default risk.

The Group disposed of receivables with a volume of kEUR 25.573 (previous year: kEUR 21,654) as of the balance sheet date in the framework of a factoring agreement. Assuming the legal validity of the receivables, no further risks of customer illiquidity exist against the factor for the sold receivables.

### 6.7 OTHER CURRENT ASSETS

kEUR	12/31/2015	12/31/2014
VAT receivables	2,552	4,025
Prepaid expenses	1,712	1,652
Insurance premiums	430	274
Other	3,585	3,157
<b>Total</b>	<b>8,279</b>	<b>9,108</b>

### 6.8 OTHER SHORT-TERM INVESTMENT

Other short-term investment resulted from the short-term deposit of liquid funds as a consequence of the issue of the promissory note loan in November 2015.

### 6.9 CASH AND CASH EQUIVALENTS

kEUR	12/31/2015	12/31/2014
Cash on hand, cash at banks and checks	145,742	44,160
Short-term deposits	6	5
<b>Total</b>	<b>145,748</b>	<b>44,165</b>

### 6.10 EQUITY

#### Subscribed share capital

The Company's subscribed share capital is unchanged from the previous year and amounted to EUR 453,611.12 on the balance sheet date (previous year: 453,611.12). It consists of 45,361,112 ordinary shares with a par value of EUR 0.01 and is fully paid-in (previous year: 45,361,112).

### Authorized share capital

At the Extraordinary General Meeting on December 22, 2015, it was agreed that in accordance with article 5.3.3 of the articles of incorporation, authorized capital in the amount of EUR 45,361.11 of a current total of EUR 164,949.63 may be used for capital increases under exclusion of subscription rights which represents 10% of the subscribed share capital. The authorization for this capital was extended until December 22, 2020. Furthermore, it was decided that the subscription rights are to continue to exist in the case of capital increases with utilization of the remaining amount of EUR 119,588.52. The limitation for this part of the authorized capital will continue to apply until July 25, 2017.

As of the balance sheet date, the approved capital items consist of the following:

Articles of Incorporation	Date of resolution/ limitation	Euro/number	Capital increase against	Subscription rights excluded/ execution of capital increase
Article 5.3.4 i.c.w. § 5.3.6	June 4, 2012/limited until July 25, 2017	EUR 119,588.52 = 11,958,852 shares	Cash contribution and/or contribution in kind	–
Article 5.3.3 i.c.w. § 5.3.5	June 4, 2012/limited until December 22, 2020	EUR 45,361.11 = 4,536,111 shares	–	Capital increase can be executed under exclusion of the subscription right.
Article 5.4 i.c.w. § 5.4.2	July 15, 2014/limited until July 14, 2019	EUR 90,722.22 = 9,072,222 shares	Settlement of convertible bond from 2014	Capital increase is carried out, when creditors of the convertible bond exer- cise their conversion rights.

### Share premium

As of December 31, 2015, the share premium remained at the amount of kEUR 268,644 (previous year: kEUR 268,644).

### Legal reserve

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

### Other reserve

Other reserves consist of a reserve that is subject to restrictions on distribution. This allowed the Group to adhere to specific requirements under Luxembourg tax law. As of December 31, 2015 the amount in the other reserves that is subject to transfer restriction is kEUR 436, as in the previous year.

### Retained earnings

Retained earnings includes the result for the period attributable to shareholders of SAF-HOLLAND S.A. of kEUR 51,627 (previous year: kEUR 32,643).

### Dividend

Payment of a dividend of EUR 0.40 per share will be recommended for financial year 2015, corresponding to a total dividend distribution – in terms of the 45,361,112 shares – of kEUR 18,144. Therefore, the distribution ratio is 38.6% of the available net earnings and as such the target range was nearly achieved at the lower end. In this context, the available net earnings are defined as the net profit less unrealized exchange gains on intercompany transactions and

applicable notional income taxes. A dividend of EUR 0.32 per share was paid in the previous year. Total dividend distribution amounted to kEUR 14,516.

#### Accumulated other comprehensive income

kEUR	Before tax amount		Tax income/expense		Net of tax amount	
	2015	2014	2015	2014	2015	2014
Revaluation defined benefit plan	2,937	-13,175	-341	4,283	2,596	-8,892
Exchange differences on translation of foreign operations	-774	9,210	-	-	-774	9,210
Changes in fair values of derivatives designated as hedges, recognized in equity	274	1,438	-76	-391	198	1,047
<b>Total</b>	<b>2,437</b>	<b>-2,527</b>	<b>-417</b>	<b>3,892</b>	<b>2,020</b>	<b>1,365</b>

The total amount of exchange differences on translation of foreign operations included in accumulated other comprehensive income is kEUR -1,311 (previous year: kEUR -537).

The total amount of changes in the fair value of derivatives designated as hedges after taxes included in accumulated other comprehensive income is kEUR 198 (previous year: 0).

The total amount of revaluations of defined benefit plans included in accumulated other comprehensive income is kEUR -18,554 (previous year: kEUR -21,150).

The Group envisages a target liquidity of cash and cash equivalents in the amount of EUR 7 million. The equity ratio adjusted for excess liquidity amounts to 45.3% (previous year: 40.9%).

#### 6.11 PENSIONS AND OTHER SIMILAR BENEFITS

In Germany, the Group offered defined benefit pension plans to its employees in accordance with company agreements.

Under a company agreement dated January 1, 2007, SAF-HOLLAND GmbH's pension plans were frozen; no further pension entitlements can be earned. For these plans future pension payments depend on the years of service of the employees .

Future pension payments for SAF-HOLLAND Verkehrstechnik GmbH's plan depend on length of service and personal income. In February 2011, the Company restructured the form of its existing pension plans by amending the underlying works 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 change the benefits granted to employees. The pension plan still remains a defined benefit obligation within the meaning of IAS 19, which is disclosed under provisions for pensions and other similar benefits. Pension commitments provided by the employee benefit fund are covered by a group insurance contract. As these insurance policies do not constitute plan assets because the employees' claims are not protected against insolvency, the asset value of the employer's pension liability insurance of kEUR 595 (previous year: kEUR 511) is recognized under other non-current assets in accordance with IAS 19.

In North America, the Group has several defined benefit and defined contribution pension plans covering essentially all employees. The benefits paid under the defined benefit plans depend on either length of service or in some cases on personal income. On July 1, 2010, two Canadian plans were frozen for credited service. Therefore only one of the Canadian plans remains open to new participants. All US plans are closed to new participants.

In addition, the North American subgroup has defined benefit pension plans that provide post-employment medical benefits to certain employees.

In Canada, there is a minimum funding requirement for pension plans which are not fully funded and are not expected to be fully funded within the foreseeable future.

Defined benefit liabilities as of December 31 can be summarized follows:

kEUR	Pension plans						Post employment medical	
	German plan		US plan		Canadian plan		2015	2014
	2015	2014	2015	2014	2015	2014		
<b>Defined benefit obligation</b>	<b>13,971</b>	<b>14,157</b>	<b>64,417</b>	<b>61,621</b>	<b>14,943</b>	<b>15,622</b>	<b>10,275</b>	<b>9,496</b>
Fair value of plan assets	-10	-10	-51,317	-47,771	-15,367	-16,001	-	-
	<b>13,961</b>	<b>14,147</b>	<b>13,100</b>	<b>13,850</b>	<b>-424</b>	<b>-379</b>	<b>10,275</b>	<b>9,496</b>
Amount not recognized as an asset because of the limit in IAS 19.57(b)	-	-	-	-	145	182	-	-
<b>Benefit liabilities</b>	<b>13,961</b>	<b>14,147</b>	<b>13,100</b>	<b>13,850</b>	<b>-279</b>	<b>-197</b>	<b>10,275</b>	<b>9,496</b>

The defined benefit liabilities include defined benefit assets in amount of kEUR 279 (previous year: 197), which is disclosed in other assets in the balance sheet.

Changes in the present value of the defined benefit obligation are as follows:

kEUR	Pension plans						Post employment medical	
	German plan		US plan		Canadian plan		2015	2014
	2015	2014	2015	2014	2015	2014		
<b>Defined benefit obligation as of the beginning of the period</b>	<b>14,157</b>	<b>11,538</b>	<b>61,621</b>	<b>45,957</b>	<b>15,622</b>	<b>12,559</b>	<b>9,496</b>	<b>7,542</b>
Interest expenses	298	399	2,415	2,110	617	610	351	318
Current service cost	54	8	335	256	329	305	361	256
Benefits paid	-414	-389	-3,126	-2,588	-678	-407	-301	-294
Revaluation of defined benefit plans	-124	2,602	-3,869	9,816	101	2,012	-725	648
Foreign currency translation	-	-	7,041	6,070	-1,048	542	1,093	1,026
<b>Defined benefit obligation as of the end of the period</b>	<b>13,971</b>	<b>14,157</b>	<b>64,417</b>	<b>61,621</b>	<b>14,943</b>	<b>15,622</b>	<b>10,275</b>	<b>9,496</b>



## Notes to the Consolidated Balance Sheet

Changes in the fair value of plan assets are as follows:

kEUR	German plan		US plan		Canadian plan	
	2015	2014	2015	2014	2015	2014
<b>Fair value of plan assets as of the beginning of the period</b>	<b>10</b>	<b>9</b>	<b>47,771</b>	<b>40,049</b>	<b>16,001</b>	<b>13,899</b>
Expected return on plan assets	–	–	1,954	1,805	634	697
Employer contribution	–	–	1,207	1,941	205	452
Actuarial gains (+) / losses (-)	–	1	-1,952	1,149	272	754
Benefits paid	–	–	-3,126	-2,588	-678	-407
Foreign currency translation	–	–	5,463	5,415	-1,067	606
<b>Fair value of plan assets as of the end of the period</b>	<b>10</b>	<b>10</b>	<b>51,317</b>	<b>47,771</b>	<b>15,367</b>	<b>16,001</b>

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

	2015		2014	
	%	kEUR	%	kEUR
Equities	59.25%	39,517	58.00%	36,994
Bonds	28.00%	18,672	30.00%	19,135
Cash and money market	7.75%	5,171	8.00%	5,103
Real estate	4.75%	3,169	4.00%	2,551
Insurance	0.25%	165	0.00%	0
<b>Total</b>	<b>100.00%</b>	<b>66,694</b>	<b>100.00%</b>	<b>63,782</b>

The present value of the pension obligation, the plan assets and the funded status for the current and previous reporting period are as follows:

	12/31/2015	12/31/2014
<b>Defined benefit obligation</b>	<b>103,606</b>	<b>100,896</b>
Fair value of plan assets	-66,694	-63,782
<b>Benefit liabilities</b>	<b>36,912</b>	<b>37,114</b>
Experience losses (+) / gains (-) related to defined benefit obligation	60	-627
Experience losses (+) / gains (-) related to plan assets	1,680	-1,903
Actuarial losses (+) / gains (-) due to changes in demographic assumptions	-1,605	4,735
Actuarial losses (+) / gains (-) due to changes in financial assumptions	-3,072	10,970

The following table summarizes the components of net benefit expenses:

kEUR	Pension plans						Post employment medical	
	German plan		US plan		Canadian plan		2015	2014
	2015	2014	2015	2014	2015	2014		
Current service cost	54	8	335	256	329	305	361	256
Interest expenses	298	399	462	306	-18	-87	351	318
<b>Net benefit expenses</b>	<b>352</b>	<b>407</b>	<b>797</b>	<b>562</b>	<b>311</b>	<b>218</b>	<b>712</b>	<b>574</b>
Actual return on plan assets	1	1	0	2,954	906	1,451	-	-

The cost of defined benefit commitments is included in the functional areas and in the financial result.

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

%	German plan		US plan		Canadian plan	
	2015	2014	2015	2014	2015	2014
Discount rate	2.20	2.15	4.13	3.77	4.00	4.00
Future salary increases	0.00/2.00 <sup>1)</sup>	0.00/2.00 <sup>1)</sup>	3.50	3.50	- <sup>3)</sup>	- <sup>3)</sup>
Future pension increases	2.00	2.00	- <sup>2)</sup>	- <sup>2)</sup>	- <sup>3)</sup>	- <sup>3)</sup>
Turnover rates	4.60	4.60	2.88	2.88	-	-

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

<sup>2)</sup> For the pension plans in the USA, pension increases are not taken into account as the pension payments remain constant. Therefore, only years of service or salary and wage increases up to retirement are considered in determining the defined employee benefit obligation for these plans.

<sup>3)</sup> For the Canadian plans, future salary increases and future pension increases are not taken into account as the pension payments depend on the years of service.

Healthcare inflation:

%	2015	2014
Initial rate (health care cost trend rate assumed for next year)	7.25	7.50
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 rate in healthcare costs would have the following effects:

kEUR	2015		2014	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate current service cost and interest expenses	91	-77	80	-68
Effect on the defined benefit obligation	987	-860	924	-804

## Notes to the Consolidated Balance Sheet

The discount rate is seen as a significant indicator of the value of defined benefit obligation. A change to the discount rate of 0.75 percentage points would have the following effect on the amount of the defined benefit obligation:

kEUR	2015			Total
	Germany	USA	Canada	
Increase of discount rate + 0.75%	-1,675	-5,316	-1,874	<b>-8,865</b>
Reduction of discount rate - 0.75%	2,059	6,170	1,874	<b>10,103</b>

kEUR	2014			Total
	Germany	USA	Canada	
Increase of discount rate + 0.75%	-1,705	-5,422	-1,471	<b>-8,598</b>
Reduction of discount rate - 0.75%	2,098	6,344	2,421	<b>10,864</b>

Future payments in connection with the defined benefit obligations are summarized in the following chart:

kEUR	2015				Total
	2016	2017–2020	2021–2025	2026 ff.	
Germany	453	1,864	2,204	16,179	<b>20,700</b>
USA	4,151	17,328	22,954	85,612	<b>130,045</b>
Canada	408	2,258	4,244	32,381	<b>39,291</b>
<b>Total</b>	<b>5,012</b>	<b>21,450</b>	<b>29,402</b>	<b>134,172</b>	<b>190,036</b>

kEUR	2014				Total
	2015	2016–2019	2020–2024	2025 ff.	
Germany	433	1,810	2,274	17,515	<b>22,032</b>
USA	3,591	15,341	20,641	82,146	<b>121,718</b>
Canada	421	2,203	4,262	25,399	<b>32,284</b>
<b>Total</b>	<b>4,445</b>	<b>19,354</b>	<b>27,177</b>	<b>125,059</b>	<b>176,035</b>

The weighted average duration of pension plans is described below:

	Germany	USA	Canada
Weighted average duration as at 12/31/2015	18	12	17
Weighted average duration as at 12/31/2014	18	12	18

## 6.12 OTHER PROVISIONS

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

kEUR	Product warranty	Partial retirement	Environmental issues	Workers' compensation and health insurance benefits	Restructuring	Share based payment transactions	Other	Total
<b>As of 01/01/2015</b>	<b>6,401</b>	<b>637</b>	<b>865</b>	<b>1,616</b>	<b>1,001</b>	<b>4,394</b>	<b>2,019</b>	<b>16,933</b>
Additions	3,965	–	–	1,208	323	2,046	1,572	9,114
Utilized	5,116	41	135	689	506	2,307	736	9,530
Release	–	–	198	605	25	107	877	1,812
Interest effect from measurement	-13	–	–	–	–	-7	–	-20
Foreign currency translation	58	–	54	184	-20	251	32	559
<b>As of 12/31/2015</b>	<b>5,295</b>	<b>596</b>	<b>586</b>	<b>1,714</b>	<b>773</b>	<b>4,270</b>	<b>2,010</b>	<b>15,244</b>
<b>Thereof in 2015</b>								
Current	2,978	297	160	458	773	854	1,682	7,202
Non-current	2,317	299	426	1,256	–	3,416	328	8,042
<b>Thereof in 2014</b>								
Current	4,009	604	244	411	1,001	2,626	1,239	10,134
Non-current	2,392	33	621	1,205	–	1,768	780	6,799

### Product warranties

A provision is recognized for expected warranty claims on products sold during past periods. It is based on past experience, taking circumstances at the reporting date into account. The product warranty includes free repairs or, at the Group's discretion, free replacement of components by an authorized partner workshop.

### Partial retirement

In Germany, the Group offers phased retirement plans to employees taking early retirement. The Group uses the block model in Germany, which divides partial 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 treated as a deferred item at its present value. Partial retirement commitments are insured against possible insolvency.

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### **Environmental issues**

The provision for environmental issues is recognized in connection with environment-related obligations based on past events, in particular those that are probable and can be reliably estimated.

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### **Workers' compensation and health insurance benefits for employees**

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

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### **Restructuring provisions**

As of December 31, 2015, the company had established provisions for the restructuring measures for the plant consolidation approved in October 2013 and concluded in December 2015.

The transfer of the Wörth am Main plant to the existing Bessenbach plants in Keilberg and Frauengrund was part of a package of measures to increase the profitability of the Trailer Systems Business Unit. The transfer of production was completed in September 2015. This involved the conclusion of a reconciliation of interests including a redundancy plan with job security in October 2013. In addition, further measures in connection with the plant consolidation had been decided upon in 2014.

In addition, as of the reporting date the company had established provisions for restructuring for the sale of the AerWay product line.

The provisions primarily include personnel costs for severance payments.

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### **Share-based payment transaction**

#### **\_\_\_ Phantom Share Plan**

On July 9 and on December 1, 2010, a phantom share plan for members of the Management Board and certain other executives in the Group was approved by the Company.

The term of the phantom share plan ended on December 31, 2014.

As a result of meeting the underlying performance targets of the phantom share plan as of December 31, 2014, payments were made under the plan in the first quarter of 2015. The provision recognized in the previous year for this purpose of EUR 2.3 million was utilized in the reporting period in this context.

#### **\_\_\_ Performance share unit plan**

As part of the PSU plan, members of the Management Board and selected managers can receive cash awards depending on the achievement of certain performance targets. Since 2013, a PSU plan with a term of four years has been offered to each participant in the scheme. As a result of the new plan structures implemented in 2013, another "interim" PSU plan with a term of two years was offered to participants in 2013 and in 2014 in addition to the regular four-year PSU plan.

The goal of this plan is to sustainably link the interests of management and executives with the interests of the shareholders of SAF-HOLLAND S.A. in a long-term increase in enterprise value. The performance share unit plan takes into account both the performance of the company and the share price development and provides for a performance period of four/two 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 results from the division of the allowance value annually determined by the Board of Directors by the average market price in the last two months of the year preceding the allowance. Upon expiration of the performance period, the allowed number of share units is adjusted through multiplication with a target-achievement factor. The target-achievement factor is the ratio of average realized company performance (adjusted EBIT margin) during the performance period to average target value previously determined for the performance period.

The amount of the participants' payment claim is determined by multiplying the share units with the average market price during the last two months of the performance period and the target-achievement factor. There is no entitlement to shares of SAF-HOLLAND S.A.

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

The precondition for the exercisability of the appreciation rights is the achievement of a defined performance target. The performance target is fulfilled if the Group, in the period of entitlement, has achieved on the average a minimum operating performance with regard to the performance indicator "Adjusted EBIT".

On the balance sheet date the total of share units granted amounts to 637,386 and breaks down as follows:

	Performance share unit plan 2013-2016	Performance share unit plan 2014-2015	Performance share unit plan 2014-2017	Performance share unit plan 2015-2018
Share units outstanding at the beginning of the period	278,856	70,394	140,789	-
Share units granted during the period	14,504	3,084	11,309	136,479
Share units forfeited during the period	-	-	-	-
Share units exercised during the period	-	-	-	-
Share units expired during the period	8,897	-	9,132	-
<b>Share units outstanding at the end of the period</b>	<b>284,463</b>	<b>73,478</b>	<b>142,966</b>	<b>136,479</b>
Share units exercisable at the end of the period	-	-	-	-

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

## Notes to the Consolidated Balance Sheet

	Performance share unit plan 2013-2016	Performance share unit plan 2014-2015	Performance share unit plan 2014-2017	Performance share unit plan 2015-2018
Expected remaining contractual life (years)	1.00	0.00	2.00	3.00
Average share price on measurement date (EUR)	12.49	12.49	12.49	12.49
Expected volatility	30.54%	n/a	28.69%	27.83%
Risk free interest rate	-0.39%	-0.57%	-0.38%	-0.30%
Dividend return	3.00%	3.00%	3.00%	3.00%

Further information regarding 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, 2015, provisions for these performance plans amount to EUR 4.3 million (previous year: EUR 2.1 million). Expenses for the period in the amount of EUR 2.2 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	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Interest bearing bank loans	9,305	8,178	–	–	9,305	8,178
Convertible bond	97,069	96,436	–	–	97,069	96,436
Bond	75,000	75,000	–	–	75,000	75,000
Promissory note loan	200,000	–	–	–	200,000	–
Financing costs	-2,249	-1,931	-540	-505	-2,789	-2,436
Accrued interests	–	–	4,209	4,000	4,209	4,000
Other loans	151	114	248	48	399	162
<b>Total</b>	<b>379,276</b>	<b>177,797</b>	<b>3,917</b>	<b>3,543</b>	<b>383,193</b>	<b>181,340</b>

On October 13, 2015, an agreement was signed with a smaller consortium of banks which replaced the previous financing arrangement and ensures a long-term supply of long-term finance at more favorable interest rates for the Group until October 2022. The newly arranged credit agreement consists of a multi-currency revolving credit line of about EUR 150 million – subdivided into EUR 120 million and USD 35 million. As a result of the refinancing, the available credit lines increased to approximately EUR 158 million (December 31, 2014: EUR 110.9 million).

The restructuring of the financing specifies the following main regulations:

- Initial interest margin of 0.85% p.a.
- Term until October 12, 2020 with prolongation option of up to 2 years
- Pledging of assets waived
- Reduction of the financial covenants while retaining the net-debt-financial covenant-concept

Furthermore, a EUR 200 million promissory note loan was issued on November 20, 2015. The promissory note loan is divided into six tranches and with maturities of 5, 7 or 10 years depending on the tranche. An overview of the tranches is shown in the following table:

Tranch number	Volume in EUR million	Term	Interest	Interest rate
1	88.5	5	Variable	6m Euribor + 1.15%
2	52	5	Fixed	1.34%
3	12	7	Variable	6m Euribor + 1.35%
4	5	7	Fixed	1.82%
5	41.5	10	Variable	6m Euribor + 1.9%
6	1	10	Fixed	2.75%

In line with the Group's risk strategy, the variable interest-bearing tranches of the promissory note loan were secured against interest rate risks through interest rate swaps. Further information is provided in Note 7.1

In financial year 2014 SAF-HOLLAND S.A. issued an unsecured senior convertible bond with SAF-HOLLAND S.A. share conversion rights. The convertible bond has an original issue volume of kEUR 100,200, a term of six years (maturity: September 12, 2020) and an interest coupon of 1.0 % payable semi-annually.

The conversion right can generally be exercised at any time within the period of October 23, 2014 to September 3, 2020 in accordance with the "Bond terms and conditions" at a fixed conversion price in the initial amount of EUR 12.37.

SAF-HOLLAND is entitled to cancel and make early repayment on all outstanding convertible bonds, if the aggregate principle amount of the outstanding convertible bonds at any time falls 15% below the aggregate nominal amount of the originally issued convertible bond. In addition, SAF-HOLLAND is entitled, as from September 27, 2018, to repay the entire convertible bond at the nominal amount including the interest accumulated to date, if the share price exceeds the respectively valued conversion price by at least 30% on at least 20 of 30 sequential trading days.

Upon initial recognition, the convertible bond was divided into a liability portion and an equity portion based on the substance of the contractual arrangements pursuant to IAS 32. The liability portion of the convertible bond was recognized at present value taking into account a market discount rate and increases by the interest portion of the respective period at each balance sheet date in accordance with the effective interest rate method. The compounding of interest resulting from the difference between the coupon interest rate and the effective interest rate amounted on December 31, 2015 to kEUR 633 (December 31, 2014: kEUR 189). At the balance sheet date, the liability portion of the convertible bond was kEUR 97,069 (December 31, 2014: kEUR 96,436)

The proceeds from the emission of the convertible bond were used for repayment of existing bank loans.

The following table summarizes the determination of overall liquidity defined as available undrawn credit lines measured at the period-end exchange rate plus available cash and cash equivalents as well as short-term freely disposable financial assets:



## Notes to the Consolidated Balance Sheet

kEUR	12/31/2015				
	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	5,923	120,000	–	–	114,077
Facility B	42	32,088	–	–	32,046
Other Facility	3,339	5,648 <sup>1)</sup>	145,748	115,000	263,057
<b>Total</b>	<b>9,304</b>	<b>157,736</b>	<b>145,748</b>	<b>115,000</b>	<b>409,180</b>

<sup>1)</sup> New bilateral credit line for the activities of the Group in China.

Overall liquidity is calculated with consideration of other short-term investments. Other short-term investments are highly liquid and are to be viewed as cash equivalents in economic terms. In accordance with accounting policies, these are, however, to be presented separately from cash and cash equivalents.

kEUR	12/31/2014			
	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	Total liquidity
Facility A	5,822	85,000	–	79,178
Facility B	–	20,568	–	20,568
Other Facility	2,356	5,360 <sup>1)</sup>	44,165	47,169
<b>Total</b>	<b>8,178</b>	<b>110,928</b>	<b>44,165</b>	<b>146,915</b>

#### 6.14 TRADE PAYABLES

Trade payables in the amount of kEUR 89,940 (previous year: kEUR 94,363) are non-interest bearing and are normally settled within two to six months.

#### 6.15 OTHER LIABILITIES

kEUR	Current		Non-current	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Liabilities for salaries and social security contributions	12,165	11,191	–	–
Other taxes	4,891	3,241	–	–
Anniversary obligations	206	259	613	535
Other	5,575	3,723	225	150
<b>Total</b>	<b>22,837</b>	<b>18,414</b>	<b>838</b>	<b>685</b>

## 7\_ OTHER DISCLOSURES

### 7.1

#### FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

kEUR	Category in accordance with IAS 39	12/31/2015				Amounts recognized in balance sheet according to IAS 17	Fair Value
		Carrying amount	Amounts recognized in balance sheet according to IAS 39 (Amortized) cost	Fair value recognized in equity	Fair value recognized in profit or loss		
<b>Assets</b>							
Cash and cash equivalents	LaR	145,748	145,748	–	–	–	145,748
Trade receivables	LaR	116,535	116,535	–	–	–	116,535
Other financial assets							
Derivates without a hedging relationship	FAHT	839	–	–	839	–	839
Derivates with a hedging relationship	FAHT	274	–	274	–	–	274
Other financial assets	LaR	3,334	3,334	–	–	–	3,334
Other short-term investments	LaR	115,000	115,000	–	–	–	115,000
<b>Liabilities</b>							
Trade payables	FLAC	89,940	89,940	–	–	–	89,940
Interest bearing loans and bonds	FLAC	383,193	383,193	–	–	–	413,304
Finance lease liabilities	n.a.	1,974	–	–	–	1,974	1,974
Other financial liabilities							
Derivates without a hedging relationship	FLHT	885	–	–	885	–	885
<b>Of which aggregated by category in accordance with IAS 39</b>							
Loans and receivables	LaR	380,617	380,617	–	–	–	380,617
Financial liabilities measured at amortized cost	FLAC	473,133	473,133	–	–	–	503,244
Financial assets held for trading	FAHT	1,113	–	274	839	–	1,113
Financial liabilities held for trading	FLHT	885	–	–	885	–	885

## Other Disclosures

12/31/2014							
kEUR	Category in accordance with IAS 39	Carrying amount	Amounts recognized in balance sheet according to IAS 39			Amounts recognized in balance sheet according to IAS 17	Fair Value
			(Amortized) cost	Fair value recognized in equity	Fair value recognized in profit or loss		
<b>Assets</b>							
Cash and cash equivalents	LaR	44,165	44,165	-	-	-	44,165
Trade receivables	LaR	102,964	102,964	-	-	-	102,964
Other current assets	LaR	1,089	1,089	-	-	-	1,089
Other financial assets							
Derivates without hedging	FAHfT	234	-	-	234	-	234
<b>Liabilities</b>							
Trade payables	FLAC	94,363	94,363	-	-	-	94,363
Interest bearing loans and borrowings	FLAC	181,340	181,340	-	-	-	202,067
Finance lease liabilities	n.a.	2,172	-	-	-	2,172	2,172
Other financial liabilities							
Derivates without a hedging relationship	FLHfT	45	-	-	45	-	45
<b>Of which aggregated by category in accordance with IAS 39</b>							
Loans and receivables	LaR	148,218	148,218	-	-	-	148,218
Financial liabilities measured at amortized cost	FLAC	275,703	275,703	-	-	-	296,430
Financial assets held for trading	FAHfT	234	-	-	234	-	234
Financial liabilities held for trading	FLHfT	45	-	-	45	-	45

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

12/31/2015				
kEUR	Level 1	Level 2	Level 3	Total
Bonds	200,707	-	-	200,707
Promissory note loan	-	198,970	-	198,970
Interest bearing loans and borrowings	-	13,627	-	13,627
Derivative financial assets	-	1,113	-	1,113
Derivative financial liabilities	-	885	-	885

kEUR	12/31/2014 <sup>11</sup>			Total
	Level 1	Level 2	Level 3	
Bonds	192,163	–	–	192,163
Interest bearing loans and borrowings	–	9,904	–	9,904
Derivative financial assets	–	234	–	234
Derivative financial liabilities	–	45	–	45

<sup>11</sup> Changes in the fair value hierarchy of the interest bearing loans and borrowings compared to the presentation in the annual report 2014.

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

The fair values of interest bearing loans and borrowings as well as the promissory note loan are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and a credit spread curve for specific currencies. The fair value of the bond and of the convertible bond reported under position "Bonds" is determined on the basis of its market value on the balance sheet date. Derivatives valued using valuation techniques with market observable inputs are mainly interest rates swaps and foreign exchange forward contracts. The applied valuation techniques include forward pricing and swap models, using present value calculation.

The fair values of other financial assets and liabilities are calculated based on interest rates with matching maturities. In the balance sheet as of December 31, 2015, only derivatives of kEUR 228 (previous year: kEUR 189) were measured at fair value.

The fair value of the liabilities from interest bearing loans and borrowings as well as the promissory note loan and derivative financial assets and liabilities – excluding the quoted bonds – are measured on the basis of factors which can be observed directly (e.g., prices) or indirectly (e.g., derived from prices). This fair value measurement can therefore be allocated to level 2 of the measurement hierarchy according to IFRS 7. The fair value of the quoted bonds is based on price quotations at 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., from prices) or indirectly (e.g., derived from prices) and
- Level 3: Information for assets or liabilities that is not based on observable market data.

The net result by category is as follows:

kEUR	2015					Net result
	From interest	From remuneration	From subsequent measurement			
			At fair value	Currency translation	Impairment	
Loans and receivables	15	–	–	–	-2,240	-2,225
Financial assets held for trading	–	–	655	–	–	655
Financial liabilities measured at amortized cost	-9,541	-468	–	7,520	–	-2,489
Financial liabilities held for trading	–	–	-238	–	–	-238
<b>Total</b>	<b>-9,526</b>	<b>-468</b>	<b>417</b>	<b>7,520</b>	<b>-2,240</b>	<b>-4,297</b>

## Other Disclosures

kEUR	2014					Net result
	From interest	From remuneration	From subsequent measurement			
			At fair value	Currency translation	Impairment	
Loans and receivables	-365	-	-	-	-762	-1,127
Financial assets held for trading	-	-	234	-	-	234
Financial liabilities measured at amortized cost	-10,445	-1,997	-	8,215	-	-4,227
Financial liabilities held for trading	-	-	-45	-	-	-45
<b>Total</b>	<b>-10,810</b>	<b>-1,997</b>	<b>189</b>	<b>8,215</b>	<b>-762</b>	<b>-5,165</b>

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

The interest result from financial liabilities of the category "Financial liabilities measured at amortized cost" primarily consists of interest expenses on interest bearing loans as well as the amortization of transaction costs.

### Financial risks

As a group that does business internationally, SAF-HOLLAND S.A. is exposed to both entrepreneurial and industry-specific risks. Consciously controlling opportunities and risks is an integral part of management and decision-making within the Group.

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

The Group is mainly exposed to liquidity risks, credit risks, interest rate risks and foreign currency risks. The Group's risk management aims to limit risks arising from its business and financing activities. This is achieved particularly through the use of derivative and non-derivative hedging instruments.

### Liquidity risk

The Group's liquidity risk consists of being unable to meet existing or future payment obligations due to insufficient availability of funds. Limiting and managing the liquidity risk are among the primary tasks for the Group's management. The Group monitors the current liquidity situation on a daily basis. In order to manage future liquidity requirements, a weekly 3-month forecast as well as a monthly rolling liquidity plan for 12 months are used. In addition, management continually evaluates adherence to the financial covenants as required by the long-term credit agreement.



## Other Disclosures

kEUR	12/31/2014								
	Cash flows 2015			Cash flows 2016			Cash flows 2017–2020		
	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	-6,177	-557	-48	-6,027	-557	-114	-8,522	-2,229	-108,343
Finance lease liabilities	-95	–	-399	-77	–	-454	-77	–	-1,319
Other financial liabilities									
Derivates without a hedging relationship	-45	–	–	–	–	–	–	–	–

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

### Credit risk

The Group is subject to a default risk for financial instruments of a contracting party failing to fulfill its commitments. To minimize these risks of default, outstanding receivables in all Business Units are monitored continuously at the local level by all Group companies. To limit credit risks, the Group as a matter of principle only does business with creditworthy business partners. For this purpose, a continuous credit management is implemented that subjects potential customers to credit verification procedures. To manage specific default risks, the Group also takes out commercial credit insurance coverage in Europe and America and defines house limits for each customer.

Any credit risks that still arise are 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 risks as a result of its financing activities. Market-induced interest rate changes can in particular have an effect on the interest burden in connection with floating-rate loans and borrowings. Changes in interest rates affect the interest-related cash flow. To hedge this cash flow risk, the Group holds interest 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 due to interest rate changes. As the Group has no plans to measure these financial liabilities at their market price, there is no commercial risk in this connection.

The Group is subject to interest rate risks mainly in the euro zone and in North America and China.

As a result of the issue of the promissory note loan in November 2015, interest rate hedges were concluded with a nominal volume of EUR 72.0 million. In line with the Group's risk strategy, cash flow hedges between variable interest-bearing tranches of the promissory note loan and the new

interest rate swaps were recognized. As a result of the interest rate swap agreements, the variable interest portion of the promissory note loan is economically converted to fixed interest rates. For the prospective effectiveness test, a critical terms match was used. The hypothetical derivative method was used in the retrospective test.

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

If the market interest rate level as of December 31, 2015 had been 100 base points lower (higher), the result would have been kEUR 388 (previous year: 0) higher (lower). All other variables are assumed to be constant.

### Foreign currency risk

The Group is exposed to foreign currency risks that arise from the international nature of its investing, financing and operating activities. Individual subsidiaries predominantly conduct their operating activities and investments in their respective local currency. Financing of the Group companies is conducted primarily by SAF-HOLLAND S.A. and SAF-HOLLAND GmbH. Loans granted to the international Group companies are generally in euros. Unrealized foreign exchange gains and losses may therefore result from the translation of intercompany loans at the closing rate. Unrealized foreign exchange gains amount to kEUR 6,809 as of the balance sheet date.

The following table shows the sensitivity of a 5% increase or decrease of the euro against the US dollar from the Group's perspective. The sensitivity analysis only includes outstanding monetary items that are denominated in a foreign currency and adjusts its translation at the end of the period by a 5% change in exchange rates.

	Change in exchange rate USD/EUR	Effect on earnings before taxes	Effect on equity after taxes
2015	5%	2,545	2,746
	-5%	-2,545	-2,746
2014	5%	2,851	3,529
	-5%	-3,152	-3,829

## 7.2 EARNINGS PER SHARE

		2015	2014
<b>Result for the period</b>	<b>kEUR</b>	<b>51,627</b>	<b>32,643</b>
Weighted average number of shares outstanding	thousands	45,361	45,361
<b>Undiluted earnings per share</b>	<b>EUR</b>	<b>1.14</b>	<b>0.72</b>
<b>Diluted earnings per share</b>	<b>EUR</b>	<b>0.99</b>	<b>0.69</b>

Undiluted earnings per share is 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.



## Other Disclosures

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

A dilutive effect of EUR 0.15 per share results from the emission of the convertible bond.

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

kEUR	Overall potentially dilutive financial instruments 2015	Dilutive financial instruments used for the calculation 2015
<b>Result for the period</b>		
Numerator for undiluted earnings per share (attributable to the shareholders of the parent company)	51,627	51,627
Increase in profit equivalent to effect of convertible bond recognized in profit and loss	1,190	1,190
<b>Numerator for diluted earnings</b>	<b>52,817</b>	<b>52,817</b>
<b>Number of shares</b>		
Denominator for undiluted earnings per share (weighted average number of shares)	45,361	45,361
Convertible bond	8,108	8,108
<b>Denominator for potentially diluted earnings per share thereof to be included for dilution (adjusted weighted average)</b>	<b>53,469</b>	<b>53,469</b>
<b>Undiluted earnings per share (EUR)</b>		<b>1.14</b>
<b>Diluted earnings per share (EUR)</b>		<b>0.99</b>

kEUR	Overall potentially dilutive financial instruments 2014	Dilutive financial instruments used for the calculation 2014
<b>Result for the period</b>		
Numerator for undiluted earnings per share (attributable to the shareholders of the parent company)	32,643	32,643
Increase in profit equivalent to effect of convertible bond recognized in profit and loss	491	491
<b>Numerator for diluted earnings</b>	<b>33,134</b>	<b>33,134</b>
<b>Number of shares</b>		
Denominator for undiluted earnings per share (weighted average number of shares)	45,361	45,361
Convertible bond	2,430	2,430
<b>Denominator for potentially diluted earnings per share thereof to be included for dilution (adjusted weighted average)</b>	<b>47,791</b>	<b>47,791</b>
<b>Undiluted earnings per share (EUR)</b>		<b>0.72</b>
<b>Diluted earnings per share (EUR)</b>		<b>0.69</b>

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
01/01/2015 – 03/23/2015	0.01	8,099,849	83	672,287,467
03/24/2015 – 12/31/2015	0.01	8,110,892	277	2,246,717,084
<b>Total</b>			<b>360</b>	
<b>Average</b>		<b>8,108,346</b>		

	Par value (EUR)	Number	Days	Weighted number
09/12/2014 – 12/31/2014	0,01	8,099,849	108	874,783,692
<b>Total</b>			<b>108</b>	<b>874,783,692</b>
<b>Average</b>		<b>2,429,955</b>		

### 7.3

#### STATEMENT OF CASH FLOWS

The cash flow statement was prepared in accordance with the principles of IAS 7 and is broken down into cash flows from operating, investing, and financing activities.

Cash flows from operating activities are determined using the indirect method. while 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 more than one year. Cash flows from financing activities were also calculated using the direct method. These cash flows include cash flows from transactions with shareholders and from issuing or repaying financial liabilities.

### 7.4

#### OTHER FINANCIAL OBLIGATIONS

##### Operating lease liabilities

The Group has entered into rental and lease agreements as a lessee mainly for commercial buildings, office equipment, IT equipment, material handling equipment and motor vehicles. The lease agreements have an average term of between three and five years.

## Other Disclosures

As of the balance sheet date, the following future minimum lease payment obligations exist due to contractually agreed operating leases:

kEUR	12/31/2015	12/31/2014
Remaining term of up to 1 year	4,747	4,635
Remaining term of more than 1 year and up to 5 years	11,028	6,003
Remaining term of more than 5 years	6,347	3,277
<b>Total</b>	<b>22,122</b>	<b>13,915</b>
Operate lease payments for the reporting period	8,415	7,572

### Finance lease liabilities

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

kEUR	12/31/2015		12/31/2014	
	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	555	465	524	399
Remaining term of more than 1 year and up to 5 years	1,598	1,509	1,909	1,773
Remaining term of more than 5 years	–	–	–	–
<b>Total</b>	<b>2,153</b>	<b>1,974</b>	<b>2,433</b>	<b>2,172</b>

## 7.5 CONTINGENT LIABILITIES

### Legal disputes

In the reporting period and as of the balance sheet date there were no material litigation that potentially could have a significant impact on the assets, liabilities and profit or loss of the Group.

## 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
SAF-HOLLAND South Africa Ltd.	South Africa	100.0
Jinan SAF AL-KO 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 México S. de R.L. de C.V.	Mexico	100.0
SAF-HOLLAND International Services México 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
<hr/>		
Associates and joint ventures	Country of incorporation	% Equity interest
SAF-HOLLAND Nippon, Ltd.	Japan	50.0
Castmetal FWI S.A.	Luxembourg	34.1

## Other Disclosures

The Board of Directors mandate of Richard W. Muzzy ended as planned with the Annual General Meeting of April 23, 2015. In order to ensure continuity, Martina Merz had already been elected to the Board in the previous year.

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)
Wilfried Trepels	Chief Financial Officer (CFO)
Jack Gisinger	President Powered Vehicle Systems Business Unit & Group Technical Services (until 5/31/2015 and until 12/31/2015 member of the Management Board in an advisory role)
Mike Kamsickas	President Business Unit Powered Vehicle Systems & Group Technical Services (since 6/1/2015)
Steffen Schewerda	President Trailer Systems Business Unit & Group Operations
Alexander Geis	President Aftermarket Business Unit

BOARD OF DIRECTORS	
Bernhard Schneider	Chairman of the Board of Directors
Sam Martin	Deputy Chairman of the Board of Directors
Detlef Borghardt	Member of the Board of Directors
Dr. Martin Kleinschmitt	Member of the Board of Directors
Anja Kleyboldt	Member of the Board of Directors
Martina Merz	Member of the Board of Directors

The term of office and other positions held by the members of the Board of Directors and the Management Board are described in the chapter entitled "Mandates of the Board of Directors/ Management Board" in this Annual Report.

As of December 31, 2015, members of the Management Board directly or indirectly held ordinary shares of kEUR 6 (previous year: kEUR 6) while members of the Board of Directors directly or indirectly held ordinary shares of kEUR 1 (previous year: kEUR 3).

Moreover, as of balance sheet date, kEUR 2,944 has been accrued for appreciation rights granted to members of the Management Board (previous year: kEUR 2,347); thereof kEUR 1,482 were recognized in profit or loss in 2015. Current provisions have a share of kEUR 587 in overall provisions.

The total remuneration of the members of the Management Board in the year under review was kEUR 2,561 (previous year: kEUR 2,370). The total remuneration of the Board of Directors was kEUR 312 (previous year: kEUR 320) and is recognized in profit or loss.

Transactions with related parties and companies in which the key management personnel of the Group hold key management positions:

kEUR	Sales to related parties		Purchases from related parties	
	2015	2014	2015	2014
SAF-HOLLAND Nippon, Ltd.	1,376	1,297	–	–
Castmetal FWI S.A.	–	–	37,767	32,140
<b>Total</b>	<b>1,376</b>	<b>1,297</b>	<b>37,767</b>	<b>32,140</b>

kEUR	Amounts owed by related parties		Amounts owed to related parties	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
SAF-HOLLAND Nippon, Ltd.	300	537	207	207
Castmetal FWI S.A.	–	–	953	1,419
<b>Total</b>	<b>300</b>	<b>537</b>	<b>1,160</b>	<b>1,626</b>

Outstanding balances as of December 31, 2015 are unsecured, interest-free and paid in time. There have been no guarantees provided or received for any related party receivables or payables. As of December 31, 2015, and as for the previous year, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken in each reporting period by examining the financial position of the related parties and 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 discharge its debts and the Group's financial substance are maintained in the future. Building blocks for steering and optimizing the existing financing structure are, in addition to EBIT and EBITDA, 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	12/31/2015	12/31/2014
Interest bearing loans and bonds	383,193	181,340
Other short-term investments	-115,000	–
Cash and cash equivalents	-145,748	-44,165
<b>Net debt</b>	<b>122,445</b>	<b>137,175</b>
<b>Equity attributable to equity holders of the parent</b>	<b>287,529</b>	<b>246,593</b>
<b>Equity and net debt</b>	<b>409,974</b>	<b>383,768</b>

Under the financing agreement signed on October 13, 2015, the Group is obligated to maintain a certain total net debt cover (net debt divided by adjusted consolidated EBITDA) as financial covenant.

Total net debt means the aggregate principal amount of financial indebtedness of the members of the group outstanding on that day but excluding any indebtedness for or in respect of any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price and any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution.

## 7.8 AUDITOR'S FEES

The following expenses were incurred in financial year 2015 for services provided by the auditors and related companies of the auditors:

kEUR	2015	2014
Auditing of financial statements	563	551
Tax accountancy services	187	207
Other services	24	59
<b>Total</b>	<b>708</b>	<b>817</b>


## 7.9 EVENTS AFTER THE BALANCE SHEET DATE

No material events have occurred since the reporting date.

Luxembourg, March 9, 2016



Bernhard Schneider  
Vorsitzender des Board of Directors



Detlef Borghardt  
Chief Executive Officer  
of SAF-HOLLAND GmbH

# SAF-HOLLAND S.A. ANNUAL FINANCIAL STATEMENTS

## INCOME STATEMENT OF SAF-HOLLAND S.A.<sup>1)</sup>

kEUR	2015	2014
Income from financial fixed assets	26,888	23,960
Income from financial current assets	738	1,402
<b>Total income</b>	<b>27,626</b>	<b>25,362</b>
Other external charges	-1,813	-2,006
Staff costs	-32	-66
Other operating charges	-568	-545
Interest and other financial charges	-6,253	-5,555
Other taxes	-183	-160
<b>Result before tax</b>	<b>18,777</b>	<b>17,030</b>
Income tax	-77	-3
<b>Result for the period</b>	<b>18,700</b>	<b>17,027</b>

<sup>1)</sup> Figures according to Luxembourg GAAP.



Income Statement of SAF-HOLLAND S.A.  
Balance Sheet of SAF-HOLLAND S.A.

## BALANCE SHEET OF SAF-HOLLAND S.A.<sup>1)</sup>

kEUR	12/31/2015	12/31/2014
<b>Assets</b>		
<b>Non-current assets</b>	<b>447,498</b>	<b>443,485</b>
Shares in affiliated undertakings	265,638	265,638
Amounts owed by affiliated undertakings	181,857	177,844
Own shares or own corporate units	3	3
<b>Current assets</b>	<b>39,111</b>	<b>38,823</b>
Amounts owed by affiliated undertakings	36,863	36,582
Other receivables	-	-
Cash at bank, cash in postal cheque accounts, cheques and cash in hand	546	92
<b>Prepayments</b>	<b>1,702</b>	<b>2,149</b>
<b>Total assets</b>	<b>486,609</b>	<b>482,308</b>
<b>Equity and liabilities</b>		
<b>Equity attributable to equity holders of the parent</b>	<b>306,520</b>	<b>302,335</b>
Subscribed share capital	454	454
Share premium	276,455	276,455
Legal reserve	45	45
Other reserve	436	436
Profit or loss brought forward	10,429	7,918
Profit or loss for the financial year	18,701	17,027
<b>Non-current liabilities</b>	<b>175,200</b>	<b>175,200</b>
Bonds	175,200	175,200
<b>Current liabilities</b>	<b>4,889</b>	<b>4,773</b>
Bonds	3,901	3,901
Trade payables	213	221
Amounts owed to affiliated undertakings	-	26
Tax and social security debts	463	305
Other creditors	312	320
<b>Total equity and liabilities</b>	<b>486,609</b>	<b>482,308</b>

<sup>1)</sup> Figures according to Luxembourg GAAP.

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# **MANDATES OF THE BOARD OF DIRECTORS / MANAGEMENT BOARD**

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## **Bernhard Schneider**

*Member of the Board of Directors (Chairman), SAF-HOLLAND S.A.  
(first election date: June 18, 2007; extended until April 2017; Chairman since March 27, 2009)*  
Managing Director, KRONE-Verlag Gesellschaft m.b.H.  
Managing Director, Krone Media Aktiv Gesellschaft m.b.H.

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## **Detlef Borghardt**

*Member of the Board of the Directors, SAF-HOLLAND S.A.  
(first election date: October 1, 2011; extended until April 2017)*  
Managing Director, SAF-HOLLAND GmbH, Chief Executive Officer (CEO)  
Managing Director, debo invest GmbH

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## **Dr. Martin Kleinschmitt**

*Member of the Board of Directors, SAF-HOLLAND S.A.  
(first election date: April 25, 2013 until April 2016)*  
Member of the Supervisory Board (Chairman), SAF-HOLLAND GmbH  
Member of the Board, Noerr Consulting AG  
Managing Director, IMO Holding GmbH  
Managing Director, IMO Antriebseinheit Holding GmbH

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## **Anja Kleyboldt**

*Member of the Board of Directors, SAF-HOLLAND S.A.  
(first election date: April 26, 2012; extended until April 2016)*  
Executive Director Manufacturing Engineering Opel/Vauxhall Europe  
Member of the Board, Institut für angewandte Arbeitswissenschaften Düsseldorf

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## **Sam Martin**

*Member of the Board of Directors, SAF-HOLLAND S.A.  
(first election date: April 28, 2011; extended until April 2017, Vice Chairman since April 25, 2013)*  
Member of the Board, Metal Flow Corporation

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**Martina Merz**

*Member of the Board of Directors, SAF-HOLLAND S.A.  
(first election date: April 24, 2014 until April 2017)*  
Member of the Board of Directors, AB Volvo  
Chief Executive Officer, Chassis Brakes International (until January 2015)

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**Richard Muzzy**

*Member of the Board of Directors, SAF-HOLLAND S.A. (until April 2015)  
(first election date: June 18, 2007; extended until April 2015)*  
Member Supervisory Board, Paragon Tool & Die (until April 2015)

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**Alexander Geis**

*Managing Director, SAF-HOLLAND GmbH, President Region EMEA/India*

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**Jack Gisinger**

*Managing Director, SAF-HOLLAND GmbH (until December 2015)*

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**Mike Kamsickas**

*Managing Director, SAF-HOLLAND GmbH, Chief Operating Officer (COO)*

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**Steffen Schewerda**

*Managing Director, SAF-HOLLAND GmbH, President Region Americas*

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**Wilfried Trepels**

*Managing Director, SAF-HOLLAND GmbH, Chief Financial Officer (CFO)*  
Managing Director, Via Montana GmbH

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# INDEPENDENT AUDITOR'S REPORT

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To the Shareholders of  
SAF-HOLLAND S.A.  
Société Anonyme  
68-70, Boulevard de la Pétrusse  
L-2320 Luxembourg

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS (ANNUAL FINANCIAL STATEMENTS)

Following our appointment by the General Meeting of the Shareholders dated April 23, 2015, we have audited the accompanying consolidated financial statements of SAF-HOLLAND S.A., which comprise the consolidated balance sheet as at December 31, 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and the notes to the consolidated financial statements.

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### Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

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### Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit

also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

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### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of SAF-HOLLAND S.A. as of December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The consolidated management report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law with respect to the corporate governance statement.

ERNST & YOUNG  
Société Anonyme  
Cabinet de révision agréé



Werner Weynand

Luxembourg, March 9, 2016

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# 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 financial position 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 9, 2016  
SAF-HOLLAND S.A.



Bernhard Schneider  
Chairman of the Board of Directors

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Responsibility Statement

# FINANCIAL GLOSSARY

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## A

### Actuarial gains and losses

Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

### Adjusted EBIT

Earnings before interest and taxes (EBIT) is adjusted for special items, such as depreciation and amortization from purchase price allocations, impairment of goodwill and intangible assets, reversal of impairment of intangible assets as well as restructuring and integration costs.

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## B

### Business Units

For management purposes, the Group is organized into customer-oriented Business Units (Trailer Systems, Powered Vehicle Systems, and Aftermarket).

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## C

### Cash-generating unit

Cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets.

### Clearing house

An institution connected to or integrated into a derivatives exchange, which offsets all exchange transactions and acts as counterparty to the buyer and the seller after each transaction.

### Coverage

Analysts at renowned banks and investment houses regularly observe and evaluate the development of SAF-HOLLAND S.A.'s shares.

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## D

### Days inventory outstanding

Inventory / cost of sales per day  
(cost of sales of the quarter / 90 days)

### Days payable outstanding

Trade payables / cost of sales per day  
(cost of sales of the quarter / 90 days)

### Days sales outstanding

Trade receivables / sales per day  
(sales of the quarter / 90 days)

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## E

### Effective income tax rate

Income tax / earnings before tax x 100.

### Equity ratio

Equity / total assets x 100.

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## F

### Fair value

Amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties.

### Free cash flow

Operating cash flow minus capital expenditures.

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## G

### Gross margin

Gross profit / sales x 100.

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## H

### Hybrid financial instrument

Financial instrument that, depending on its economic substance, contains both a liability and an equity component.



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**I****IFRS/IAS**

(International Financial Reporting Standards/ International Accounting Standards): The standard international accounting rules are intended to make company data more comparable. Under the EU resolution, accounting and reporting at exchange-listed companies must be done in accordance with these rules.

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**J****Joint venture**

A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

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**M****MDAX**

The mid-cap-Dax (MDAX) comprises 50 companies that rank immediately below DAX securities in terms of market capitalization and order book volume.

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**N****Net working capital**

Current assets less cash and cash equivalents less current and non-current other provisions less trade payables less other current liabilities less income tax liabilities.

**Net working capital to sales**

Net working capital / (sales for the fourth quarter / 3 x 12)

**Non-recourse factoring**

Factoring where the factor takes on the bad debt risk.

**Novation**

Cancellation of a contractual obligation and establishment of a new contractual obligation in place of the old one.

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**P****Personnel expenses per employee**

Personnel expenses (not including restructuring and integration costs) / average number of employees (not including temporary employees)

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**Prime Standard**

Prime Standard is a market segment of the German Stock Exchange that lists German companies which comply with international transparency standards.

**Purchase price allocation (PPA)**

Distribution of the acquisition costs of a business combination to the identifiable assets, liabilities and contingent liabilities of the (acquired) company.

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**R****R&D ratio**

R&D cost and capitalized development cost / sales x 100

**Recoverable amount**

The recoverable amount is the higher of the fair value less cost to sell and the value in use.

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**S****Sales per employee**

Sales / average number of employees (including temporary employees)

**SDAX**

The small-cap-Dax (SDAX) comprises 50 companies that rank immediately below mid-cap-DAX (MDAX) securities in terms of market capitalization and order book volume. As is the case with DAX, TecDAX and MDAX, the SDAX belongs to the Prime Standard.

**Structured entity**

An entity has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

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**T****Total cost of ownership**

Total cost relating to acquisition, operating and maintenance of an asset.

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**V****Value in use**

Present value of future cash flows from an asset.

# LIST OF ABBREVIATIONS

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## A

APO Advanced Planer & Optimizer  
(IT-System to utilize  
supply-chain-management)

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## B

BRIC Brasil, Russia, India, and China  
B.S. Bachelor of Science (academic degree)

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## C

CAD IT-System often used in engineering/  
product development  
Cap Derivative to hedge against rising  
interest rates  
CEO Chief executive officer  
CFO Chief financial officer  
COO Chief operating officer

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## D

DAX Deutscher Aktienindex  
(German stock index)  
DBO Defined Benefit Obligation  
DIN Deutsches Institut für Normung  
(German Institute for Standardization)

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## E

EBIT Earnings before interest and taxes  
EBITDA Earnings before interest, taxes and  
depreciation/amortization  
EURIBOR Euro interbank offered rate

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## F

FAHfT Financial assets held for trading  
FEM Finite element method; numerical  
technique for finding approximate  
solutions for partial differential  
equation; often used in industrial  
engineering  
FLAC Financial liabilities measured at  
amortized cost  
FLHfT Financial liabilities held for trading

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## G

GDP Gross domestic product

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## I

IAS International Accounting Standards  
IASB International Accounting Standards  
Board  
IFRIC International Financial Reporting  
Interpretations Committee  
IFRS International Financial Reporting  
Standards  
IfW Institut für Weltwirtschaft  
(German economic organization)  
ISIN International securities  
identification number  
ISO International Organization for  
Standardization  
IT Information technology

<b>K</b>		<b>S</b>	
kEUR	Thousand Euro	SDAX	Small-cap-DAX
		SWAP	Hedging instrument in which two counterparties agree to exchange contractual rights and obligations against another (to swap) to a definite existing period of time in the future and to defined conditions
<b>L</b>			
LaR	Loans and receivables		
LIBOR	London interbank offered rate		
<b>M</b>		<b>U</b>	
MATS	Mid-America Trucking Show	USD	US-Dollar
MBA	Master of Business Administration	US	United States of America
MDAX	Mid-cap-DAX	USA	United States of America
Mio.	Million		
M.S.	Master of Science (academic degree)		
		<b>V</b>	
<b>N</b>		VDA	Verband der Automobilindustrie (German Automotive Industry Association)
n.a.	Not applicable		
		<b>W</b>	
<b>O</b>		WACC	Weighted average cost of capital
OEM	Original equipment manufacturer	WKN	Wertpapierkenn-Nummer (security identification number)
OES	Original equipment service	WpHG	Wertpapierhandelsgesetz (German Securities Trading Act)
<b>P</b>			
PDM	Product data management		
PIK	Pay-in-kind		
PPA	Purchase price allocation		
p.a.	per annum		
<b>R</b>			
ROI	Return on investment		
R&D	Research and development		

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# FINANCIAL CALENDAR AND CONTACT INFORMATION

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## Financial Calendar

<b>April 28, 2016</b> .....	Annual General Meeting
<b>May 9, 2016</b> .....	Report on Q1 2016 Results
<b>August 11, 2016</b> .....	Report on Half-year 2016 Results
<b>November 10, 2016</b> .....	Report on Q3 2016 Results

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# IMPRINT

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