MANAGEMENT REPORT

SAF-HOLLAND AT A GLANCE

COMPANY PROFILE

SAF-HOLLAND S.A., located in Luxembourg, is the largest independent listed commercial vehicle supplier in Europe, delivering mainly to the trailer markets. With sales of EUR 1,301 million in 2018, the SAF-HOLLAND Group is one of the leading international manufacturers of chassis-related systems and components, primarily for trailers as well as for trucks and buses. The product range comprises axle and suspension systems, fifth wheels, kingpins and landing gear and is marketed under the SAF, Holland, Neway, KLL, Corpco, V.Orlandi and York brands. SAF-HOLLAND sells its products to original equipment manufacturers (OEMs) on six continents. The aftermarket business delivers the Group's spare parts to the service networks of Original Equipment Suppliers (OES) in addition to end customers and service centers through its extensive global parts distribution network. SAF-HOLLAND is one of the few suppliers in the truck and trailer industry that is broadly positioned internationally in almost all markets worldwide. With the innovative SMART STEEL – ENGINEER BUILD CONNECT campaign, SAF-HOLLAND combines mechanical components with sensors and electronics and is driving ahead the digital networking of commercial vehicles and logistics chains. More than 4,400 committed employees worldwide are already today working on the future of the transportation industry.

BUSINESS MODEL: DIRECT ACCESS TO END CUSTOMERS

At a share of over 62 %, OEM customers in the trailer industry contribute the majority of SAF-HOLLAND's sales. The various SAF-HOLLAND products account for roughly one-third of the total value of a standard trailer. For many products, such as axle and suspension systems, it is the end customers themselves who determine the trailer specifications and choose their own suppliers. As a result, SAF-HOLLAND's customers include not only trailer manufacturers but also fleet operators. By maintaining direct contact with end customers, SAF-HOLLAND is in constant exchange with fleet operators, ensuring that the Company always has the right solution for the ever-changing customer requirements. The business with OEM customers in the trucking industry accounts for slightly less than 14 % of Group sales.

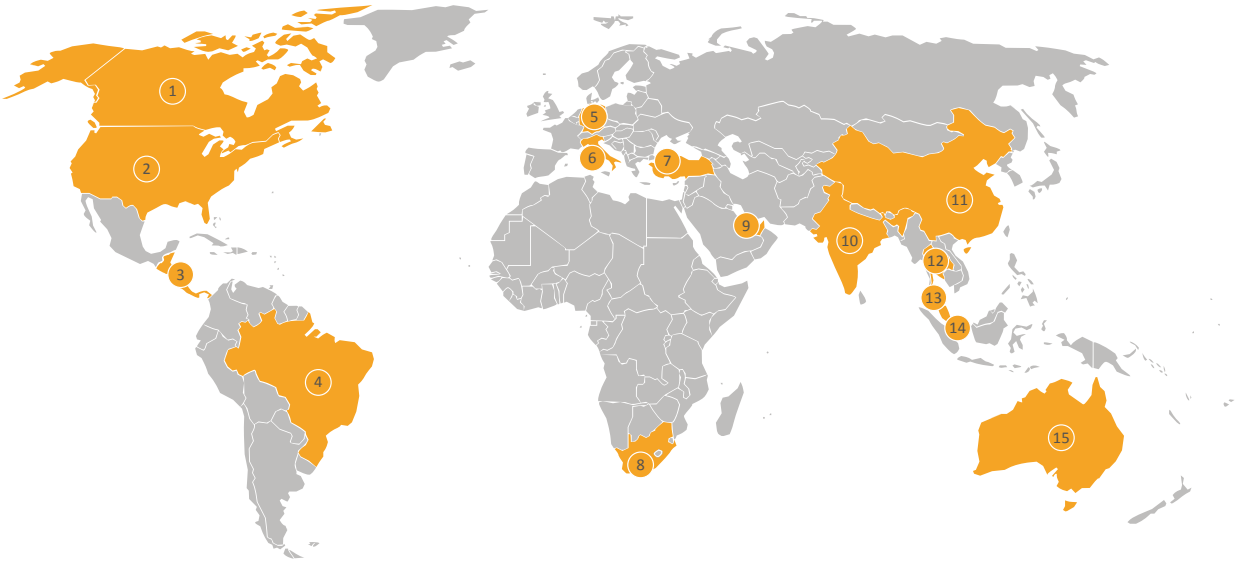
Apart from the original equipment (OEM) business, another key component of the Company's business model is the aftermarket business, which represents almost 24 % of Group sales. With roughly 10,000 spare parts and service stations, alongside dealers and repair shops in over 80 countries, SAF-HOLLAND possesses one of the densest spare parts and service station networks in the industry. Following its acquisition of York in 2018, the Group now also has roughly 200 service stations in India, making it one of the most important suppliers of spare parts and accessories in this country. The guaranteed, rapid supply of spare parts is one of the main criteria sought by fleet operators when selecting suppliers, making it a high barrier to entry for potential competitors at the same time. Because demand in the aftermarket business trails that of the original equipment business, cyclical fluctuations in the original equipment business can be smoothed out to help keep SAF-HOLLAND's business model in balance.

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

SAF-HOLLAND is present in all of the world's important truck and trailer markets comprising a total of 26 production locations spread over six continents. In addition to its plants in its core markets of North America, Europe and China, SAF-HOLLAND also has production and assembly facilities in Brazil, South Africa, Turkey, India, Australia and the United Arab Emirates.

The Group's key sales markets are still the regions EMEA and Americas. A total of roughly 87 % of sales were generated in these two regions in the reporting year. In addition, SAF-HOLLAND has been continuously expanding its activities outside these established sales markets for several years. The Group has strengthened its position in the BRIC countries through the acquisitions of Brazil's KLL Equipamentos para Transporte Ltda. (2016) and India's York Transport Equipment (Asia) Pte. Ltd. (2018) and its initiation of the construction of a production center in China (2018). In China and Brazil, SAF-HOLLAND is not only active in the truck and trailer sector but also in the segment for bus suspensions.

SAF-HOLLAND production locations



1 **Canada**
Woodstock

2 **USA**
Cincinnati, OH
Dumas South, AR
Dumas North, AR
Nashville, TN
(as of January 2019)
Warrenton North, MO
Warrenton South, MO
Wylie, TX

3 **Mexico**
Querétaro City

4 **Brazil**
Alvorada

5 **Germany**
Bessenbach/
Frauengrund
Bessenbach/
Keilberg
Singen

6 **Italy**
Flero (Brescia)
Nave

7 **Turkey**
Düzce

8 **South Africa**
Johannesburg

9 **United Arab Emirates**
Dubai

10 **India**
Pune

11 **China**
Baotou
(until Dec. 31, 2018)
Beijing
(as of January 2019)
Xiamen
Qingdao
Yangzhou
(starting in the second half of 2019)

12 **Thailand**
Bangkok

13 **Malaysia**
Kuala Lumpur

14 **Singapore**

15 **Australia**
Melton

PRODUCTS: A FOCUS ON QUALITY, PERFORMANCE, INNOVATION AND SAFETY

SAF-HOLLAND's product portfolio is distinguished by its focus on products that are of crucial importance for manufacturers of trucks and trailers in terms of quality, performance, innovation and safety standards. With its lightweight components and the accompanying weight savings, SAF-HOLLAND sets standards in the industry, providing end customers with what they need to optimize their total cost of ownership.

Key products include axle and suspension systems, kingpins and landing gear for trailers, fifth wheel couplings for trucks and suspension systems for vocational vehicles and buses. Whereas customers for the trailer components business are spread over several hundred original equipment manufacturers and a large number of fleet operators, customers for truck components are concentrated among a significantly smaller number of global truck manufacturers and smaller regional suppliers and manufacturers of vocational vehicles.

SAF-HOLLAND sells its original equipment products worldwide under the brands SAF, HOLLAND, NEWAY, KLL, Corpco, V.ORLANDI and York. The SAF brand identifies axle and suspension systems for trailers. The HOLLAND logo is carried by towing and lifting technology products. NEWAY stands for suspensions on tractors and buses. Under the KLL brand, the Group offers air suspension systems for trucks and buses as well as axles and suspension systems for trailers in Brazil, while Corpco offers air suspension systems for trucks and buses in China. SAF-HOLLAND sells coupling systems for trucks, semi-trailers, trailers and special applications under the name V.ORLANDI. The York logo is carried by trailer axle and suspension systems primarily in India but also in several other major transportation markets in the APAC/China region. At a local level, mainly in the Middle East and East Africa, SAF-HOLLAND also uses the

TRILEX brand. SAF-HOLLAND's TrailerMaster brand is the first digital system for analyzing the data collected by semi-trailers. Currently, this system is only available in the UK.

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

SAF-HOLLAND's Product Brands

Trailer axles and suspension systems	**Towing and lifting technology**	**Suspensions for vocational trucks and buses**
Air suspensions for trucks and buses and axles and suspension systems for trailers in Brazil	**Air suspensions for trucks and buses in China**	**Coupling systems for trucks, semi-trailers, trailers and special applications**
Trailer axles and suspension systems		
SAF-HOLLAND ORIGINAL PARTS	**SAUER QUALITY PARTS and GOLDLINE QUALITY PARTS**	
▼ is the aftermarket brand for our premium products developed and tested to meet the most stringent requirements.	▼ are the aftermarket brands for our quality products developed and tested as the industry standard.	

LEADING POSITION IN AN OLIGOPOLISTIC MARKET

SAF-HOLLAND's core markets – Europe and North America – are largely dominated by oligopolistic competitive structures. Nearly all product segments are controlled by the three largest suppliers who together account for roughly 80-90 % of the market volume. In these markets, SAF-HOLLAND is one of the three leading suppliers in all of the relevant product segments. In Europe, SAF-HOLLAND is the leader in axle and suspension systems for trailers, and in North America, it is the market leader for fifth wheels, landing gear and kingpins.

In the emerging markets, however, market structures are less consolidated. Nevertheless, following the acquisition of York, SAF-HOLLAND is the market leader in India for trailer axle systems. In China, the Group holds the number 2 position in this area.

ORGANIZATIONAL STRUCTURE

As of December 31, 2018, SAF-HOLLAND's Group structure spanned three regions: EMEA, the Americas and APAC/China. Following the acquisition of the York Group in the 2018 financial year, India was reallocated from the EMEA/I region to the APAC/China region. This regional structure reflects the Group's reportable segments and includes both the original equipment and aftermarket businesses. Each segment is fully responsible for its own results and controls all the necessary resources. Cross-segment functions and key tasks to support the business units are centrally organized at the Group level.

Regionally focused structure

Americas

All product groups

EMEA

All product groups

APAC/China

All product groups

Legal group structure

in %

SAF-HOLLAND S.A.

100 % **SAF-HOLLAND GmbH**

- 100 % SAF-HOLLAND Polska Sp. z o.o.
- 100 % SAF-HOLLAND France S.A.S.
- 100 % SAF-HOLLAND Bulgaria EOOD
- 100 % SAF-HOLLAND Romania SRL
- 100 % SAF-HOLLAND España S.L.U.
- 100 % SAF-HOLLAND Italia s.r.l. unipersonale
- 100 % SAF-HOLLAND Czechia spol.s.r.o
  - 100 % SAF-HOLLAND Russland s.r.o
- 100 % SAF-HOLLAND do Brasil Ltda.
  - 57.5 % KLL Equipamentos para Transporte Ltda.
- 70 % V.ORLANDI S.p.A.
  - 100 % Orlandi Russia
- 100 % SAF-HOLLAND South Africa Ltd.
- 100 % SAF AL-KO Axle Co. (Xiamen formerly Jinan), Ltd.
- 95 % OOO SAF-HOLLAND Rus
- 100 % SAF HOLLAND Otomotiv Sanayi ve Ticaret Limited Sirketi
- 100 % SAF HOLLAND Middle East FZE
- 100 % York Transport Equipment (Asia) Pte Ltd, Singapore
  - 100 % York Transport Equipment Pty Ltd, Australia
  - 100 % York Transport Equipment (India)
  - 100 % York Sales (Thailand) Co Ltd, Thailand
  - 100 % YTE Special Products Pte Ltd, Singapore
    - 100 % Qingdao YTE Special Proucts Co Ltd, China
    - 100 % York Transport Equipment (Shanghai) Co. Ltd, China
  - 100 % YTE Transport Equipment (SA) (Pty) Ltd, South Africa
  - 100 % Rednet Pte Ltd, Singapore
  - 100 % PT York Engineering, Indonesia
- 100 % Corpco Tech, China
- 70 % Axscend Group Ltd, United Kingdom
  - 100 % Axscend Ltd., United Kingdom
- 100 % SAF-Holland (Shanghai) Investment Co., Ltd., China
  - 100 % SAF-Holland (Yangzhou) Vehicle Parts Co., Ltd., China
- 10 % SQG S. u. G. gem. GmbH

100 % **SAF-HOLLAND Inc.**

- 100 % SAF-HOLLAND Canada, Ltd.
- 100 % SAF-HOLLAND (Aust.) Pty., Ltd.
  - V.Orlandi Australia Pty., Ltd.
- 100 % SAF-HOLLAND (Malaysia) SDN BHD
- 100 % SAF-HOLLAND (Thailand) Co., Ltd.
- 100 % SAF-HOLLAND Verkehrstechnik GmbH
- 100 % SAF-HOLLAND Int. de Mecixo S. de R.L. de C.V.
  - 100 % SAF-HOLLAND International Services Mexico S. de R.L. de C.V.
- 100 % SAF-HOLLAND Hong Kong Ltd.
- 50 % SAF-HOLLAND Nippon, Ltd.
- 34 % Castmetal FWI S.A.
- 100 % SAF-HOLLAND India Pvt. Ltd.
- 100 % SAF-HOLLAND (Xiamen) Co., Ltd.

LEGAL STRUCTURE OF THE GROUP

SAF-HOLLAND S.A. is a company incorporated under the laws of Luxembourg, whose shares are listed exclusively in Germany. As the parent company of the Group, it holds all shares in SAF-HOLLAND GmbH, which in turn holds the interests in all local subsidiaries.

In the 2018 financial year, SAF-HOLLAND acquired the 20 percent stake in Corpco Beijing Technology and Development Co., Ltd., which was still owned by the founding family, making SAF-HOLLAND now the company's sole owner. SAF-HOLLAND also acquired India's York Transport Equipment (Asia) Pte. Ltd., Orlandi Australia Pty Ltd, and majority stakes in Italy's V.ORLANDI S.p.A. and Britain's Axscend Ltd. For further information on these acquisitions, please refer to the comments in the section entitled "Key Events" on page 46 and to the statements in the Notes starting on page 104.

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

INFLUENTIAL ECONOMIC AND REGULATORY FACTORS

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

Regulatory requirements can provide an added boost to product sales. The growing regulatory stringency worldwide in terms of load restrictions, fuel consumption and emission requirements for commercial vehicles, and the increasing importance of sustainability issues for truck and trailer manufacturers, is driving the demand for products that have the least possible effect on the environment. This increases the need for weight-reduced components – a development that benefits SAF-HOLLAND who today sells some of the lightest components on the market. Similar developments are occurring when it comes to safety requirements, which are also becoming tighter internationally. Again, this opens up attractive opportunities for SAF-HOLLAND as its products help meet the more stringent safety standards.

STRATEGY AND OBJECTIVES

GROWTH STRATEGY 2020: SALES GROWTH TO EUR 1.5 BILLION; TRANSFORMATION INTO A GLOBAL GROUP

With the introduction of Strategy 2020 in 2015, SAF-HOLLAND aligned its business to the global megatrends in the transportation industry early on. The anticipated strong growth in global consumption driven by factors such as a growing population and higher purchasing power – particularly in the middle class – leads to rising demand for goods and, consequently, steadily increasing transportation volumes. This calls for a substantial investment in transportation equipment, particularly in trucks and trailers, which are found at the beginning and end of every supply chain. This structurally driven market growth is mainly occurring in the emerging economies, particularly in the Asia Pacific, Middle Eastern and African markets. In the developed economies, trends such as the ever-increasing share of online commerce ("Amazon economy") are what is further increasing the demand for transportation capacity.

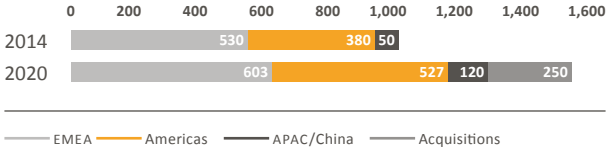
Under Strategy 2020, SAF-HOLLAND is transitioning from an international company into a global player with a strong presence in the three most important economic regions. The target of this strategy is to significantly increase the Group's presence in emerging markets by expanding its product portfolio and opening up new regional markets beyond the current core markets of Europe and North America. The goal is to increase the share of sales generated by the regions outside Europe and North America to 30 % by 2020.

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

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

Strategy 2020 sales targets

in EUR millions



The Group's key financial performance indicator, adjusted EBIT margin, is expected to reach an average level of at least 8 % by 2020, in accordance with the Group's targets. SAF-HOLLAND expects earnings per share to rise around 75 % compared to its level in 2014 and reach about EUR 1.20 by 2020. These expectations already take into account a higher number of shares from the exercise of conversion rights from the convertible bonds issued in 2014.

Despite this strong growth, the Group intends to retain its high level of capital efficiency. The annual investment volume over the next several years is expected to average around 4 – 5 % of sales. The ratio of net working capital to sales is expected to remain largely stable at around 13 %. The Group will continue to strive for a maximum leverage ratio (net debt/EBITDA) of 2.0, whereby a level of above 2.5 may be temporarily acceptable in case of larger acquisitions.

STRATEGY 2020 ORGANIC SALES TARGET ALMOST ACHIEVED ALREADY IN THE 2018 FINANCIAL YEAR

SAF-HOLLAND has almost achieved its organic sales target of EUR 1,250 million two years ahead of plan. Excluding KLL, V.ORLANDI, York and Axscend, which were acquired after the growth strategy was formulated, SAF-HOLLAND's sales in the 2018 financial year reached EUR 1,215.5 million. This corresponds to an average annual growth rate of 6.1 % compared to the 2014 reference year.

SAF-HOLLAND also reached important milestones with respect to its acquisition plans. In 2018, the acquired companies contributed a total of EUR 85.1 million to Group sales. It should be noted that York and V.ORLANDI were consolidated only on a pro rata basis over the past year and their full sales contribution will not be recognized until the 2019 financial year. As expected, most of this sales contribution originated from the emerging markets. SAF-HOLLAND still believes that acquisitions need to offer added strategic and financial value – at the right price. SAF-HOLLAND believes this is in the best possible interest of its shareholders and remains committed to these principles, also in the case of any future acquisitions.

SAF-HOLLAND has also already met its targets for profitability and capital efficiency. In the period from 2015–2018, the adjusted EBIT margin averaged more than 8 %. The slight miss on the margin target in the reporting year was primarily caused by the earnings situation in North America during the first half of 2018. The investment ratio in 2015-2017 was between 2.4 % and 2.6 %. As forecast at the beginning of 2018, spending on the new production center in China led to a temporary increase in the investment ratio in the past financial year to 3.1 %.

By taking on financial liabilities over the past years in the form of the issue of different tranches of a promissory note, SAF-HOLLAND has secured the financial basis necessary for the acquisitions planned under the Strategy 2020.

PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE INDICATORS

The most important performance indicators used to manage the Group are based on the development of sales, earnings and net assets, or derived therefrom, and include the following:

— Sales
— Adjusted EBIT (earnings before interest and taxes, adjusted for depreciation and amortization of property, plant and equipment and intangible assets from purchase price allocation, impairment reversals on intangible assets as well as restructuring and transaction costs) or the adjusted EBIT margin 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 the fourth quarter's sales extrapolated for the full year)

Financial performance indicators

In EUR millions

	Target 2020	2018	2017	2016	2015	2014
Sales	1,250–1,500	1,300.6	1,138.9	1,042.0	1,060.7	959.7
Adjusted EBIT	≥100–120	89.6	91.2	90.4	94.0	70.7
in % of sales	≥8%	6.9	8.0	8.7	8.9	7.4
Diluted earnings per share in EUR	~1,20	0.92	0.82	0.85	0.99	0.69
Net working capital	150–180	172.5	120.6	110.3	116.6[1]	102.7
in % of sales	13	13.5	11.0	10.9	12.0	10.9

[1] Excluding receivables of EUR 2.0 million from the sale of property in Wörth, Germany.

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

Other important financial performance indicators taken into account in corporate management include

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

NON-FINANCIAL PERFORMANCE INDICATORS

In addition to the financial performance indicators listed above, SAF-HOLLAND also relies on several non-financial indicators to aid in its decision-making. These indicators include, above all, data on delivery reliability, quality, sales volume, customer structure and satisfaction and market share development. The parameters gathered are recorded separately for each region and product group to give the Company the ability to detect developments at an early stage and specifically address them.

SAF-HOLLAND also takes sustainability indicators into account to measure its performance. These include employee-related indicators such as staff turnover rates, length of service, and training, as well as environmental-related indicators such as emissions, energy consumption and volume of waste. Further details on these indicators can be found in the section entitled "Sustainability" on page 80 and in the 2018 Sustainability Report, which will be published on April 30, 2019.

GROUP INTERNAL CONTROL SYSTEM

Each year, SAF-HOLLAND internally prepares a medium-term 5-year plan in addition to an annual budget. A periodic forecast is also prepared regularly each quarter for the respective financial year based on the Group's current business development.

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

INDUSTRY AND COMPANY-SPECIFIC LEADING INDICATORS

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

The management continuously monitors and analyzes the statistics and forecasts on overall economic development, as well as on the trends in the global truck and trailer markets of the relevant countries and regions. This data includes production and registration figures, as well as order intake.

RESEARCH AND DEVELOPMENT

A PIONEER IN INNOVATIVE SOLUTIONS

SAF-HOLLAND has earned itself a reputation in the market not only as a provider of premium solutions but even more so as a technology leader. The Group's customers expect it to provide innovative and pioneering solutions, especially when it comes to disc brake technology and lightweight construction. In order to live up to its claim to being a pioneer in the industry, SAF-HOLLAND attaches great strategic importance to its research and development activities. This commitment was demonstrated in the reporting year by the innovations presented by the Group at the IAA Commercial Vehicles trade show.

Research and development costs in the 2018 financial year amounted to EUR 19.6 million and were virtually unchanged year-on-year (previous year: EUR 20.4 million). In addition, capitalized development costs amounted to EUR 4.3 million (previous year: EUR 4.2 million). The decline in the R&D ratio to 1.8 % (previous year: 2.2 %) was solely a consequence of the strong rise in Group sales in 2018.

At the end of the 2018 financial year, the Group employed a total of 199 people (previous year: 175) in the areas of development, design and testing.

Multi-year overview of research and development

	2018	2017	2016	2015	2014
R&D expenses including capitalized development costs (in EUR millions)	23.9	24.6	23.4	24.6	21.9
R&D ratio (expenses as a percentage of sales)	1.8	2.2	2.2	2.3	2.3
Number of employees in the areas of development, design and testing	199	175	192	191	171

Our development activities focus not only on developing new products but also on adapting existing solutions to customer-specific and regional market requirements. Therefore, we have teams of developers and engineers in Germany and the United States, as well as worldwide. Close proximity to our customers ensures that the specific market expertise obtained by the local entities flows directly into the different variations of our products.

OPTIMIZING THE CUSTOMERS' TOTAL COST OF OWNERSHIP

The objective of the SAF-HOLLAND Group's research and development activities is to offer customers products that lower their total cost of ownership (TCO), to help ensure that their fleet operations are as efficient as possible. This is the reason why our research and development activities have long focused on the areas of weight reduction with lightweight components, longevity and safety. In the last several years, "digitization" has also become a focus of the Group's activities. At SAF-HOLLAND, digitization means, for one, the combination of its mechanical products with sensors and electronics; for example, the integration of electronic intelligence in axles, suspensions and fifth wheel couplings. At SAF-HOLLAND, these activities fall under the motto "SMART STEEL – ENGINEER, BUILT, CONNECT."

Another facet of digitization is the ability to link systems intelligently and evaluate the collected data. Digitization can be used, for example, to monitor the wear and tear of components such as brake pads and avoid damage to the trailer. This capability goes hand-in-hand with optimizing the maintenance intervals and minimizing downtimes. Fleet operators can also access accurate, real-time information about the position of the trailer and the loading and condition of the load. This information gives operators what they need to further optimize their route and service scheduling. SAF-HOLLAND significantly enhanced its capabilities in this area in the reporting year through its acquisition of Axscend.

During the reporting year, SAF-HOLLAND presented a number of product innovations at trade shows in Germany and abroad and provided insight into its development pipeline over the next few years. One of the highlights was the IAA Commercial Vehicles trade show in Hanover, Germany, in September 2018 where, under the motto "Future is now," SAF-HOLLAND presented upcoming products such as its automatic coupling system and the new trailer axles with electric drives (SAF TRAKr and TRAKe).

SAF INTRA CD TRAK

One of the 2018 highlights at the IAA to enter series production was the SAF INTRA CD TRAK trailer axle concept. This system works as a pull-away assist and supports the tractor unit on inclines and difficult terrain using a hydraulically driven motor. This special motor directs the required performance right to the trailer precisely where it is needed, enabling the drive axle to carry the full axle load and transmit the entire drive torque. This makes the SAF INTRA CD TRAK especially well suited for tippers at construction sites or landfill areas and is optimized for trailers in the 9 ton standard range. The system is particularly durable, requires little maintenance and has an exceptionally long service life, making it an attractive solution.

The SAF INTRA CD TRAK concept was first presented in 2016 and further developed in the years that followed in close cooperation with customers. SAF-HOLLAND therefore had the opportunity to incorporate customers' suggestions into the finished product. SAF INTRA CD TRAK has been in series production and available since 2018, helping to demonstrate SAF-HOLLAND's systems expertise outside of mechanical components.

SAF INTRADRUM, SAF MODUL AND SAF INTRA BILL

In an effort to reduce weight even further, SAF-HOLLAND introduced a series of new axle systems featuring the SAF INTRADRUM, which combines the proven SAF INTRA suspension system with a drum brake. Using an optimized wheel hub unit, the weight was reduced by 80 kg per axle or 240 kg per trailer compared to the predecessor product. The new version of the INTRADRUM is specifically designed for vehicles with 19.5-inch tires and a maximum axle load of 9 tons.

Another product to contribute significantly to weight savings is the SAF MODUL. The bolted axle connection allows numerous combinations and is particularly well suited for vocational applications involving axle loads of 9–14 tons. The SAF MODUL is 28 kg lighter per axle than its predecessor.

The SAF INTRA BILL self-steering axle system was especially developed for delivery traffic and winding roads. By optimizing the steering knuckles and axle stub, the weight has been reduced by 35 kg for optimum maneuverability. This system helps reduce tire wear and fuel consumption and has easy maintenance.

TRAILERMASTER

The patented TrailerMaster system allows any trailer to be upgraded to a smart trailer with numerous data-based functionalities. The intelligent interface for line connection technology takes on a range of tasks that were previously distributed to different systems. The most important integrative functionalities include a lighting functions control, load testing and optimization, the evaluation of tire pressure monitoring data and EBS, patented performance data and a status evaluation of the brake system. The TrailerMaster system also provides a maintenance planning tool that automatically informs fleet managers by e-mail or text message of an upcoming routine service or tire check. The collected data can also be transferred and evaluated even when the trailer is in an uncoupled state. This saves fleet managers time and money and enables them to operate their fleets more efficiently.

The TrailerMaster system was originally developed by the British telematics and connectivity specialist Axscend Ltd. This system was further developed together with SAF-HOLLAND following SAF-HOLLAND's acquisition of Axscend in 2018. Initially, the developers combined mechanical chassis systems with TrailerMaster technology in order check the braking performance of trailers and semi-trailers. SAF-HOLLAND introduced this new solution in Europe as its complete digital offer for trailer management and intends the next step to be its introduction worldwide.

NUMBER OF PRIORITY APPLICATIONS REMAINS HIGH IN THE 2018 FINANCIAL YEAR

Our high number of priority applications for many years validates our innovative strength and the effectiveness of our research and development activities. A priority application is the term describing the initial filing of a patent or patent family at a designated patent office. These are usually accompanied by a number of partial or supplemental applications. Of the total of 38 new applications in the past year, 20 applications were submitted by SAF-HOLLAND GmbH and 18 by SAF-HOLLAND Inc.

Number of priority applications

	2018	2017	2016	2015	2014
Number of priority applications	**38**	50	36	30	41

CORPORATE GOVERNANCE

MANAGEMENT AND CONTROL

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

BOARD OF DIRECTORS

As a financial holding company without its own operating business, the management of SAF-HOLLAND S.A. by the Board of Directors focuses primarily on the strategic direction of the SAF-HOLLAND Group and overseeing the operations of each of its direct and indirect operating subsidiaries. In addition, the Board of Directors advises, controls and monitors the Group Management Board. Further details on the cooperation between the Board of Directors and the Group Management Board in the reporting year is provided in the section entitled "Report of the Board of Directors" on page 8.

In 2018, the Board of Directors also dealt with sustainability issues in the context of non-financial reporting. The Board of Directors discussed Corporate Social Responsibility (CSR) aspects and the potential impact of SAF-HOLLAND's business policy on society. The main topics discussed were employee, social and environmental concerns, respect for human rights and the fight against corruption and bribery.

In accordance with the requirements of the German Corporate Governance Code, the Chair of the Board of Directors has agreed to hold discussions with investors on supervisory board topics in an appropriate framework.

The Board of Directors may consist of external members, non-executive directors and executive directors who are the operational managers of the Company. At SAF-HOLLAND, the Board of Directors currently has six members. Five of these members, including Chair Martina Merz, are external members. Until February 25, 2019, the sixth seat on the Board was held by Detlef Borghardt, SAF-HOLLAND's Chief Executive Officer (CEO), ensuring that a member of the Board of Directors is directly involved in the daily business of the SAF-HOLLAND Group. The Board of Directors appoints a chair and vice chair from among its members. In accordance with the Articles of Association, the Board decides by a simple majority of the members present or represented at a meeting. At least half of the members must be present or represented (quorum).

According to the SAF-HOLLAND S.A. Articles of Association, as a rule, there must be at least three independent members on the Board of Directors. As of December 31, 2018, three of the six members were classified as independent as defined by the Company's Articles of Association. The independent members are Martina Merz, Anja Kleyboldt and Carsten Reinhardt. When considering whether a member of the Board of Directors should be classified as dependent or independent, the Company follows the recommendations of the European Commission of February 15, 2005, regarding the role of non-executive and supervisory directors in listed companies. Dr. Martin Kleinschmitt and Jack Gisinger are two former members of the Group Management Board who are currently members of the Board of Directors. Detlef Borghardt, Chief Executive Officer of SAF-HOLLAND (until February 25, 2019), is also classified as a dependent member as defined by the Articles of Association of SAF-HOLLAND S.A.

Board of Directors

As of December 31, 2018

Name	Position	First appointment	Term expires
Martina Merz[1]	Chair of the Board of Directors (since April 27, 2017) Non-Executive Director	April 24, 2014	April 2019
Dr. Martin Kleinschmitt[2, 3]	Vice Chair of the Board of Directors (since April 27, 2017) Non-Executive Director	April 25, 2013	April 2019
Detlef Borghardt[3]	Member of the Board of Directors Executive Director	October 1, 2011	April 2020
Jack Gisinger[2, 4]	Member of the Board of Directors Non-Executive Director	April 27, 2017	April 2020
Anja Kleyboldt[1]	Member of the Board of Directors Non-Executive Director	April 26, 2012	April 2019
Carsten Reinhardt[1]	Member of the Board of Directors Non-Executive Director	April 27, 2017	April 2020

[1] Independent member as defined by the SAF-HOLLAND Articles of Association
[2] Former member of the SAF-HOLLAND Group Management Board
[3] Dependent member as defined by the SAF-HOLLAND Articles of Association (Annex II Ziff. 1c of the European Commission Recommendation of February 15, 2005)
[4] Dependent member as defined by the SAF-HOLLAND Articles of Association (Annex II Ziff. 1a of the European Commission Recommendation of February 15, 2005)

More information on the activities of the Board of Directors during the 2018 financial year can be found in the corresponding report on page 8.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has set up four committees so that it may perform its duties effectively – the Audit Committee, the Remuneration Committee, the Nomination Committee and the Special Committee North America. The Audit Committee, the Remuneration Committee and the Nomination Committee are comparable to the corresponding committees of a German supervisory board. As set out in the Articles of Association, the main task of the Nomination Committee, created in 2018, is to propose suitable candidates to fill the Board of Directors and the Group Management Board. To do this, the Committee creates the appropriate requirement and competence profile and checks the independence of the candidates in question. In December 2018, the Board of Directors also established the Special Committee North America, whose task it is to receive and discuss routine reports on the progress made in North America beginning with the 2019 financial year. More information on the tasks and activities of the respective committees during the reporting year can be found in the Report of the Board of Directors on page 8.

The Nomination Committee consisted of the following members as of December 31, 2018:

— Martina Merz (Chair)
— Jack Gisinger
— Anja Kleyboldt

Two of the three members of the Nomination Committee are independent members of the Board of Directors.

The members of the Audit Committee were unchanged as of December 31, 2018, compared to the prior year and consisted of:

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

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

The members of the Remuneration Committee were unchanged as of December 31, 2018, compared to the prior year and consisted of:

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

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

The Special Committee North America consisted of the following members as of December 31, 2018:

— Carsten Reinhardt (Chair)
— Dr. Martin Kleinschmitt
— Anja Kleyboldt

Two of the three members of the Special Committee North America were independent members of the Board of Directors.

GROUP MANAGEMENT BOARD

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

In addition to the members with functional responsibility (CEO, CFO, COO and CPO), the Group Management Board's responsibilities are allocated by region in line with the respective organizational structure of the SAF-HOLLAND Group. The Americas, EMEA and the country of China regions are each represented by their own Managing Director. The former APAC/China region was led by the Chief Executive Officer until the end of 2018. Due to the division of this region into two new regions – APAC/India and China – each of the new regions has had a representative on the Management Board since January 1, 2019. At the end of 2018, SAF-HOLLAND's Group Management Board consisted of the following five members:

Group Management Board

As of December 31, 2018

Detlef Borghardt*	Chief Executive Officer (CEO) President Region APAC/China
Dr. Matthias Heiden*	Chief Financial Officer (CFO)
Alexander Geis*	President Region EMEA
Guoxin Mao	President Region China
Steffen Schewerda*	President Region Americas

* Managing Director of SAF-HOLLAND GmbH

REMUNERATION SYSTEM

GROUP MANAGEMENT BOARD

The Remuneration Committee of the Board of Directors conducts an annual review of the Group Management Board's remuneration in terms of its structure and appropriateness. Remuneration is based on the Company's size and global orientation, as well as on its economic and financial situation. The level and structure of remuneration are designed to be internationally competitive to provide incentives for engaging and succeeding in a dynamic business environment. The duties and performance of each Group Management Board member are also taken into account when determining remuneration.

Group Management Board remuneration for the 2018 financial year is reported in accordance with the applicable accounting principles (DRS 17) as well as the recommendations of the German Corporate Governance Code.

The remuneration package consists of the following components:

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

The average total annual remuneration of a Group Management Board member consisting of fixed salary and short-term and long-term variable remuneration corresponds to around 15 times the average remuneration of an employee of the German company and 9 times the annual salary of an employee in the highest salary scale under a collective agreement. The vertical compensation comparison substantiates the appropriateness of the Group Management Board's compensation.

The following criteria applied to the individual components of the Group Management Board's remuneration in the 2018 financial year:

Fixed annual base salary

The base salary is a set amount of remuneration for the entire year and is granted on a monthly basis. Unlike many other companies, the members of the Group Management Board do not receive pension benefits from the Company. To counterbalance this, the Company introduced a compensation component in the 2018 financial year that is added to the base salary.

Short-term variable remuneration (short-term incentive – STI)

The annual bonus is variable cash remuneration based on the measurable success of the Company in the past financial year and is determined on the basis of the consolidated financial statements for the respective financial year. STI remuneration depends on the achievement of three set targets: Group sales, net working capital and adjusted EBIT. The target achievement for financial targets requires a minimum of 70 %. If the sum of the weighted individual target achievement for the financial targets is below 70 % (threshold), then there is no pro rata payout of the target bonus. The target achievement for financial targets is capped at 125 %. The amount of the remuneration to be paid is calculated by multiplying the percentage of the target achievement by the target bonus amount. In the year of joining and leaving the company, the BoD member is entitled to a pro rata bonus.

Long-term variable remuneration (variable long-term incentive – LTI)

The LTI is a variable remuneration component whose objective is the Company's long-term appreciation in value, which sustainably links the interests of the Company' management and executives with the interests of the shareholders of SAF-HOLLAND S.A. The program used is a performance share unit plan (PSUP) introduced in 2013 that takes into account both company performance and share price performance and stipulates a four-year performance period.

Participants receive virtual share units at the beginning of the performance period, the number of which is calculated by dividing the remuneration amount allocated annually by the Board of Directors by the average share price over the last two months of the year preceding the allocation. An entitlement to shares of SAF-HOLLAND S.A. does not exist. The remuneration amount is determined by the Board of Directors at the beginning of the performance period. At the end of the performance period, the allocated number of share units is adjusted by multiplying this amount by a target achievement factor. The target achievement factor is the ratio of the average company performance achieved (adjusted EBIT margin) during the performance period divided by the average target value previously set for the performance period.

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

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

The prerequisite for exercising stock appreciation rights is the achievement of a defined performance target. This performance target is met when, during the grant period, the Group on average achieves the minimum operating performance, which is measured in terms of the "adjusted EBIT" performance indicator. A level of target achievement that is below 70 % results in a target achievement factor of "0" and no payout.

If a Group Management Board member leaves the Company or a Group company prior to the expiration of the performance period as a result of death, disablement, disability or retirement according to the contractually agreed age, he or she will receive a potential payout amount on a pro rata basis on the payment due date.

A potential payment may be temporarily withheld by the Board of Directors should imminent or urgent financial issues at SAF-HOLLAND S.A. and/or a Group company make a payment impossible. Generally, the Board of Directors is allowed to suspend or terminate the LTI plan at any time. Rights from already granted plans cannot be subsequently changed without the consent of the participant.

A payout from the Performance Share Unit Plan (PSUP) is limited to 200 % of the participant's gross annual salary at the time of payment. This cap in conjunction with the fixed base salary and the upper limit of 125 % of the short-term variable compensation thereby constitute the maximum limit for the remuneration of the members of the Management Board.

The Company does not require members of the Group Management Board to invest parts of their remuneration into company shares.

Fringe benefits

The taxable fringe benefits granted to the Group Management Board consist primarily of company cars and insurance benefits. Both workmen's compensation and D&O insurance have been concluded as part of the insurance benefits.

Review and adjustment of remuneration

A review of remuneration components is performed annually by the Board of Directors. The BoD has the right to grant the Group Management Board special compensation. Based on the results of an externally conducted Executive Compensation Survey in 2017 that identified differences in compensation for comparable companies, individual Management Board members were granted a compensation payment for 2017 in the form of a one-time special payment in April 2018. The findings of the survey, especially with respect to the absence of an otherwise customary pension plan, led to a 15 percent salary adjustment as of the beginning of 2018.

Severance payments

The members of the Group Management Board have permanent contracts with a notice period of 12 months. If the employment contract has been in place for at least two years at the time of termination, the member of the Group Management Board who is also a managing director of SAF-HOLLAND GmbH receives a severance payment amounting to 1.5 times the current annual base salary and 1.5 times the short-term variable bonus upon termination without good cause. The amount of the variable bonus is based on the average of the variable bonus payments made in the 3 prior years.

Loans to members of the Group Management Board

In 2018, there were no loans or advances made to members of the Group Management Board.

REMUNERATION OF THE GROUP MANAGEMENT BOARD

Group Management Board remuneration for the 2018 financial year is reported in accordance with the applicable accounting principles (DRS 17) as well as the recommendations of the German Corporate Governance Code in the version of February 7, 2017.

The total remuneration of the management and the managing directors according to Section 314 (1) no. 6a sentence 7 to 4 HGB are shown in the following overview. The remuneration of Arne Jörn is based on the period that ended with the end of his duties on February 28, 2018. The remuneration of Dr. Heiden in 2017 is based on the start of his employment on March 1, 2017.

Pursuant to DRS 17: Section 315e ICW Section 315(2) and Section 314(1) HGB

In kEUR

	Detlef Borghardt		Dr. Matthias Heiden		Alexander Geis		Steffen Schewerda		Guoxin Mao		Arne Jörn		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Non-performance related components	625	477	363	259	400	305	322	339	299	251	45	250	2.054	1.881
Performance-related components	162	237	123	0	159	186	113	105	115	50	128	57	799	635
Long-term incentive	419	683	188	0	237	387	252	367	59	0	0	64	1,155	1,501
Total remuneration	**1,206**	**1,397**	**674**	**259**	**796**	**878**	**686**	**811**	**473**	**301**	**173**	**371**	**4,009**	**4,017**

German Corporate Governance Code (GCGC)

In kEUR

	Detlef Borghardt				Dr. Matthias Heiden Employed as of March 1, 2017				Alexander Geis			
	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Base salary	452	530	530	530	250	352	352	352	294	345	345	345
Bonus compensation		68	68	68	0	0	0	0	0	44	44	44
Fringe benefits	25	27	27	27	9	11	11	11	11	11	11	11
Total	**477**	**625**	**625**	**625**	**259**	**363**	**363**	**363**	**305**	**400**	**400**	**400**
1-year variable remuneration	220	220	0	275	167	200	0	250	160	160	0	200
Multi-year variable remuneration	0	0	0	0	0	0	0	0	0	0	0	0
2014 – 2017 LTI Plan	0	0	0	0	134	0	0	0	0	0	0	0
2015 – 2018 LTI Plan	0	0	0	0	170	0	0	0	0	0	0	0
2016 – 2019 LTI Plan	0	0	0	0	170	0	0	0	0	0	0	0
2017 – 2020 LTI Plan	300	0	0	1,060	170	0	0	500	170	0	0	588
2018 – 2021 LTI Plan	0	300	0	1,060	0	170	0	704	0	170	0	690
Total	**520**	**520**	**0**	**2,395**	**811**	**370**	**0**	**1,454**	**330**	**330**	**0**	**1,478**
Pension-related expenses	0	0	0	0	0	0	0	0	0	0	0	0
Total remuneration	**997**	**1,145**	**625**	**3,020**	**1,070**	**733**	**363**	**1,817**	**635**	**730**	**400**	**1,878**

German Corporate Governance Code (GCGC)

In kEUR

	Steffen Schewerda				Guoxin Mao				Arne Jörn Resignation on February 25 ,2018			
	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Base salary	319	302	302	302	196	245	246	246	240	43	43	43
Bonus compensation	0	0	0	0	0	0	0	0	0	0	0	0
Fringe benefits	20	20	20	20	55	54	54	54	10	2	2	2
Total	**339**	**322**	**322**	**322**	**251**	**299**	**300**	**300**	**250**	**45**	**45**	**45**
1-year variable remuneration	194	186	0	232	118	115	0	145	150	25	0	31
Multi-year variable remuneration	0	0	0	0	0	0	0	0	0	0	0	0
2014 – 2017 LTI Plan	0	0	0	0	0	0	0	0	0	0	0	0
2015 – 2018 LTI Plan	0	0	0	0	0	0	0	0	0	0	0	0
2016 – 2019 LTI Plan	0	0	0	0	0	0	0	0	0	0	0	0
2017 – 2020 LTI Plan	170	0	0	638	170	0	0	392	170	0	0	480
2018 – 2021 LTI Plan	0	170	0	604	0	170	0	492	0	0	0	0
Total	**364**	**356**	**0**	**1,474**	**288**	**285**	**0**	**1,029**	**320**	**25**	**0**	**511**
Pension-related expenses	10	9	9	9	0	0	0	0	0	0	0	0
Total remuneration	**714**	**687**	**331**	**1,805**	**531**	**584**	**300**	**1,329**	**570**	**70**	**45**	**556**

German Corporate Governance Code: Benefits granted

In kEUR

	Total			
	2017	2018	2018 (Min)	2018 (Max)
Base salary	1,752	1,817	1,818	1,818
Bonus compensation	0	112	112	112
Fringe benefits	130	125	125	125
Total	**1,801**	**2,054**	**2,055**	**2,055**
1-year variable remuneration	1,009	906	0	1,133
Multi-year variable remuneration	0	0	0	0
2014 – 2017 LTI Plan	134	0	0	0
2015 – 2018 LTI Plan	170	0	0	0
2016 – 2019 LTI Plan	170	0	0	0
2017 – 2020 LTI Plan	1,150	0	0	3,658
2018 – 2021 LTI Plan	0	980	0	3,550
Total	**2,633**	**1,886**	**0**	**8,341**
Pension-related expenses	10	9	9	9
Total remuneration	**4,525**	**3,949**	**2,064**	**10,405**

Inflow in accordance with the GCGC

In kEUR

	Detlef Borghardt		Dr. Matthias Heiden		Alexander Geis		Steffen Schewerda		Guoxin Mao		Arne Jörn		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Base salary	452	530	250	352	294	345	319	302	196	245	240	43	1, 751	1,817
Bonus compensation	0	68	0	0	0	44	0	0	0	0	0	0	0	112
Fringe benefits	25	27	9	11	11	11	20	20	55	54	10	2	130	125
Total	**477**	**625**	**259**	**363**	**305**	**400**	**339**	**322**	**251**	**299**	**250**	**45**	**1,881**	**2,054**
1-year variable remuneration	237	162	0	123	186	159	105	111	50	115	57	128	635	798
2013 – 2016 LTI Plan	683	0	0	0	387	0	367	0	0	0	64	0	1,501	0
2014 – 2017 LTI Plan	0	419	0	188	0	237	0	252	0	59	0	0	0	1,155
Total	**920**	**581**	**0**	**311**	**573**	**396**	**472**	**363**	**50**	**174**	**121**	**128**	**2,136**	**1,953**
Pension-related expenses	0	0	0	0	0	0	10	9	0	0	0	0	10	9
Total remuneration	**1,397**	**1,206**	**259**	**674**	**878**	**796**	**821**	**694**	**301**	**473**	**371**	**173**	**4,027**	**4,016**

REMUNERATION OF THE BOARD OF DIRECTORS

Members of the Board of Directors receive their fixed annual remuneration after the end of the financial year, which means that the fixed annual remuneration for the year 2017 was paid out in the year 2018. Performance-based or stock-based compensation components are not granted.

The Chair receives 2.5 times the remuneration of the other members of the Board of Directors. The chairs of committees also receive an additional EUR 20,000.

The remuneration of each member of the Board of Directors, paid out in the year 2018 for the year 2017, is set out below:

Renumeration of the Board of Directors

In kEUR

Martina Merz[1]	Chair of BoD	81
Dr. Martin Kleinschmitt	Vice Chair of BoD	60
Detlef Borghardt	Member of BoD	–
Jack Gisinger	Member of BoD	40
Anja Kleybolt	Member of BoD	40
Carsten Reinhardt[2]	Member of BoD	27

[1] First appointment as chair of the Board of Directors on April 27, 2017
[2] First appointment as member of the Board of Directors on April 27, 2017

In addition, a D&O group insurance policy was concluded for the Group Management Board that also covers the members of the Board of Directors.

Detlef Borghardt did not receive any additional remuneration for his mandate on the Board of Directors in addition to his remuneration as Chief Executive Officer.

No advances or loans were made to members of the Board of Directors in 2018.

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

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

The Declaration of Conformity based on the current version of the German Corporate Governance Code dated February 7, 2017, and submitted by the Board of Directors on March 20, 2019 is permanently available on our website at http://corporate.safholland.com/en/company/about-us/corporate-governance/corporate-governance.

A COMPLIANCE SYSTEM BASED ON A COMPREHENSIVE CODE OF CONDUCT

Corporate integrity has the highest priority at SAF-HOLLAND. In our view, the concept of compliance refers not only to compliance with the applicable national and international laws and regulations but also includes a commitment to ethical and moral values. This is the reason we have established a Compliance department to help our employees meet these requirements.

The head of the Compliance & Legal Affairs department oversees compliance management and reports directly to the Chief Financial Officer. The design and effectiveness of the compliance management system are also the subject of reviews conducted by the Internal Audit department. The overall responsibility for the compliance system, regulatory compliance and internal corporate policies lies with the Board of Directors. Therefore, the Board of Directors' Audit Committee attends regularly to the compliance management system, its effectiveness and further development.

In 2018, a whistleblower system was implemented throughout the Group, giving employees the opportunity to provide anonymous and protected information about legal violations in the Company. This system is also available to third parties.

Our Code of Conduct comprises the compliance requirements for the SAF-HOLLAND Group, which are binding for the Company and the management, as well as each individual employee.

The Code of Conduct includes but is not limited to regulating the following:

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

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

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

DIVERSITY AT SAF-HOLLAND

DIVERSITY AS A FACTOR FOR SUCCESS

In the scope of our global business activities, the Group employs people from many different nations and cultures with diverse historical, social and cultural backgrounds and lifestyles. With locations and sales offices in Dubai, Turkey, Russia, South Africa, China, India, Thailand, Malaysia, Brazil, Mexico, Canada and the United States, almost all denominations are represented in our Group's workforce.

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

SAF-HOLLAND has taken a number of measures demonstrating its commitment to diversity in the workplace where employees with very different backgrounds contribute new perspectives and creative approaches.

— Trainees visit workshops sponsored by the self-help organization "Lebenshilfe" for two weeks at a time to learn how to strengthen their social skills by interacting with severely handicapped people, among other things.
— In an international trainee program, university graduates from a wide range of cultural backgrounds (e.g., China and Vietnam) are able to take part in a training program at rotating locations within the SAF-HOLLAND Group.
— As part of our employee development program, we offer multi-culture workforce training, which is popular, especially among executives.

TARGET FOR THE PROPORTION OF WOMEN IN MANAGEMENT POSITIONS

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

The proportion of women on the Board of Directors of SAF-HOLLAND S.A. is 33 %, which exceeds the female quota required by German law of at least 30 % on supervisory boards. Since April 27, 2017, SAF-HOLLAND has a woman, Martina Merz, as Chair of the Board of Directors. SAF-HOLLAND has also set targets for the proportion of women in the first and second management levels below the Group Management Board (Vice Presidents and Directors) at the Group's German locations. The Company is striving for a women's quota of 12.5 % at each of these management levels by mid-2022. This target figure compares to a share of women in the Group's total workforce in Germany of currently around 12 %. At the end of 2018, the proportion of women in top management positions was 4.6 % (previous year: 5.0 %). The search for and recruitment of women, especially in the commercial vehicle industry where the representation of women is traditionally low, is proving to be challenging. The technical orientation common in the industry and the associated qualifying technical courses also tend to have a lower-than-average proportion of women.

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

Group Management Board

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

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

For all appointments, the Board of Directors takes into account all individual circumstances in determining which characteristics a new Board member should possess in order to join. Although female candidates were considered in the search for a new COO in 2018, ultimately, the Board decided on a male candidate, Dr. André Philipp, based on his extensive experience in the automotive industry, especially in the North American and Chinese markets.

Board of Directors

The Board of Directors should consist of members that have the knowledge, experience and abilities listed below that are required to perform their duties properly.

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

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

PAY TRANSPARENCY LAW

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

As a result, SAF-HOLLAND conducted a review in Germany in 2017 of the equality of pay for men and women in equal jobs. A review was carried out that included all employees to determine whether men and women with equivalent jobs were in the same pay groups under the tariff agreement with the union of the Bavarian Metal and Electrical Industry. A review was also carried out on the remuneration components and amount of remuneration. When examining the groups of equivalent activities, elements of pay, and rates of pay, no significant differences were found between the genders. Only in a few isolated cases were employees grouped differently due to their different seniority and experience. These cases were resolved in 2018.

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

ANNUAL GENERAL MEETING

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

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

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

TRANSPARENCY

SAF-HOLLAND S.A. is committed to full, equitable and timely communication with its shareholders and the public to ensure maximum transparency and the equal dissemination of information. The dates of regular financial reporting and other important events, such as the Annual General Meeting, are available in the financial calendar. SAF-HOLLAND also has all annual and quarterly reports, ad-hoc statements and press releases, investor presentations and notifiable changes in voting rights available in both German and English on the SAF-HOLLAND website. The website gives those interested the chance to find out more about the Group, its organizational structure, financing structure, Articles of Association, members of the Board of Directors and Management Board and upcoming and previous Annual General Meetings.

With the publication of the SAF-HOLLAND S.A. annual financial statements, the Company hosts an analyst and investor meeting, and following the publication of the quarterly results, it holds regular conference calls. Recordings of these conference calls are also available on the website.

ACCOUNTING AND AUDITING

The consolidated financial statements and the interim reports of SAF-HOLLAND S.A. are prepared by the Board of Directors in cooperation with the Group Management Board in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The consolidated financial statements are published within 90 days of the end of the financial year (31 December), and the interim financial information (half-year report and quarterly statements) within 45 days of the end of each quarter or half-year.

The consolidated financial statements were audited by PricewaterhouseCoopers Sociéte Cooperative, Luxembourg, which is the auditor elected by the 2018 Annual General Meeting. The audit of the consolidated financial statements was conducted in accordance with the International Standards on Auditing, adopted by the Commission de Surveillance du Sector Financier (CSSF) for Luxembourg. Before awarding the audit mandate, the Board of Directors was assured by the auditor of its independence and objectivity. The financial statements are discussed, reviewed and approved by the Board of Directors after their preparation by the Audit Committee.

MANAGER'S TRANSACTIONS

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

During the 2018 reporting year, SAF-HOLLAND received three notifications of managers' transactions and a total of three notifications of transactions from persons closely related to managers. All notifications were and are available on our website at http://corporate.safholland.com/en/investor-relations/publications/announcements.

SHAREHOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT BOARD

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

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

a) The information referred to in Article 11 (1) (a) of the Takeover Law (capital structure) is on page 14 of this annual report.

b) There are no restrictions on the transfer of shares under the Company's Articles of Association.

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

Shareholder name	Shares[1, 2]	% share of voting rights[1]
Times Square Capital, USA	2,354,472	5.19 %
NN Group N.V., NL	2,342,860	5.16 %
Kempen Oranje Participaties , NL	2,297,543	5.07 %
Nordea 1 SICAV, LUX	2,297,403	5.06 %
Union Investment Privatfonds, D	2,288,386	5.04 %

[1] As of December 31, 2018
[2] Total number of SAF-HOLLAND shares: 45,394,302

d) There are no shareholders possessing special powers of control.

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

f) There are no restrictions on voting rights under the Company's Articles of Association or any other rules restricting voting rights.

g) As of December 31, 2018, the Company was not aware of any agreements between shareholders that would lead to a restriction on the transfer of shares or voting rights as defined by Directive 2004/109/EC as amended (Transparency Directive).

h) The members of the Board of Directors in accordance with Article 7.1 and 7.4 and in conjunction with Article 17.10 of the Articles of Association and Article 450-1 (2) of the Luxembourg Law (Loi du 10 août 1915 concernant les sociétés commerciales) of August 10, 1915, on commercial companies, as amended, may be elected at a general meeting of shareholders by a simple majority (i.e., 50 % plus one of the voting rights present or represented at the general meeting of shareholders) and may be removed from office with or without specifying a reason. There is no quorum requirement. Members of the Board of Directors may be reelected, but their total term of office should not exceed twelve years. Should a member of the Board of Directors leave the Company, the remaining members may choose a substitute member by a simple majority vote until the next general meeting of shareholders (principle of co-option).

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

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

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

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

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

   The Company has issued several tranches of a promissory note totaling EUR 200 million with differing maturities. In the case of a change of control, the contractual terms of the respective notes, as described in detail in Article 13 (3) and (4) of the respective contractual terms and conditions, grant each noteholder the right to declare due in whole the noteholder's portion of the note and to demand immediate repayment at the nominal value plus any interest that may have accrued and any other amounts owed in accordance with the respective promissory note agreement.

   The current credit agreements with various banks (syndicated loans) also include provisions in the event of a change of control. These agreements pertain to drawn and undrawn lines of credit of a total volume of EUR 200 million. Following a change of control, the Company is required to inform the paying agent of that event immediately. The creditors have the discretionary right to declare due via the paying agent all outstanding credit lines plus any interest that may have accrued and all other amounts owed in accordance with the respective loan agreements, provided they notify the paying agent within a period of 30 days. The paying agent is obliged to inform the Company of this within 10 days.

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

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

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

Agreements do, however, exist between the Company and some employees in the respective departments that provide compensation arrangements for these employees under certain circumstances in the case of a takeover bid if the employment relationship while in their respective position is terminated as a direct result of a takeover. From a financial standpoint, these agreements are of minor importance for the Company and include an extension of the statutory notice period for a further three months and/or the assurance of severance pay in the amount of one average gross monthly salary per year of employment. The level of expenses that could arise in this connection should be considered very small in terms of both their total amount and in relation to a takeover offer.

ECONOMY AND INDUSTRY ENVIRONMENT

OVERALL ECONOMIC ENVIRONMENT: SOLID GLOBAL ECONOMIC GROWTH DESPITE EMERGING RISKS

The global economy continued its upward trend in 2018. According to estimates by the International Monetary Fund (IMF), global growth in 2018 registered a solid increase of 3.7 %, almost matching the previous year's level (3.8 %), but slightly below the growth acceleration of 3.9 % hoped for at the beginning of the year. The greatest stimulus in 2018 came from the United States, where tax cuts that came into effect earlier in the year and the government's containment of regulatory requirements triggered a surge in growth. Gross domestic product (GDP) in the US in 2018 increased by 2.9 %. The economic development in Europe was more moderate, as expected. With an increase in GDP of 1.8 %, the eurozone economy grew solidly again in 2018. Economic development in the emerging markets was mixed. While SAF-HOLLAND's key emerging economies, China (+ 6.6 %) and India (+ 7.3 %), continued their economic recovery at a high level, countries such as Turkey and Argentina came under pressure due to the sharp depreciation in their local currencies.

SECTOR DEVELOPMENT: BETTER-THAN-EXPECTED DEMAND FOR TRUCKS AND TRAILERS IN NEARLY ALL MARKETS

The development of the global commercial vehicle markets in 2018 exceeded the expectations described in the 2017 Annual Report – particularly with respect to the high demand for trucks and trailers in North America. Markets in Europe also performed slightly better than the expectations published at the start of the year. Sales in some of SAF-HOLLAND's key regional markets, such as Australia and Brazil, also grew faster during the year than originally forecast.

TRUCK REGISTRATIONS AROUND 3 % HIGHER IN EUROPE

New registrations for heavy trucks (over 16 tons), the vehicle class relevant to SAF-HOLLAND, increased by 3.1 % in the European Union in 2018 according to the European Automobile Manufacturers Association ACEA. As a result, the European truck market once again exceeded the experts' growth expectations, which were 2 % at the beginning of the year. The strong overall economic situation in Europe gave a particular boost to the high-volume markets of Germany, France and Italy. In the United Kingdom, uncertainties surrounding the upcoming Brexit led to 5.4 % fewer heavy truck registrations than in 2017.

In Russia, new registrations of heavy and medium trucks increased by 4.8 %. Momentum weakened slightly as the year progressed to the point that new registrations in the fourth quarter were up by only around 1 %.

NORTH AMERICAN TRUCK MARKET ACHIEVED RECORD ORDER BOOKINGS

After a very strong first half-year in 2018, heavy-duty truck (Class 8) orders continued to pick up momentum in the second half of the year and reached record highs in July and August. According to the market research institute ACT Research, incoming orders increased by 65 % to 490,000 trucks in 2018. The primary reason for the strong demand was the unexpected high growth in US industrial production, which was faced with the limited capacity of fleet operators. The shortage of truck drivers and the strict monitoring of driving time (ELD – Electronic Logging Device) this year led to capacity bottlenecks, and truck manufacturers were barely able to meet the extremely strong demand. According to ACT, production of Class 8 trucks grew nearly 27 % in 2018 to approximately 324,000 units. Order backlog at the end of 2018 had increased accordingly to 297,000 trucks (end of 2017: 134,000 trucks).

BRAZILIAN TRUCK MARKET CONTINUES TO RECOVER

The Brazilian heavy truck market continued the recovery that began in 2017, even though the country's economy as a whole showed only a modest improvement (GDP + 1.3 %). According to the Manufacturers Association Anfavea (Associação Nacional dos Fabricantes de Veículos Automotores), heavy truck production increased by 52 % in 2018. It is important to note that this high percentage increase follows years of economic downturn, which resulted in a low base level for a year-on-year comparison.

RENEWED RISE IN EUROPEAN TRAILER MARKET

The European trailer market continued its multi-year upswing in 2018, and production increased again by around 4 % from a very high base level in 2017. The key driver of this continued growth was the ongoing overall robust economic development in Europe, which increased demand for transport capacity. The replacement demand from fleet operators increased at the same time. Overall, the European trailer market performed better than originally expected, and registrations were up by almost 6 %. This compares with the forecast from the market research institute CLEAR International Consulting (CLEAR) which, at the start of the year, had still projected a production decline in 2018 of 4 %.

NORTH AMERICAN TRAILER PRODUCTION CANNOT KEEP PACE WITH ORDER BOOM

In North America, the strong economy coupled with concerns about supply bottlenecks for trailer manufacturers prompted a number of fleet operators to place larger orders in the second half of 2018 for delivery in 2019. Consequently, trailer orders in the US picked up again significantly, with orders on hand (according to ACT Research) rising around 64 % to 247,000 trailers. Production in North America for the year as a whole increased by 12.4 % to 356,000 units.

STRONG GROWTH IN THE BRAZILIAN TRAILER MARKET

Similar to the rise in trucks, the production of trailers increased in the mid-double-digit percentage range to a level of more than 44,000 units (CLEAR) in 2018, which was around 55 % above the average level of production over the last three years. It is important to note that this growth is being compared to the low base since 2015 in contrast to the years prior to 2015 when just over 55,000 units were produced.

SOLID DEMAND IN THE COMMERCIAL VEHICLE MARKETS IN THE APAC/CHINA REGION

New heavy truck registrations in the Chinese market increased by around 4 % in 2018, according to LMC Automotive, despite the trade conflict between China and the United States. Trailer production was slightly down (– 4.4 %) in the same period, according to CLEAR. The premium segment for trailers, however, which is the more important segment for SAF-HOLLAND, continued its upward trend in 2018. Demand in the Chinese trailer market for premium applications such as air suspensions and axle systems with integrated disc brake technology was particularly strong and contributed to the market segment's ongoing very positive development.

The Indian market, which has gained much greater importance for SAF-HOLLAND since the acquisition of York Transport Equipment (Asia) Pte. Ltd., saw new heavy truck registrations increase more than 23 % in 2018 (LMC Automotive) and trailer production rise 13 %.

The regional market of Australia registered around 17 % more heavy and medium-duty trucks in 2018. Demand benefited from a recovery in the commodity markets, as well as in the mining sector, which gave a particular boost to new purchases of heavy trucks and specialty vehicles. At the same time, the production of trailers increased by a solid 7 %.

KEY EVENTS

INVESTMENT IN NEW PRODUCTION CENTER IN CHINA

In early 2018, SAF-HOLLAND announced it was significantly expanding its production capacity in China. The Group planned to spend a high single-digit million amount on a new central production center at the Yangzhou site in the Yangtze River Delta with a total area of around 46,000 m². Operations are scheduled to begin in the second half of 2019. This is SAF-HOLLAND's response to the projected increase in demand for modern disc brakes and air suspension technology in China. The demand from fleet operators for these products will get increasingly stronger as legislation continues to tighten further.

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

In March 2018, SAF-HOLLAND announced the signing of a purchase agreement to acquire a majority stake in V.ORLANDI S.p.A., an Italian manufacturer of coupling systems for trucks, trailers, semi- trailers and agricultural vehicles. SAF-HOLLAND initially acquired 70% of the company's shares for around EUR 39 million and agreed to a purchase option for the remaining 30%, which can be exercised at a later date. The closing of the acquisition took place at the beginning of April 2018.

By acquiring V.ORLANDI, the Group has added a supplier of couplings for trucks and specialty fifth wheels and strengthened its position as the number 2 player in Europe. At the same time, SAF-HOLLAND is expanding its specialty business with couplings and drawbar eyes for trailers and specialized commercial vehicles, for example, in the industrial, agricultural, forestry and mining segments. V.ORLANDI generates nearly a quarter of its sales with coupling systems for agricultural and forestry vehicles. At the time of the acquisition, the company had approximately 60 employees and manufactured at two locations in northern Italy near Brescia. Next to Western Europe, the company is focused on sales markets primarily in Russia, Asia and Australia.

In December 2018, SAF-HOLLAND also took over Orlandi Australia Pty Ltd. Before the acquisition, the company operated as a legally independent distribution company in Australia.

ACQUISITION OF THE TRAILER AXLE AND SUSPENSION SYSTEM MANUFACTURER YORK TRANSPORT EQUIPMENT (ASIA) PTE. LTD.

In March 2018, SAF-HOLLAND also announced it had signed an agreement to acquire all shares in the manufacturer of axle and suspension systems York Transport Equipment (Asia) Pte. Ltd., headquartered in Singapore. The purchase price for York, including assumed liabilities, was around EUR 35.6 million, and the acquisition was completed at the end of April 2018.

York and its subsidiaries ("York Group") are considered to be one of the leading providers of trailer axle and suspension systems in India, distributing a wide range of components for trucks and trailers throughout the entire APAC region. The York Group occupies a strong market position in the APAC countries, especially in the area of heavy-duty (> 9 tons) trailer axles and mechanical suspensions. The group is also one of the most important suppliers of spare parts and accessories for trailers and semi-trailers on the Indian subcontinent. York has manufacturing facilities in Pune, India and Qingdao, China, and supplies the majority of the truck and trailer manufacturers in the APAC region. In addition to India, the York Group is also very well represented in the other fast-growing Southeast Asian markets such as Thailand, Indonesia and Vietnam, as well as in Australia. Its geographical footprint complements the SAF-HOLLAND Group's regional presence. The York Group has also built up a strong service and spare parts network in the subcontinent over the past few years, encompassing more than two hundred service points and dealers. This network provided a strong boost to the SAF-HOLLAND Group's aftermarket business in the region.

SAF-HOLLAND ACQUIRES SPECIALIST FOR DIGITAL TRAILER MANAGEMENT AXSCEND LTD.

Effective July 24, 2018, SAF-HOLLAND acquired 69.99% of the shares in the digital trailer management specialist Axscend Ltd., Aylesham, UK, for a purchase price in the mid-single-digit million euro range. At the same time, an option was extended to SAF-HOLLAND for the acquisition of the remaining shares in 2022.

With its TrailerMaster Connect product, Axscend offers an intelligent interface for line connection technology, with which any semi-trailer can be upgraded or retrofitted into a smart trailer with numerous data-based functions. The technology allows data transmission and evaluation on both mobile and stationary devices, even when the trailer is uncoupled. This enables fleets to make optimal use of their resources. The acquisition of this telematics and connectivity specialist strengthens SAF-HOLLAND's know-how in the software and programming segments and expands its technology portfolio for digital trailer applications in line with its SMART STEEL strategy.

MAJOR ORDER FOR AXLE SYSTEMS WITH INTEGRATED DISK BRAKES IN THE US

In May 2018, SAF-HOLLAND received a pioneering order in the US for the supply of trailer axle systems. Within the scope of this order, the Company will deliver fully dressed axle systems combined with modern disc brake technology to North America's largest fleet rental operator, XTRA Lease.

Prior to the order, SAF-HOLLAND had been supplying the mechanical suspension and associated slider boxes for the trailer chassis. In the future, the chassis system will also integrate the complete SAF-HOLLAND axle system with the latest generation of P-89 wheel end technology featuring disc brakes. The initial delivery volume was around 6,000 trailers annually, and production started in June 2018.

SAF-HOLLAND RENEWS REVOLVING CREDIT LINE

In October, SAF-HOLLAND concluded a new syndicated loan agreement with an extended international banking syndicate. The newly concluded syndicated loan facility replaced the previously existing scope of financing and ensures SAF-HOLLAND Group has access to long-term financing at slightly better interest rates.

The new loan agreement includes a revolving credit facility of EUR 200 million (previously: EUR 150 million), which can be drawn on in various currencies. There is also the option to extend the facility by an extra EUR 100 million if needed. As a result of this new agreement, SAF-HOLLAND has been able to secure favorable interest rates for a term of up to seven years.

SALES AND EARNINGS PERFORMANCE, NET ASSETS AND CASH FLOWS

FORECAST VERSUS ACTUAL BUSINESS DEVELOPMENT

SALES TARGET RAISED SEVERAL TIMES OVER THE COURSE OF THE YEAR

With the publication of the 2017 Annual Report, SAF-HOLLAND had initially set a target for organic growth for the 2018 financial year of 4 – 5 %. In July 2018, with the announcement of the preliminary figures for the second quarter, SAF-HOLLAND slightly raised its organic sales forecast for the first time in the year to growth in the range of 5 – 7 %. The Group also projected the expected sales contribution from the acquisitions to be around EUR 60 million.

After continued strong demand in North America in the course of the year, SAF-HOLLAND revised its organic sales target for the second time on October 19, 2018, raising it to 9 – 10 %. Thanks to the development of the acquired companies – which was well above expectations – SAF-HOLLAND also made an upward revision to its target for the expected sales contribution from the acquisitions to a range of EUR 65 and 70 million.

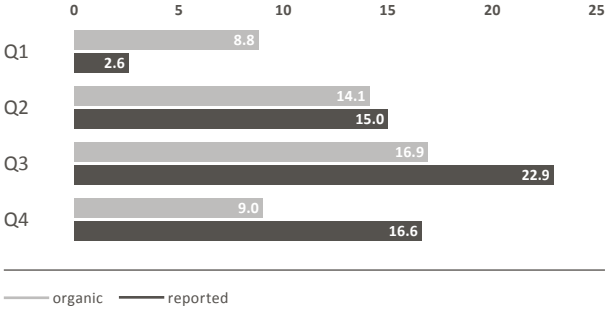
The consistently strong sales development in the fourth quarter of 2018 led to organic growth for the year as a whole of 12.2 %, exceeding our sales forecast raised in October 2018. Acquisitions contributed a total of EUR 70.9 million to sales, which was also above the upward revised forecast range. Sales, including currency and consolidation effects, increased by 14.2 % to EUR 1.3 billion in the 2018 financial year, setting a new record.

Sales by quarter 2018

in EUR millions

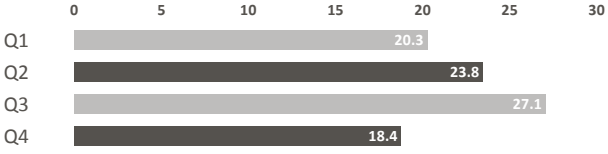
Sales growth by quarter (YoY) 2018

in %



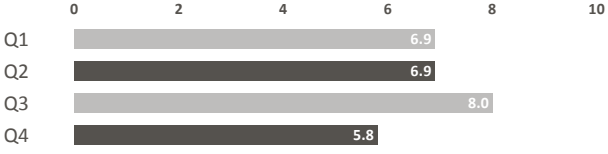
Adjusted EBIT by quarter 2018

in EUR millions



Adjusted EBIT margin by quarter 2018

in EUR millions



REDUCED MARGIN TARGET ACHIEVED: EARNINGS IMPROVEMENTS IN NORTH AMERICA FALL SHORT OF EXPECTATIONS DUE TO SHARPLY HIGHER STEEL PRICES AND A STRAIN ON CAPACITY UTILIZATION

At the beginning of the 2018 financial year, SAF-HOLLAND had expected a slight improvement in its adjusted EBIT margin to 8 to 8.5 %. The Group anticipated lower earnings in the first half of 2018 than in the second half based on the anticipated, gradual improvement in profitability in the Americas.

Due to significantly higher customer demand in North America than planned and supply bottlenecks along the entire value chain, the reduction in additional operating expenses and start-up costs for the restructured production network in North America progressed more slowly than expected during the 2018 financial year. As a result, the additional operating expenses for 2018 as a whole amounted to EUR 9.6 million. The sharp rise in steel prices in North America also increased costs and put pressure on the region's earnings in the total amount of EUR 11.3 million.

Based on these higher expenses, the Group initially reduced its adjusted EBIT margin target in July 2018 to a range of 7 to 8 %. SAF-HOLLAND narrowed its earnings forecast with the publication of preliminary figures for the third quarter in October 2018 and subsequently forecasted that the adjusted EBIT margin would tend toward the lower end of the 7 to 8 % range. This forecast also included extraordinary income of EUR 4.4 million from the partial settlement of a medical plan in the United States.

At 6.9 %, the Group achieved an adjusted EBIT margin at the lower end of the reduced range for the full year 2018.

	Actual 2017	Forecast 2018 (March 2018)	Adjustment July 2018	Adjustment October 2018	Actual business development 2018
Sales	EUR 1,138.9 million	Organic growth in a range of 4.0–5.0 %	Organic growth in a range of 5.0–7.0 % Additional sales contribution from acquisitions: EUR 60 million	Organic growth in range of 9.0–10.0 % Additional sales contribution from acquisitions: EUR 65–70 million	Organic growth of 12.2 % Additional sales contribution from acquisitions: EUR 70.9 million
Adjusted EBIT margin	8.0 %	Between 8.0–8.5 %	Between 7.0–8.0 %	Tending toward lower end of the range of 7.0–8.0 % (includes EUR 4.4 million extraordinary income)	6.9 % (includes EUR 4.7 million extraordinary income)
Net working capital ratio	11.0 %	12.0 %	–	–	13.5 %

NET WORKING CAPITAL RATIO RISES TO 13.5 %

The net working capital ratio in the 2018 financial year was 13.5 %, exceeding the forecast of 12.0 %. The main reason for the higher ratio was the deliberately higher inventories in North America to ensure on-time delivery to customers in the tight market environment. At the Group level, inventories increased by EUR 45.7 million to EUR 179.4 million compared with the end of 2017. The change in inventories resulted in an increase in the net working capital ratio of 180 basis points.

SALES AND EARNINGS PERFORMANCE

GROUP SALES GROW BY 14.2 % AND REACH EUR 1.3 BILLION

In the 2018 financial year, SAF-HOLLAND increased Group sales by 14.2 % to EUR 1,300.6 million (previous year: EUR 1,138.9 million). Organic sales – that is sales before currency and acquisition effects – increased by 12.2 % to EUR 1,278.1 million. The successful market launch of new products enabled the Group to grow faster than the relevant truck and trailer markets during the reporting year and, consequently, expand its market share. The newly acquired companies, V.ORLANDI S.p.A., York Transport Equipment (Asia) Pte. Ltd. and Axscend Ltd., contributed a total of EUR 70.9 million to Group sales in 2018. This contribution was partially offset by negative currency effects of EUR 48.4 million, which originated primarily from the depreciation of the US dollar and Turkish lira against the euro.

All regions were able to increase their sales in 2018 as a whole. The strongest growth was recorded in the APAC/China region, driven by the integration of the York Group and organic growth.

ORGANIC GROWTH IN THE FOURTH QUARTER OF 9.0 %; MAIN SALES DRIVER IS AMERICAS REGION

In the fourth quarter of 2018, sales increased by 16.6 % to EUR 319.7 million (previous year: EUR 274.2 million) and by 9.0 % on an organic basis. Negative currency effects in the quarter amounted to EUR 3.3 million. The sales contribution from acquisitions totaled EUR 24.2 million.

The Group benefited strongly from the high growth rates in the Americas region. In the EMEA region, solid growth continued in the last three months of the year, whereas business in China suffered from a sharp decline in export business to the US due to the trade dispute between the two countries. As a result, organic sales in the APAC/China region declined in the fourth quarter of 2018 after growing rapidly in the first nine months of the year.

Effect on Group sales

	Q4		Q1 – Q4	
	in EUR millions	Share of growth in %	in EUR millions	Share of growth in %
Sales in 2017	274.2	–	1,138.9	–
Organic growth	24.6	9.0	139.2	12.2
Currency effects	–3.3	–1.2	–48.4	–4.3
M&A	24.2	8.8	70.9	6.2
Sales in 2018	**319.7**	**16.6**	**1,300.6**	**14.2**

Sales performance by business area

	2018		2017	
	in EUR millions	% share	in EUR millions	% share
Original equipment business	998.8	76.0 %	861.3	75.6 %
Spare parts business	311.8	24.0 %	277.6	24.4 %
Total	**1,300.6**	**100.0 %**	**1,138.9**	**100.0 %**

ORIGINAL EQUIPMENT BUSINESS GROWS NEARLY 15 % IN 2018

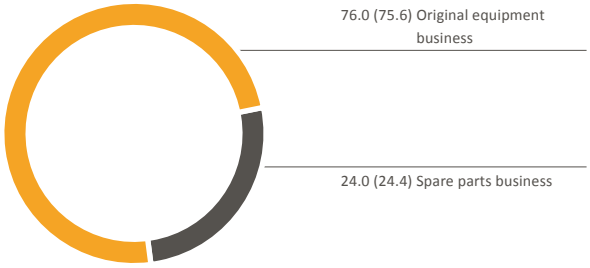
In the original equipment business, sales increased noticeably across all regions in the financial year 2018, rising 14.8 % to EUR 988.8 million (previous year: EUR 861.3 million). The strongest percentage growth for the full year came from the APAC/China region, which benefited not only from the inclusion of the York Group but also from strong demand in the Chinese premium segment. The original equipment business in the Americas region was characterized by strong demand in the past fiscal year coupled with existing capacity bottlenecks throughout the entire supply chain. Over the course of the year, the region increasingly got a better grip on this challenge and increased its sales year-on-year, despite negative currency effects. In the EMEA region, sales in the OE business in 2018 also increased significantly. In addition to the contribution from the new acquisitions, V.ORLANDI and Axscend, the region benefited, above all, from a series of product launches, enabling it to gain additional market share in the region.

SPARE PARTS BUSINESS GAINS MOMENTUM OVER THE COURSE OF THE YEAR

After a moderate start to the year, sales growth in the spare parts business increased in the quarters that followed. For the year as a whole, sales increased by 12.3 %, reaching EUR 311.8 million (previous year: EUR 277.6 million). In percentage terms, sales increased most in the APAC/China region, including the York Group and its established network of service stations in India. In absolute terms, however, the region's aftermarket business remained at a low level. The Americas region was able to work off some of its order backlog in the North American spare parts business in the second half of the year caused by capacity bottlenecks and the US plant consolidation. Despite negative currency effects, a clear double-digit sales increase was achieved in 2018. In the EMEA region, the spare parts business benefited from the steadily increasing number of SAF-HOLLAND installed systems in the market and the comparatively high age of the vehicles in many fleets. As a result, sales in this reagion were also higher.

Share of Group sales by business area in 2018

in %



INCOME STATEMENT

Income Statement

	2018		2017	
	in EUR millions	in % of sales	in EUR millions	in % of sales
Sales	1,300.6	100.0 %	1,138.9	100.0 %
Cost of sales	−1,101.3	−84.7 %	−933.8	−82.0 %
Gross profit	**199.3**	**15.3 %**	**205.1**	**18.0 %**
Other income	10.5	0.8 %	1.6	0.1 %
Other expenses	−0.8	−0.1 %	0.0	0.0 %
Selling expenses	−61.4	−4.7 %	−62.1	−5.5 %
Administrative expenses	−51.8	−4.0 %	−53.6	−4.7 %
Research and development costs	−19.6	−1.5 %	−20.4	−1.8 %
Operating result	**76.2**	**5.9 %**	**70.6**	**6.2 %**
Share of net profit of investments accounted for using the equity method	1.7	0.1 %	2.1	0.2 %
Earnings before interest and taxes	**78.0**	**6.0 %**	**72.7**	**6.4 %**
Financial result	−13.8	−1.1 %	−16.5	−1.4 %
Result before tax	**64.2**	**4.9 %**	**56.2**	**4.9 %**
Income taxes	−16.1	−1.2 %	−15.2	−1.3 %
Result for the period	**48.1**	**3.7 %**	**41.0**	**3.6 %**
Number of shares[1]	45,394,302		45,361,385	
Basic earnings per share in EUR	1.06		0.95	
Diluted earnings per share in EUR	0.92		0.82	

[1] Weighted average number of ordinary shares.

2018 OPERATING RESULT AND RESULT FOR THE PERIOD IMPROVE YEAR-ON-YEAR; SEVERAL EXTRAORDINARY FACTORS COMPLICATE COMPARISONS

In the 2018 reporting year and in the previous year, the SAF-HOLLAND Group's results contained a number of extraordinary effects that mainly concern the Americas region and should be taken into consideration.

The result of the 2018 financial year included additional operating expenses totaling EUR 9.6 million (previous year: EUR 10.3 million) for the restructured production network in North America. In addition to start-up-related production inefficiencies, these costs primarily resulted from express freight costs and higher logistics costs stemming from capacity bottlenecks. Over the course of 2018, the level of additional operating expenses was gradually reduced and, in the fourth quarter of 2018, they were at a level of EUR 1.4 million (previous year: EUR 6.3 million).

The sharp rise in steel prices in North America added costs of EUR 11.3 million in the 2018 financial year. Typically, SAF-HOLLAND is able to pass on the majority of such price increases, but this usually occurs only after a significant delay of up to six months. As the increases in steel prices were solely in the first half of the year, the higher purchase prices were successively passed on to customers. Consequently, the level of additional material costs incurred in the fourth quarter of 2018 was significantly lower than in previous quarters and amounted to EUR 1.1 million (Q3 2018: EUR 3.9 million; Q2 2018: EUR 4.3 million; Q1 2018: EUR 2.0 million).

Following the completion of the US plant consolidation, a local company agreement for the reimbursement of medical benefits for retirees (medical plan) was partial terminated. In the third quarter of 2018, one-time non-cash income of EUR 4.4 million was realized from the partial settlement of the underlying pension plan.

The measurement of the put option on the outstanding 42.5 % stake in KLL resulted in income of EUR 8.1 million in the fourth quarter of 2018. The value of the call/put option is based on assumptions regarding KLL's future earnings development. This option is exercisable in 2020. Since the expected development of KLL's earnings in the 2020 financial year was lower as of the 2018 reporting date than at the same time in the previous year, the other financial liability resulting from the option declined. This was offset by an expense of EUR 0.8 million from the valuation of the call/put option for the acquisition of the outstanding 30.0 % stake in V.ORLANDI S.p.A., resulting in net income of EUR 7.3 million in 2018 from the valuation of the call/put options.

Restructuring and transaction costs totaled EUR 9.0 million in 2018 (previous year: EUR 13.2 million). The main expenses in 2018 were the transaction costs (EUR 3.4 million) incurred in connection with the year's acquisitions. Most of the expenses in 2018 related to transaction and post-merger integration costs in connection with the acquisitions made during the reporting year (EUR 3.4 million). As a result of the reorganization of activities in the APAC/China region and the integration of the York Group, restructuring costs of EUR 1.5 million and EUR 1.6 million were incurred in China and Australia, in addition to the restructuring costs incurred for post-consolidation measures in North America in the amount of EUR 2.4 million. In the previous year, restructuring costs for the US plant consolidation amounted to EUR 10.9 million. In the fourth quarter of 2018, restructuring and transaction costs of EUR 3.7 million were incurred, which were predominantly in North America (EUR 1.1 million), China (EUR 0.9 million) and Australia (EUR 1.3 million). The transaction costs in the period from October to December 2018 amounted to EUR 0.4 million.

SHARP RISE IN STEEL PRICES AND UNFAVORABLE SEGMENT MIX LEAD TO LOWER GROSS MARGIN

As previously explained, the sharp year-on-year rise in steel prices, especially in the Americas region, resulted in additional material costs in the amount of EUR 11.3 million in the 2018 financial year. Consequently, the cost of sales rose disproportionately by 17.9 % to EUR 1,101.3 million in 2018 compared with the increase in sales (previous year: EUR 933.8 million). The gross profit of the Group therefore amounted to EUR 199.3 million (previous year: EUR 205.1 million), and the gross margin fell to 15.3 % (previous year: 18.0 %). The higher steel prices reduced the gross margin by 0.9 percentage points.

The lower gross margin was also due to an unfavorable product mix. Due to the stronger-than-average growth in the original equipment business, the share of the higher-margin spare parts business fell to 24.0 % in the 2018 financial year (previous year: 24.4).

At EUR 9.6 million, the additional operating expenses in 2018 that were related to the start-up of the new production network in North America were slightly below the previous year's level (previous year: EUR 10.3 million). Restructuring costs included in the cost of sales also declined to a level of EUR 4.1 million (previous year: EUR 11.2 million), largely as a result of the lower restructuring costs for the US plant consolidation, which had amounted to EUR 10.5 million in the previous year.

The previous year's gross profit had also benefited from positive effects in the amount of EUR 4.5 million, which were linked to the achievement of certain procurement volumes. This was in contrast to the corresponding income in the financial year 2018, which was significantly lower after being offset to a large extent by write-downs on inventories.

NUMBER OF EMPLOYEES INCREASE DUE TO GROWTH AND ACQUISITIONS

As of the December 31, 2018, reporting date, SAF-HOLLAND employed 4,470 people worldwide (previous year: 3,566), including temporary staff. Compared to the previous year, the number of employees increased by 25.4 %. This increase was largely due to the inclusion in the scope of consolidation of the SAF-HOLLAND Group of the two acquisitions completed in the 2018 financial year. The companies acquired – V. Orlandi and the York Group – had a total of 555 employees at the end of 2018. Excluding the new acquisitions, the Group's number of employees would have risen by just 10.7 %. The Group's strong organic growth in all reporting regions also made it necessary to hire additional employees to coincide with the expansion in capacity.

Development in employee numbers by region

	12/31/2018	12/31/2017
EMEA	1,498	1,399
Americas	1,835	1,606
APAC/China	1,137	561
Total	**4,470**	**3,566**

OPERATING EXPENSES VIRTUALLY UNCHANGED DESPITE SALES GROWTH; POSITIVE EFFECT FROM THE LIQUIDATION OF A PENSION PLAN

Total operating expenses (selling expenses, general administrative expenses, research and development costs and other operating expenses) amounted to EUR 133.5 million in 2018, which was 1.9 % below the previous year's level (EUR 136.1 million). Measured in terms of Group sales, the overall operating expense ratio fell to 10.3 % (previous year: 11.9 %). Excluding extraordinary income of EUR 4.7 million from the partial settlement of the pension plan in the US that was included in general administrative expenses, the total operating expense ratio would have been 10.6 % (previous year: 11.9 %). The key drivers for the positive trend in operating expenses were the cost-saving measures successfully implemented throughout the Group.

The Group spent EUR 19.6 million on research and development in 2018 (previous year: EUR 20.4 million). Development costs of EUR 4.3 million (previous year: EUR 4.2 million) were capitalized and partially offset by scheduled amortization of EUR 1.8 million (previous year: EUR 1.1 million). Including capitalized development costs, the Group spent EUR 23.9 million (previous year: EUR 24.6 million) on research and development (R&D). Due to the sharp increase in sales in the 2018 financial year, the R&D ratio fell to 1.8 % (previous year: 2.2 %).

Other income totaled EUR 10.5 million in the 2018 financial year (previous year: EUR 1.6 million). The significant increase resulted from the income of EUR 8.1 million previously described that originated from the measurement of the call/put option on outstanding shares in KLL. The valuation of the call/put option for the acquisition of the outstanding shares in V.ORLANDI S.p.A., in contrast, resulted in an expense EUR 0.8 million, which was recognized in other operating expenses.

EBIT INCREASES BY 7.2 %

Earnings before interest and taxes (EBIT) rose by 7.2 % to EUR 78.0 million in 2018 (previous year: EUR 72.7 million), resulting in an EBIT margin of 6.0 % (previous year: 6.4 %). The burden of EUR 11.3 million from higher steel prices outweighed the extraordinary income of EUR 4.7 million from the settlement of the pension plan and the decline in restructuring and transaction costs from EUR 13.2 million in 2017 to EUR 9.0 million in the reporting year and the reduction in additional operating expenses from EUR 10.3 million to EUR 9.6 million.

AT 6.9 %, ADJUSTED EBIT MARGIN REACHES THE LOWER END OF THE REVISED FORECAST OF 7 TO 8 %

On an adjusted basis (including the one-time restructuring and transaction costs and the effects of the purchase price allocation), EBIT in the 2018 financial year was 1.8 % below the prior year's level at EUR 89.6 million (previous year: EUR 91.2 million). The adjusted EBIT margin reached 6.9 % (previous year: 8.0 %), placing it at the lower end of the 7 – 8 % forecast range adjusted in October 2018. In accordance with the definition of adjusted EBIT, the income from the partial settlement of the US medical plan was not adjusted in the calculation of adjusted EBIT. Excluding this income, adjusted EBIT would have amounted to EUR 84.9 million and the adjusted EBIT margin to 6.5 % in the 2018 financial year. The decline in the adjusted EBIT margin compared with the previous year was mainly due to higher steel prices, which caused a 0.9 percentage point decline in the full-year 2018 margin.

Due to their operational nature, the additional operating expenses in the amount of EUR 9.6 million (previous year: EUR 10.3 million) from North America mentioned above were neither adjusted in the reporting year or the prior year and were therefore fully recognized as expenses in the adjusted EBIT in both years.

In the fourth quarter of 2018, adjusted EBIT amounted to EUR 18.4 million (previous year: EUR 18.5 million), and the adjusted EBIT margin equaled 5.8 % (previous year: 6.7 %). The year-on-year decline in the margin resulted from the aforementioned income of EUR 4.5 million in the same quarter of the previous year, which was linked to the achievement of certain purchasing volumes, and the additional costs resulting from higher steel prices (EUR 1.1 million).

Reconciliation of operating results to adjusted EBIT

in EUR millions

	2018	2017
Operating result	76.2	70.6
Share of net profit of investments accounted for at equity	1.7	2.1
EBIT	**78.0**	**72.7**
Additional depreciation/amortization of property, plant and equipment and intangible assets from PPA	8.8	5.3
Step-up purchase price allocation from valuation of inventory from acquisitions	1.1	0.0
Measurement effects from call and put options	–7.3	0.0
Restructuring and transaction costs	9.0	13.2
Adjusted EBIT	**89.6**	**91.2**
Depreciation/amortization (incl. from purchase price allocation)	29.5	24.6
EBITDA	**107.5**	**97.4**
Adjusted EBITDA	**111.1**	**110.6**

FINANCIAL RESULT IMPROVES FOLLOWING REPAYMENT OF HIGH-YIELD CORPORATE BOND

Following the repayment of a corporate bond with a coupon of 7.0% in April 2018, net interest expenses from the Group's interest-bearing loans and bonds fell to EUR 9.5 million (previous year: EUR 13.3 million). The financial result improved overall to EUR –13.8 million in the 2018 financial year (previous year: EUR –16.5 million) and included pension-related financial expenses of EUR 0.9 million (previous year: EUR 1.1 million), as well as amortization of transaction costs of EUR 0.6 million (previous year: EUR 0.8 million). Other expenses in the amount of EUR 2.8 million (previous year: EUR 1.3 million) include liabilities related to the put option for the outstanding shares in KLL.

2018 RESULT FOR THE PERIOD AROUND 17% HIGHER VERSUS THE PRIOR YEAR

As a result of the higher level of earnings before interest and taxes and the better financial result, the result before tax rose by 14.1% year-on-year to EUR 64.2 million (previous year: EUR 56.2 million). The tax rate fell slightly to 25.1% in the 2018 financial year (previous year: 27.2%) as the Group benefited from lower corporate tax rates in the United States.

The result for the period for the 2018 financial year increased by 17.3% to EUR 48.1 million in 2018 (previous year: EUR 41.0 million). Based on approximately 45.4 million ordinary shares outstanding, basic earnings per share equaled EUR 1.06 (previous year: EUR 0.95) and diluted earnings per share amounted to EUR 0.92 (previous year: EUR 0.82).

The result for the period in the fourth quarter of 2018 amounted to EUR 11.0 million and was 4.8% higher than in the prior year (previous year: EUR 10.5 million). On a quarterly basis, the aforementioned income of EUR 7.3 million from the measurement of the call/put option on the outstanding shares in KLL more than offset the burden of higher steel prices (EUR 1.1 million) and the absence of the income in the same quarter of the previous year for the achievement of certain purchase quantities (EUR 4.5 million). As a result, basic earnings per share reached EUR 0.24 in the fourth quarter of 2018 (previous year: EUR 0.26), and diluted earnings per share amounted to EUR 0.21 (previous year: EUR 0.22).

Reconciliation of adjusted earnings figures

in EUR millions

	2018	2017
Result for the period	48.1	41.0
Income taxes	16.1	15.2
Financial result	13.8	16.5
Depreciation/amortization from purchase price allocation[1]	8.8	5.3
Step-up purchase price allocation from valuation of inventory from acquisitions	1.1	0.0
Measurement effects from call and put options	–7.3	0.0
Restructuring and transaction costs	9.0	13.2
Adjusted EBIT	**89.6**	**91.2**
in % of sales	6.9	8.0
Adjusted result for the period	**55.5[2]**	**52.7[3]**
in % of sales	4.3	4.6
Number of shares[4]	45,394,302	45,361,385
Adjusted basic earnings per share in EUR[5]	**1.22**	**1.16**
Adjusted diluted earnings per share in EUR[6]	**1.05**	**1.00**

[1] Includes a loss in disposal of KEUR 847
[2] A uniform tax rate of 26.8% was assumed to calculate the adjusted result for the period.
[3] A uniform tax rate of 29.4% was assumed to calculate the adjusted result for the period.
[4] Weighted average number of ordinary shares.
[5] The calculation of adjusted basic earnings per share also includes the result attributable to non-controlling interests of EUR 0 million (previous year: EUR –1.9 million).
[6] Calculated taking into account 8.3 million share equivalents (previous year: 8.3 million) and EUR 1.2 million (previous year: EUR 1.2 million) of earnings contribution from the convertible bonds issued in 2014 and non-controlling interests of EUR 0 million (previous year: EUR –1.9 million).

ADJUSTED RESULT FOR THE PERIOD IMPROVES BY 2.9%

The adjusted result for the period increased by 5.3% in the 2018 financial year to EUR 55.5 million (previous year: EUR 52.7 million). Restructuring and transaction costs, along with the effects of purchase price allocation, were adjusted for in the calculation of the adjusted result for the period, in line with the calculation for adjusted EBIT. Due to their operational nature, the additional operating expenses and additional material costs from the higher steel prices were not adjusted for but rather recognized as an expense in full in the adjusted result for the period. There was also no adjustment made for the income from the partial settlement of the US medical plan.

The reduction in the US corporate tax rate contributed to a reduction in the uniform tax rate used to calculate the adjusted result for the period to a level of 26.8% (previous year: 29.4%).

Based on approximately 45.4 million ordinary shares outstanding, adjusted basic earnings per share for the year as a whole amounted to EUR 1.22 (previous year: EUR 1.16) and adjusted diluted earnings per share amounted to EUR 1.05 (previous year: EUR 1.00).

PROPOSED DIVIDEND OF EUR 0.45 PER SHARE

SAF-HOLLAND's dividend policy seeks to distribute dividends to shareholders equal to between 40% and 50% of the result for the period. The proposal of the Group Management Board and the Board of Directors to distribute a dividend of EUR 0.45 per share (previous year: EUR 0.45) for the 2018 financial year corresponds to a total payout of around EUR 20.4 million (previous year: EUR 20.4 million) and a payout ratio of 42.4% (previous year: 49.8%) of the result for the period. Based on the year-end closing price of EUR 11.20 for SAF-HOLLAND shares in 2018, the dividend yield for shareholders would be 4.0% (previous year: 2.5%).

SEGMENT REPORTING

Regional overview

in EUR millions

	EMEA[1]		Americas		APAC/China[1]		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Sales	658.9	611.6	471.6	429.4	170.1	97.9	1,300.6	1,138.9
Cost of sales	−529.2	−483.7	−424.6	−371.9	−147.5	−78.2	−1,101.3	−933.8
Gross profit	**129.7**	**127.9**	**47.0**	**57.5**	**22.5**	**19.7**	**199.3**	**205.1**
in % of sales	19.7	20.9	10.0	13.4	13.3	20.2	15.3	18.0
Sundry operating income and expenses[2]	−58.3	−60.1	−38.5	−41.4	−12.9	−12.4	−109.7	−113.9
Adjusted EBIT	**71.4**	**67.8**	**8.5[3]**	**16.1**	**9.7**	**7.3**	**89.6**	**91.2**
in % of sales	10.8	11.1	1.8	3.7	5.7	7.5	6.9	8.0

[1] Adjustments to 2017 reported figures due to the change in segment reporting.
[2] Sundry income and expenses consist of selling and administrative expenses, research and development costs, other income and the share of net profit of investments accounted for using the equity method less restructuring and transaction costs of EUR 9.0 million (previous year: EUR 13.2 million) and depreciation/amortization from PPA of EUR 8.8 million (previous year: EUR 5.3 million).
[3] Including extraordinary income of EUR 4.7 million.

SOLID SALES AND EARNINGS GROWTH IN THE EMEA SEGMENT

In the course of the acquisition of the York Group, the SAF-HOLLAND Group's business in India was assigned to the APAC/China region after belonging to the EMEA/I region in the previous year. Consequently, the region was renamed the EMEA region. The previous year's figures have been adjusted accordingly. As the sales and earnings contributions from India were negligible in the 2017 financial year, there is only an insignificant effect from this reclassification.

In the 2018 financial year, the EMEA region grew its sales by 7.7% to EUR 658.9 million (previous year: EUR 611.6 million). On a currency-adjusted basis and excluding the first-time contribution of V.ORLANDI and Axscend totaling EUR 18.8 million, sales in the region grew by 7.2%. Negative currency effects amounted to EUR 15.4 million and resulted mainly from the devaluation of the Turkish lira against the euro. In the fourth quarter of 2018, sales rose by 7.1% (organic sales up 6.1%) to EUR 158.2 million (previous year: EUR 147.7 million).

The market environment for trucks and trailers in Europe remained favorable throughout 2018. In contrast to the cautious expectations at the beginning of the year, fleet operators continued to invest in the expansion and renewal of their transport capacities. SAF-HOLLAND's original equipment business also benefited from new product launches and market share gains in key regional markets. SAF-HOLLAND was able to boost its sales, especially in the truck sector. The region's aftermarket business also developed solidly, despite the high prior-year comparisons.

The strongest boost to growth in the 2018 financial year came from the southern European countries of Spain, Italy and France. Business in Eastern Europe, especially in Poland and Russia, also continued to grow. Despite the difficult political environment in some countries in the region, SAF-HOLLAND recorded solid overall development in key markets in the Middle East and Africa. The assembly plant for the manufacturing of axle systems in Düzce, Turkey, which opened in March 2017, made a significant contribution to this performance. The plant in Turkey was well utilized throughout 2018. Demand not only stemmed from domestic customers, but also from customers in major neighboring countries, alongside strong exports to Western and Southern Europe.

Sales of V.ORLANDI, acquired in April 2018, were fully in line with expectations in the past financial year. V.ORLANDI achieved profitability that was considerably higher than the Group's average.

In the 2018 financial year, the EMEA region recorded adjusted EBIT of EUR 71.4 million (previous year: EUR 67.8 million) and an adjusted EBIT margin of 10.8% (previous year: 11.1%). Steady process improvements and economies of scale as a result of the higher business volumes largely offset the negative effects of steel prices, which had also seen a noticeable rise in Europe. The inclusion of V.ORLANDI also had a positive effect on margins and earnings. In addition, the income linked to the achievement of certain purchasing volumes in procurement was significantly lower than in the prior year.

In the period from October to December 2018, the EMEA region achieved an adjusted EBIT of EUR 14.4 million (previous year: EUR 19.5 million) and an adjusted EBIT margin of 9.1% (previous year: 13.2%) – despite the negative currency effects. When comparing these figures to those in the prior year, it is important to take into account the income recognized from the achievement of certain purchase quantities in procurement.

PROFITABILITY IN THE AMERICAS GRADUALLY IMPROVES OVER THE COURSE OF THE YEAR

Sales in the Americas region increased by 9.8% to EUR 471.6 million in 2018 (previous year: EUR 429.4 million). Adjusted for negative currency effects of EUR 24.9 million – mainly caused by the development of the euro against the US dollar – the region was able to increase organic sales by 15.6%. Sales momentum increased steadily during the course of the year, and in the last quarter of 2018, sales in the Americas region increased by 25.1% (organic growth of 22.2%) to EUR 117.8 million (previous year: EUR 94.1 million).

The market environment in North America in the 2018 financial year was marked by extremely strong customer demand for truck and trailer components, which led to capacity bottlenecks throughout the entire supply chain across the industry. This forced SAF-HOLLAND's capacity utilization beyond the economically optimum level. Nevertheless, SAF-HOLLAND made a deliberate decision to make timely delivery to its customers and defending market share its highest priorities. As a result, the reduction of the remaining production inefficiencies in the restructured production network did not proceed at the planned pace. The Group therefore incurred additional expenses, consisting primarily of express freight and higher logistics costs, which totaled EUR 9.6 million in the full year 2018 (previous year: EUR 10.3 million). The Group was able to successively reduce additional operating expenses as the year progressed, and after still incurring expenses of EUR 3.9 million in the first quarter of 2018, expenses fell to only EUR 1.4 million by the final quarter of 2018.

The progress made in better integrating the capacity planning and logistics processes made it possible to improve deliveries to the aftermarket starting in mid-2018. This enabled the Group to gradually work off its existing order backlog and achieve a significant double-digit increase in sales in the aftermarket business for the full year 2018.

Costs were also forced higher by the sharp rise in steel prices in North America. Typically, SAF-HOLLAND is able to pass on the majority of such price increases, but this usually occurs only after a significant delay of up to six months. After steel prices rose sharply in North America in the first half of 2018, they began to decline again in the middle of the third quarter of 2018. Nevertheless, the average price for the year was significantly higher than in the prior year. As a result of the aforementioned delay in passing on these higher costs, the burden for the 2018 financial year totaled EUR 11.3 million. The highest additional costs were recorded in the second quarter of 2018 and amounted to EUR 4.3 million. The ability to pass on the higher costs as the year progressed led to a gradual reduction in these costs in the third and fourth quarters (EUR 3.9 million and EUR 1.1 million).

The Brazilian company KLL, which was acquired in 2016, achieved double-digit sales growth in 2018 in both the local currency and in euros. KLL benefited from the continuing recovery in the Brazilian market.

The adjusted EBIT of the Americas region amounted to EUR 8.5 million in 2018 (previous year: EUR 16.1 million), and the adjusted EBIT margin was 1.8% (previous year: 3.7%). These results included the aforementioned additional operating expenses of EUR 9.6 million (previous year: EUR 10.3 million) and additional costs of EUR 11.3 million resulting from higher steel prices. There was a positive effect, however, from the partial settlement of a US medical plan which resulted in extraordinary income of EUR 4.4 million in the third quarter of 2018. Income from the measurement of the call/put option on the outstanding shares in KLL was recognized in transaction costs and is therefore not included in the adjusted EBIT.

The Americas region significantly improved its adjusted EBIT in the fourth quarter of 2018 to EUR 2.0 million (previous year: EUR –3.9 million). The adjusted EBIT margin in the quarter was 1.7% (previous year: –4.1%). The previous year's quarter included additional operating expenses of EUR 6.3 million (Q4 2018: EUR 1.4 million). The adjusted EBIT margin also increased slightly compared to the third quarter of 2018 (adjusted EBIT margin of 1.6% excluding extraordinary income mentioned), although the fourth quarter is usually weaker due to the lower number of working days.

SEGMENT APAC/CHINA ENTERS A NEW SALES DIMENSION WITH YORK TAKEOVER

As previously mentioned, India was assigned to the APAC/China region (formerly EMEA/I) as part of the acquisition of the York Group. The previous year's figures have been adjusted accordingly.

Boosted by York's sales contribution of EUR 52.1 million (consolidated as of May 1, 2018) and strong organic growth of 28.9%, sales in the APAC/China region grew by 73.9% in 2018 to EUR 170.2 million (previous year: EUR 97.9 million). Currency effects amounted to EUR –8.1 million. As a result,

the APAC/China region was able to increase its share of Group sales from 8.6 % in the previous year to 13.1 %.

Strong organic growth in the APAC/China region was driven largely by strong demand for trailer components in the Chinese premium segment. The introduction of statutory load limits for commercial vehicles, as well as tightened safety regulations for the transportation of dangerous goods and automobiles, continued to prompt fleet operators to invest heavily in new vehicles. SAF-HOLLAND is well positioned for this demand given its weight-saving components and range of air suspension and axle systems with high-performance disc brake technology. With its focus on the Chinese premium segment, SAF-HOLLAND largely managed to escape the effects of the weaker overall market conditions in China in 2018. As a result, the Group's subsidiary in Xiamen, where the trailer components business in China is centralized, was able to record strong sales growth for the year as a whole.

In 2018, progress was made in the construction of the new production center at the Yangzhou site in China, with operating space of around 46,000 m², which will give SAF-HOLLAND the required capacity for the strong demand from the Chinese premium segment that is expected in the years ahead. The new plant is scheduled to commence operation in mid-2019 and, in terms of capacity, will be the largest and most sophisticated plant within the SAF-HOLLAND Group.

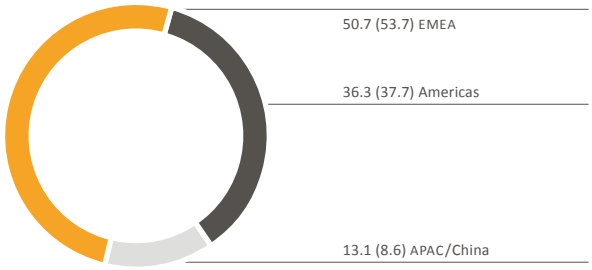
SAF-HOLLAND has also been able to further increase its sales and earnings in the important Australian transportation market, where demand rose considerably on the back of rising commodity prices. Business development at the Chinese subsidiary Corpco Beijing Technology and Development Co. Ltd. (Corpco), in contrast, remained sluggish. As a result, Corpco has started reorienting its business and expanding its bus suspension product portfolio to include the smaller bus segment. Production at the Baotou site will end in the first quarter of 2019 and will be transferred to the new production center in the intermediate term.

In the fourth quarter of 2018, the APAC/China region increased sales by 35.3 % (organic sales: – 16.3 %) to EUR 43.8 million (previous year: EUR 32.4 million). Business at the Chinese subsidiary in Xiamen suffered from the significant decline in exports to the United States as a result of the trade dispute between the two countries.

Adjusted EBIT in the APAC/China region increased to EUR 9.7 million in 2018 (previous year: EUR 7.3 million), and the adjusted EBIT margin amounted to 5.7 % (previous year: 7.5 %). The lower margin compared to the prior year mainly resulted from up-front costs in connection with the construction of the new production center in China and the creation of the corresponding administrative structures. As expected, the first-time inclusion of York resulted in margin dilution in the region for the year as a whole. York, however, has already noticeably improved its margin, reaching a margin that exceeds the Group's average for the first time in the fourth quarter of 2018. The APAC/China region overall achieved an adjusted EBIT of EUR 2.1 million in the fourth quarter of 2018 (previous year: EUR 2.9 million) and an adjusted EBIT margin of 4.8 % (previous year: 9.0 %). The aforementioned decline in exports had a negative impact on capacity utilization at the Xiamen plant and led to a decline in margins overall.

Group sales by segment in 2018 (2017)

in %



NET ASSETS

SLIGHT DECLINE IN TOTAL ASSETS

The Group's growth and acquisitions during the 2018 financial year were largely funded by existing liquidity. Consequently, this led to a decline in total cash and cash equivalents as well as in other short-term investments to EUR 155.0 million in the 2018 financial year (December 31, 2017: EUR 337.1 million). The scheduled redemption of the corporate bond with a nominal volume of EUR 75.0 million in April 2018 also contributed to this decline. Total assets as of December 31, 2018, amounted to EUR 977.4 million and were 2.1% below their level at the end of 2017 (EUR 998.1 million).

GROWTH-RELATED INCREASE IN NET WORKING CAPITAL

Net working capital increased by EUR 51.9 million to EUR 172.5 million in the 2018 financial year. Contributing factors were the strong organic business expansion and the inclusion of the acquired companies. SAF-HOLLAND also consciously decided to increase inventories in North America in order to ensure timely delivery to customers in the tight market environment. This decision caused a rise in inventories by EUR 45.7 million to EUR 179.4 million (previous year: EUR 133.7 million).

Trade receivables, in contrast, increased only slightly and amounted to EUR 138.9 million at the end of 2018 (previous year: EUR 135.7 million). Trade payables grew year-on-year by EUR 14.9 million to EUR 129.1 million (previous year: EUR 114.2 million). Due to the disproportionate increase in net working capital versus sales growth, the net working capital ratio at the end of the 2018 financial year rose to 13.5% (December 31, 2017: 11.0%).

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NOTICEABLY REDUCED RECEIVABLES UNBURDEN NET WORKING CAPITAL IN THE FOURTH QUARTER OF 2018

After an interim increase in net working capital in the course of the first nine months of 2018 (EUR 97.3 million), net working capital declined by EUR 45.4 million in the fourth quarter of 2018. This drop was primarily due to a EUR 68.1 million reduction in trade receivables. Inventories declined by EUR 14.6 million at the same time, which was offset by a reduction in trade payables of EUR 30.4 million. As a result, the net working capital ratio in the fourth quarter of 2018 improved by 250 basis points.

ACQUISITIONS LEAD TO HIGHER NON-CURRENT ASSETS

The acquisitions of V.ORLANDI and York and, to a lesser extent, Axscend largely contributed to the EUR 94.5 million increase in non-current assets to EUR 472.3 million (December 31, 2017: EUR 377.8 million). Most of this increase stemmed from goodwill (additional EUR 30.4 million), other intangible assets (additional EUR 41.0 million) and property, plant and equipment (additional EUR 25.5 million).

Overview of net assets

in EUR millions

	12/31/2018	12/31/2017
Total assets	977.4	998.1
Equity	332.6	301.0
Equity ratio in %	34.0	30.2
Net debt[1]	213.4	105.5
Net working capital	172.5	120.6
Net working capital in % of sales	13.5	11.0

[1] Taking into account cash and cash equivalents and other short-term investments of EUR 155.0 million as of December 31, 2018 (December 31, 2017: EUR 337.1 million).

EQUITY RATIO IMPROVES TO 34.0%

Equity totaled EUR 332.6 million as of December 31, 2018, which was EUR 31.6 million higher than at the end of 2017, and the equity ratio improved to 34.0% (December 31, 2017: 30.2%). Equity was impacted by the net result for the period of EUR 48.1 million and the increase in non-controlling interests of EUR 8.9 million following the first-time consolidation of V.ORLANDI. Equity was reduced by EUR 20.4 million from the distribution of the dividend for the 2017 financial year. For further details on the development of equity, please refer to the consolidated statement of changes in equity on page 86.

NET DEBT RISES IN FULL-YEAR 2018 TO EUR 213.4 MILLION; SIGNIFICANT DECLINE IN THE FOURTH QUARTER

A corporate bond with a nominal volume of EUR 75.0 million was redeemed on schedule at the end of April 2018. As a result, non-current and current liabilities from interest-bearing loans and bonds fell to EUR 368.4 million at the end of 2018 (December 31, 2017: EUR 442.6 million). Based on the decline in liquid funds, net debt increased to EUR 213.4 million as of December 31, 2018 (December 31, 2017: EUR 105.5 million) and was largely attributable to the purchase price payments for the acquisitions, gross finance liabilities of around EUR 20 million assumed as part of the acquisitions, as well as to the distribution of the dividend.

Due to the reduction in net working capital in the fourth quarter of 2018, net debt also declined by EUR 59.5 million in this period (as of September 30, 2018: EUR 272.9 million).

FINANCIAL POSITION

CASH FLOW BEFORE CHANGES IN NET WORKING CAPITAL CLOSE TO PRIOR YEAR'S LEVEL

Cash flow before changes in net working capital reached EUR 104.9 million in the 2018 financial year, which was 5.4 % higher than in the prior year (EUR 99.5 million). The higher result before tax (EUR 64.2 million compared to EUR 56.2 million) and higher amortization/depreciation of intangible assets and property, plant and equipment (EUR 29.5 million compared to EUR 24.6 million) had a positive effect. This was offset by non-cash transactions amounting to EUR 7.3 million, which resulted from the measurement of the put/call options.

The strong business expansion led to a cash-effective build-up of net working capital of EUR 38.4 million in 2018 financial year (previous year: EUR 25.4 million). The main effects resulted from the change in inventories (EUR – 27.1 million compared to EUR – 13.8 million) and trade payables (EUR – 7.3 million compared to EUR 13.9 million). The change in trade receivables, on the other hand, resulted in a cash inflow of EUR 1.1 million (previous year: cash outflow of EUR 27.0 million).

Cash flow from operating activities before income taxes paid reached EUR 66.5 million in the 2018 financial year (previous year: EUR 74.1 million). Due to higher income taxes paid (EUR 25.7 million compared to EUR 17.3 million), the net cash flow from operating activities of EUR 40.8 million was 28.0 % below the previous year's figure (EUR 56.7 million).

NET CASH FLOW FROM OPERATING ACTIVITIES IMPROVED SIGNIFICANTLY IN THE FOURTH QUARTER OF 2018

The described reduction in net working capital in the fourth quarter of 2018, and particularly the decline in trade receivables, led to a significantly better level of net cash flow from operating activities of EUR 73.8 million in the final quarter of 2018 (previous year: EUR 33.2 million).

Overview of financial position

in EUR millions

	2018	2017
Cash flow from operating activities before income taxes paid	66.5	74.1
Cash conversion rate in %[1]	74.2	81.3
Net cash flow from operating activities	40.8	56.7
Net cash flow from investing activities	– 39.6	– 84.3
Investments in property, plant and equipment and intangible assets	40.8	27.1
in % of sales	3.1	2.4
Net cash flow from financing activities	– 124.1	– 33.7
Free cash flow[2]	0.0	29.7

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

PLANNED INCREASE IN INVESTMENTS

Payments for investments in property, plant and equipment and intangible assets increased as planned in 2018 by 50.6 % to EUR 40.8 million (previous year: EUR 27.1 million). As expected, the investment ratio of the SAF-HOLLAND Group in the financial year 2018 rose to 3.1 % (previous year: 2.4 %). One of the key investments made in 2018 was the construction of the new production center in China, which was allocated a high single-digit million euro amount.

Payments for the acquisitions of V.ORLANDI, York and Axscend totaled EUR 58.7 million in 2018 and were funded by the proceeds from the sale of other short-term investments of EUR 58.2 million. In the previous year, the purchase of other short-term financial assets within the scope of disposing of financial funds led to a cash outflow of EUR 58.1 million. Accordingly, net cash flow from investing activities amounted to EUR – 39.6 million in the 2018 financial year (previous year: EUR – 84.3 million).

CASH FLOW FROM FINANCING ACTIVITIES AFFECTED BY MATURITY OF CORPORATE BOND AND DIVIDEND PAYMENT

In addition to the dividend payment of EUR 20.4 million (previous year: EUR 20.0 million), cash flow from financing activities mainly included the redemption of the corporate bond with a coupon of 7.0 % at the end of April 2018 in the amount of EUR 75.0 million. Net cash flow from financing activities totaled EUR – 124.1 million in the 2018 financial year (previous year: EUR – 33.7 million).

GROWTH IN NET WORKING CAPITAL LEADS TO BALANCED FREE CASH FLOW FOR 2018 AS A WHOLE; FREE CASH FLOW IN THE FOURTH QUARTER AT EUR 58.3 MILLION

Free cash flow (net cash flow from operating activities less investments in property, plant and equipment and intangible assets) was almost break-even in 2018 at EUR 0.0 million (previous year: EUR 29.7 million). The decline in free cash flow compared to the previous year was due, in part, to the rise in net working capital. Consciously increasing inventories in North America to ensure timely delivery to customers in the tight market environment contributed to this decline. In addition, SAF-HOLLAND increased its investments in the 2018 financial year by around 50 % compared to the prior year, most of which went into digitization projects and the new plant in China.

As a result of the reduction in net working capital in the fourth quarter of 2018 and the associated improvement in net cash flow from operating activities, there was a significant increase in free cash flow of EUR 58.3 million in the fourth quarter of 2018 (previous year: EUR 26.8 million).

TOTAL LIQUIDITY AT THE END OF 2018 ADDS UP TO MORE THAN EUR 350 MILLION

As of December 31, 2018, total liquidity consisting of cash and cash equivalents, other short-term investments, and the agreed credit lines, amounted to EUR 350.8 million (previous year: EUR 481.0 million). While cash and cash equivalents and other short-term investments fell by EUR 123.8 million and EUR 58.3 million, respectively, the scope of the agreed credit lines increased by EUR 51.7 million to EUR 208.0 million (previous year: EUR 156.3 million). For more information on the development of total liquidity, please refer to the explanations in the Notes on page 131.

MANAGEMENT'S GENERAL STATEMENT ON THE FINANCIAL SITUATION IN THE 2018 FINANCIAL YEAR

The year 2018 was mixed overall for the SAF-HOLLAND Group. On the sales side, not only could the Group far exceed its goal of organic growth of 4 – 5 %, but it was the first time that the Group achieved sales of more than EUR 1.3 billion. The flip side of this strong growth is reflected in the unsatisfactory earnings performance in North America. Strong customer demand caused the Group to operate with capacity utilization in the US that exceeded the economically optimal level. SAF-HOLLAND made a conscious decision to make timely delivery to its customers and defending market share its highest priorities. As a result, the planned reduction in the remaining production inefficiencies in the restructured US plant network did not progress as quickly as planned, making it necessary again to incur additional expenses. In addition, the import tariffs on steel products imposed by the US government led to a sharp rise in steel prices in North America. Although we were largely successful in passing on the higher prices to our customers by the end of 2018, the rise in steel prices still placed a burden on our profitability in the amount of EUR 11.3 million in the 2018 financial year. This burden corresponded to a negative effect of 0.9 percentage points on our margin.

Against this backdrop, it was not possible to achieve the original target range of 8.0 % – 8.5 % for the adjusted EBIT margin in the 2018 financial year. The reported IFRS figures for the 2018 financial year reflect this development to only a limited extent, as the Group had also benefited from two extraordinary non-cash items: the partial settlement of a medical plan in the US and the measurement of the call/put option on the outstanding shares of KLL and V.Orlandi.

Despite the unsatisfactory situation in the Americas, SAF-HOLLAND reached important milestones in implementing the goals of the 2020 growth strategy during the past financial year. With the acquisitions of V.ORLANDI, York and Axscend in 2018 and then PressureGuard and Stara in the first months of 2019, it was not only possible to strengthen our market position but also gain important technological know-how for the Group. A new production center is currently being built in China and is scheduled to start production in the second half of the year 2019. This new plant will not only be the Group's most sophisticated but also its largest in terms of capacity.

We consider the year 2019 to be a transitional year. The focus of the management will be on optimizing the processes and, as a result, significantly improving the earnings situation in North America. In addition, it will be important to position the Group in such a way that it can continue to participate disproportionately in the structural growth in the target markets and thereby achieve the goals of the 2020 growth strategy.

OPPORTUNITIES AND RISK REPORT

FUNDAMENTALS OF THE SAF-HOLLAND GROUP RISK MANAGEMENT SYSTEM

SAF-HOLLAND has a comprehensive risk management system that is anchored in all of the major operational business and decision-making processes and implemented Group-wide by the Management Board. The risk management system is designed to identify potential risks at an early stage through the continual monitoring of relevant markets, regions, customers, suppliers and internal processes to be able to take effective counteractions. Identified risks that are significant in their amount and can reasonably be expected to occur are systematically and uniformly recorded, analyzed, evaluated and communicated to the greatest extent possible. General risks (such as macroeconomic risk) that are not directly related to the Company and risks that are not to be monitored (for example natural catastrophes) are deliberately omitted from the risk management system. The risk management system exists exclusively to identify risks and not to recognize opportunities.

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

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

INTERNAL CONTROLLING SYSTEM BASED ON THE GROUP ACCOUNTING PROCESS

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

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

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

HIGHER OVERALL POTENTIAL RISK AT THE SAF-HOLLAND GROUP IN THE 2018 FINANCIAL YEAR RESULTING FROM BUSINESS EXPANSION AND A RISE IN THE GENERAL RISK SITUATION

Risk assessment is based on the criteria "probability of occurrence" and "extent of risk." The risks are subdivided into "low," "medium" and "significant" risks in accordance with the chart below. Risks are classified as "significant" starting at an extent of risk of more than EUR 1.5 million (with a probability of occurrence of at least 70 %) or at an extent of risk of more than EUR 3.0 million (with a probability of at least 30 %). Conversely, risks are classified as "low" at an extent of risk of less than EUR 1.5 million (with a probability of occurrence of no more than 10 %), or at an extent of risk of between EUR 1.5 million and EUR 3.0 million (with a probability of occurrence of no more than 10 %).

The extent of risk is quantified at the level of adjusted earnings before interest and taxes (adjusted EBIT) and before any risk mitigation measures (gross assessment).

Risk categories

Extent of risk in kEUR

	Probability of occurrence				
	<10%	10%–30%	30%–70%	70%–90%	>90%
<1,500	Low	Medium	Medium	Medium	Medium
1,500–3,000	Low	Medium	Medium	Significant	Significant
>3,000	Medium	Medium	Significant	Significant	Significant

Low — Medium — Significant

Based on a gross assessment, the overall potential risk of the SAF-HOLLAND Group at the end of the 2018 financial year increased by slightly more than 20 % to around EUR 40 million (previous year: around EUR 33 million). This increase in risk originated from the 14.2 % expansion in sales over the past financial year since higher business volumes usually go hand-in-hand with higher risk. Increased risk also stemmed from a number of external factors, such as continued global trade conflicts, the entry into force of the EU Data Protection Regulation and the increasing scarcity of skilled labor. Nevertheless, in view of the Group's business volume and economic situation, we still consider the risks within the overall risk situation that can be directly influenced by the Group to be quantifiable and well manageable. Adequate precaution was made for identifiable accounting risks in the form of depreciation, impairment and provisions in accordance with the relevant IFRS standards. Currently, there are no identifiable risks whose occurrence would jeopardize the continued existence of the Group or a major Group company.

Strategic risks as well as legal and regulatory risks were the two most important risk areas in the past financial year, each accounting for just under 25 % of overall potential risk. While the absolute significance of strategic risks remained essentially unchanged, legal and regulatory risks increased noticeably higher due to higher trade risks. Personnel risks also increased due to the aforementioned shortage of qualified employees. Financial risks and other risks declined.

RISK OVERVIEW

Risk areas[1]	Individual risks	Individual risk 2018 vs. prior year[2]	Total risk 2018 vs. prior year[3]
Strategic risks	Customer dependency risks	higher	
	Competitive risks	unchanged	
	Vertical customer integration	higher	unchanged
Legal and regulatory risks	Trademark and patent risks	higher	
	Liability risks	lower	
	Trade risks	higher	
	Other regulatory risks	higher	higher
Technology risks	Marketing risks	unchanged	
	Risks from technological progress	unchanged	
	Risks from the loss of a cooperation	unchanged	unchanged
Personnel risks	Loss of knowledge risks	higher	
	Strike risks	unchanged	higher
Operating risks	Procurement risks	unchanged	
	Inventory valuation risks	higher	higher
IT risks	System outage and cybercrime risks	higher	higher
Financial risks	Financing risks	unchanged	
	Currency risks	unchanged	
	Impairment risks	lower	lower
Other risks	Compliance risks	unchanged	
	Business relationship risks	lower	lower

Low — Medium — Significant

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

MACROECONOMIC AND SECTOR-SPECIFIC RISKS

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

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

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

STRATEGIC RISKS CONTINUE TO BE THE MOST IMPORTANT RISK AREA

Customer dependency risks

The global truck business (13.9 % of sales of the SAF-HOLLAND Group) is dominated by a relatively small number of global manufacturers. Consequently, the dependency of the Group in this market on individual customers is relatively high. The trailer business, which accounts for 62.1 % of sales and is the more important business for SAF-HOLLAND – has a much less condensed market structure, with several hundred manufacturers operating in both North America and Europe.

The SAF-HOLLAND Group responds to customer dependency risks by ensuring that it has a balanced customer structure. The share of sales per customer largely mirrors the market share of the respective manufacturers. SAF-HOLLAND also has a number of customers who are small and medium-size suppliers of vocational vehicles and are very important in their niches and respective markets. The Company's continued internationalization and positioning as a global partner for the commercial vehicles industry also improve its risk profile. In the past financial year, the risk of dependency on individual customers increased following the SAF-HOLLAND Group's above-average growth in the APAC/China region, which was achieved with a relatively moderate number of customers. Nevertheless, no one customer represented more than 10 % of the Group's sales in the 2018 and 2017 financial years.

Competitive risks

Competitive risks continue to be the single most important risk for the Group. Overall, we rate the intensity of competition in our markets as high, mainly based on the entry of new and typically lower cost suppliers from emerging market countries entering established markets. This is the reason for our ongoing market and competitive analyses.

We mitigate this risk by taking several actions. For one, we make certain that our cost structures are always competitive with the market. We are also increasing our technological advantage through innovation and believe we are a technological pioneer in our industry in the areas of axle and suspension systems, coupling systems, lightweight construction and disk brakes. Another crucial competitive advantage is our aftermarket network, which encompasses more than 10,000 spare parts and service outlets, as well as dealers and repair shops in more than 80 countries. We possess the densest network in Europe and North America, which poses a significant barrier to market entry for potential new competitors.

Vertical customer integration

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

Even though SAF-HOLLAND is only affected by vertical integration to a limited extent, we estimate that this risk had increased by the end of the 2018 financial year. From an economic standpoint, producing axles only makes sense for a small number of trailer manufacturers and only refers to the production of standard axles and not the production of higher-margin specialty axles. Since fleet customers largely determine their trailer specifications and choice of the axle systems themselves, it is crucial to a supplier's success to have direct access to the end customer. Vertical customer integration currently also plays a lesser role in SAF-HOLLAND's important vocational vehicle business.

LEGAL AND REGULATORY RISKS RISE SIGNIFICANTLY

Trademark and patent risks

The misuse of SAF-HOLLAND trademark and patent rights can lead to economic damage. We counter these risks through ongoing and intense monitoring of the relevant patent applications and market developments worldwide – also in the spare parts segment. In the context of priority registrations, SAF-HOLLAND ensures that its in-house developments are patented at an early stage to ensure they are protected.

Liability risks

Liability risks include product liability and quality risks that may result from the production of products with insufficient quality or defects. Any soil, air or water pollution can also create related environmental risks. Consequently, manufacturing companies can never completely eliminate liability risks.

To isolate these risks as best as possible, SAF-HOLLAND ensures Group-wide that its manufacturing is in accordance with high quality standards. Our quality assurance already starts at the product development stage and extends throughout the entire value chain. Our quality standards are precisely tailored to our customers' needs. They are also the reason we are able to meet the requirements of the international DIN ISO 9001:2015 quality standard and the special requirements of the automotive industry (IATF

16949) at all of the locations supplying to the truck industry. All locations that exclusively manufacture products for the trailer industry are DIN ISO 9001:2015 certified. The system capability of the welding technology at the German plants in Bessenbach is regularly verified according to the ISO 3834-2 welding quality certification. Should any defective products still be shipped to customers despite the above quality assurance, making it necessary to recall the affected parts, the damage would be covered by insurance in an amount checked annually for sufficiency.

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

Trade risks

Trade risks can arise through the tightening of restrictions or the introduction of tariffs, particularly in the context of international trade. Such risks are countered by the permanent, intense monitoring of international political developments, with any possible changes taken into account internally and reflected in the forecast on a monthly basis.

In the 2018 financial year, global trade relations came increasingly under pressure as a result of the imposition of reciprocal punitive tariffs between the US and China and the EU. The introduction of punitive tariffs on steel and aluminum products by the US administration led to a significant increase in steel prices in North America and propelled SAF-HOLLAND's procurement costs significantly higher. A solution to the trade conflict, particularly the one between the US and China, is not foreseeable at the moment, and the imposition of additional punitive tariffs has already been announced by both sides in the event of the failure of the ongoing negotiations. In this environment, trade and market access risks at the end of 2018 were rated significantly higher than in the previous year.

An event that is not expected to have a significant impact on the Company's operating business is Britain's decision to leave the European Union (Brexit) on March 29, 2019. SAF-HOLLAND is not operating in Great Britain through its own subsidiary but serves the local market through a distribution partner (local representative), which is invoiced in euros. In the 2018 financial year, exports to Great Britain accounted for roughly 2.4% of Group sales. As none of SAF-HOLLAND's major competitors have significant production capacities in Great Britain, we do not expect the Brexit or the weakening of the pound sterling versus the euro since the referendum to have any effect on our relative competitive position.

Other regulatory risks

Other regulatory risks specifically include changes in the political and legal framework. The introduction of the EU Data Protection Regulation increased the risks in the past financial year that could result from violating the relevant data protection regulations. The SAF-HOLLAND Group mitigates these risks by entering into the appropriate data protection agreements with customers and suppliers and providing ongoing training to the employees entrusted with processing personal data. The Group has also set up a Compliance Office to further optimize its internal processes. In addition, a data protection officer has been appointed to monitor compliance with data protection regulations. In the 2018 financial year, the risks resulting from the application of tax transfer prices have also increased. SAF-HOLLAND continuously analyzes the transfer prices used in the Group for their appropriateness.

In order to keep up-to-date with the regulatory requirements in the truck and trailer markets, SAF-HOLLAND closely monitors the relevant topics, for example, by always reviewing the analyses of leading market research institutes such as ACT Research or FTR.

TECHNOLOGY RISKS ESSENTIALLY UNCHANGED

Marketing risks

We counter marketing risks first and foremost by maintaining an ongoing dialog with our customers. This enables us to recognize changes in demand at an early stage and develop new demand-oriented solutions. The information gained helps us to avoid misdirecting our technological and conceptual efforts as a result of misinterpreting the needs of the market. The Group Management Board routinely reviews and evaluates the Global Project List and with it the development pipeline of the Group. In addition, we also continuously monitor our competitors, particularly with respect to their product range and research and development focus. We use benchmarking and other tools to monitor our competitors' relevant products and activities.

Risks from technological progress

Theoretically, it is conceivable that we may not fully recognize general technological advances. We identify the risks associated with this through extensive monitoring in the course of preparing our annual research and development report, where we record and document technological progress in our industry. This enables us to recognize developments that affect our product range as well as the materials and manufacturing processes used at an early stage.

Risks from the loss of a cooperation
Generally, the termination of a collaboration with a business partner could lead to the loss of expert knowledge and, in turn, procurement or sales opportunities. We counter this risk by observing the developments in both the procurement and the sales markets and, as a rule, strive to form collaborations only based on contractually regulated strategic alliances.

INCREASE IN PERSONNEL RISKS IN THE "WAR FOR TALENT"

Risks from a loss of knowledge
Globally, the competition for qualified employees ("war for talent") is becoming increasingly intense. In advanced economies, this is largely the result of demographic change, which is causing the labor market to lose a number of well-educated professionals. In the emerging markets, competition for qualified employees is resulting from the economic upturn over the past several years. The risk from a loss of executives or knowledgeable experts in key positions is also becoming an increasingly important issue for SAF-HOLLAND. This can be seen by the increase in the extent of risk estimated in the past financial year compared to the prior year. The Group avoids this risk by using an established system of succession planning and Group-wide knowledge management. There are also clearly defined deputy guidelines for all relevant management positions.

Strike risks
To minimize strike risks, SAF-HOLLAND maintains a trusting and respectful relationship with works councils and trade union representatives. In Germany, employment agreements have been concluded to help secure jobs while improving SAF-HOLLAND's competitive situation. Similar arrangements have been made with various local unions in North America. We also use limited-term employment contracts.

OPERATING RISKS RISE AS A RESULT OF BUSINESS EXPANSION

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

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

Inventory valuation risks
In the 2018 financial year, inventories of the SAF-HOLLAND Group increased by 34.1%. Next to the higher inventory buildup necessary to meet the strong rise in demand in North America – despite the bottlenecks caused by the US plant consolidation – higher inventory was also required for the unexpectedly high growth in the APAC/China region. The increase in inventories harbors the risk that too many individual materials or intermediate products were purchased that can no longer be used in the years that follow (which would lead to corresponding inventory impairment). Excess inventory also generally faces the risk that the prices of materials or intermediates could fall (which would also lead to inventory impairment). With this in mind, the inventory valuation risk in the 2018 financial year was included in the risk areas for the first time.

In addition, the creation of the position of Chief Procurement Officer (CPO) brought together the global procurement activities for the first time.

IT RISKS INCREASE SIGNIFICANTLY

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

As the frequency of cyberattacks has been rising worldwide for years and the potential damage from such attacks has increased, the SAF-HOLLAND Group assigned a significantly higher level of risk to system failures and cybercrime in the past financial year than in the previous year. Penetration tests were carried out in order to identify and close possible security gaps. In addition, employees received training to learn more about IT risks.

OVERALL FINANCIAL RISK OF ONLY LIMITED IMPORTANCE

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

The financing risk of the SAF-HOLLAND Group is currently considered to be low. The Group not only has a sufficient level of liquidity, which gives SAF-HOLLAND the financing necessary for future acquisitions under its Strategy 2020, but has also broadly diversified its liabilities in terms of their maturity and nature. In the 2018 financial year, the Group entered into a new syndicated loan agreement with an enlarged syndicate of banks. The credit agreement reached includes a revolving credit facility of EUR 200 million (previously EUR 150 million), which can be drawn on in various currencies. There is an option to extend the facility by an extra EUR 100 million if needed. SAF-HOLLAND has had a corporate rating from the rating agency Euler Hermes since 2012. The current rating is BBB with a stable outlook, which was last reconfirmed in April 2018.

Further information on the Company's liquidity and financing can be found on pages 61ff. of this management report.

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

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

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

Impairment risks
Impairment risks can arise from the need to recognize unscheduled depreciation or amortization of assets. We counter these risks by adhering to a strict medium-term budget and compiling monthly reports both with respect to the Company's actual development and on the basis of a rolling planning process. As of the end of the 2018 financial year, virtually no impairment risks had been identified leading to a lower assessment of the extent of risk than in the prior year.

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

LIMITED OTHER RISKS

Compliance risks
We counter risks arising from non-compliance with laws and regulations through the adoption of a Group-wide Code of Conduct, which we continuously review for timeliness and expand when necessary. SAF-HOLLAND bases its Code of Conduct on common ethical and moral principles. Our Code of Conduct summarizes our compliance requirements, which are binding for SAF-HOLLAND as a Company, our management and each and every employee.

Other compliance matters, such as how to handle gifts or insider information, are regulated by mandatory guidelines and memorandums throughout the Group. When there are changes in the legal framework, the relevant information is updated and the employees affected are informed. The Group Management Board and the Board of Directors work toward ensuring compliance with the law and the Company's policies. Another measure to prevent and detect potential compliance violations was the introduction of the whistleblower system in 2018.

Risks from individual business relationships
Risks arising from individual relationships with business partners are inherently limited by the broad diversification of our customer and supplier base. Identified risks are addressed and limited as much as possible in cooperation with the respective business partner. It was possible in the 2018 financial year to eliminate a number of risks that still existed in the prior year, leading to the assessment of "low" at the end of 2018 for the risks from individual business relationships.

OVERVIEW OF OPPORTUNITIES

SUPPORT FROM THE GLOBAL MEGATRENDS AND THE GROWTH IN INTERNATIONAL FREIGHT TRANSPORTATION

Worldwide freight transportation and, consequently, the markets for trucks and trailers, are reaping the long-term benefits from several of the global megatrends. The growing world population, especially in developing and emerging countries, as well as the globalization of the economy, are leading to growing international trade. This makes a global transportation infrastructure a mandatory requirement. Urbanization is also attracting an increasing number of people to cities. Trucks and trailers are the most important means of transportation for supplying these megacities.

Another factor is the sharp increase in the population of the middle class, especially in the Asia-Pacific region. Growing incomes in the years to come will accompany a jump in the purchasing power of the global middle class, which in turn will lead to an increase in freight volumes. In the developed economies, trends such as the ever-increasing share of online commerce ("Amazon economy") are driving the demand for transport capacity even higher.

LONG-TERM GROWTH IN THE MARKET FOR TRUCKS AND TRAILERS

According to the market research institute LMC Automotive, the market for medium and heavy trucks is projected to grow on average by around 1% p.a. until 2023. All of the world's regions are expected to contribute to this growth, whereby the highest growth rates are expected in Mercosur countries and Central and Eastern Europe.

As safety requirements and compliance with environmental standards steadily increase worldwide, fleet operators are increasingly beginning to rethink the use of new combinations of materials and technological innovations, such as lightweight construction and disc brakes. As a result, the demand for premium transport equipment will increase disproportionately over the next few years (for more details, see the section "Opportunities arising from new regulatory requirements"). For a technology leader like SAF-HOLLAND, this trend means that there is substantial growth potential in the addressable market in the years ahead.

UNINTERRUPTED GROWTH IN THE DEMAND FOR SPARE PARTS

Due to the high volume of truck and trailer sales in recent years, especially in SAF-HOLLAND's core markets of Europe and North America, fleet sizes in these markets have increased significantly. With the increasing age of these vehicles, the demand for spare parts also rises. It follows that high demand for spare parts can be expected in the next several years, regardless of the development in the original equipment business. This should have a positive effect on the profitability of the Group in the medium term as margins in the spare parts business are generally much higher than in the original equipment business.

With the launch of the trademarks SAUER GERMANY QUALITY PARTS and GoldLine, SAF-HOLLAND has penetrated another segment of the spare parts market. With a tailored brand that offers somewhat more cost-effective parts specially designed for older vehicles, SAF-HOLLAND is supplying to trucks and trailers in what is known as the "second life" marketplace. This opens up additional sales potential, particularly in the emerging markets, which have a high number of older vehicles driving on the roads. The above trademarks also play a key role in the Company's early positioning in the Strategy 2020 target markets because these brands deliver the special qualities that characterize trucks and trailers in these markets: robustness, reliability and a low price.

OPPORTUNITIES ARISING FROM NEW REGULATORY REQUIREMENTS

The use of mega trailers in Europe

For some time, the European Union has been contemplating the admission of megaliners (extra-long truck and trailer combinations), sometimes referred to as EuroCombis. Megaliners can be up to 25.25 m long compared to the typical length of 18.75 m and have a total weight of up to 60 tons. The use of these megaliners might not only reduce traffic on the roads but also save fuel consumption and CO_2 emissions. In the meantime, megaliners are allowed in some Scandinavian countries as well as in both the Netherlands and Spain. Germany has been running a large-scale field test in several of its federal states for several years now. Critics fear that the introduction of mega trailers could mean an even greater shift of transport volumes from rails to roads.

Should megaliners be allowed throughout the European Union in the coming years, it could spark a boom in the industry. The comparatively better efficiency of megaliners, with lower costs per kilometer compared to conventional truck and trailer combinations, would provide commercial benefits to fleet operators and likely trigger a multi-year boost in new truck and trailer purchases. Apart from the temporary effect on demand, SAF-HOLLAND could also benefit structurally from the introduction of megaliners. Due to their size and weight, megaliners demand more in terms of vehicle load capacity, safety and comfort. These are all areas where SAF-HOLLAND's products are strongly positioned.

New commercial vehicle standards in China

The registration requirements for commercial vehicles in China have been significantly tightened in the past few years. Following the introduction of restrictions on the maximum weight, the total weight per axle and the dimensions of a truck and trailer combination in previous years, stricter safety regulations came into force at the beginning of 2019. After the expiration of a one-year transitional period, the GB 7258 standard has made the installation of disc brakes for the transport of dangerous goods mandatory since January 1, 2019. Trucks are required to equip their front axles with disc brakes and all of the trailer axles will need to feature disc brakes. As of January 1, 2020, the rear axles on trucks and all of the axles on trailers transporting dangerous goods will also need to be equipped with air suspension systems. These regulations also apply to all trailers with side walls and grid structures.

Although it is still unclear as of when old vehicles that do not meet the specifications will no longer be allowed, the GB 7258 standard should have a significant effect on demand in the Chinese market in the foreseeable future. Already in the past two years, there has been a shift in the focus of fleet operators increasingly toward lighter and technologically more sophisticated solutions, causing a boom in the premium segment. SAF-HOLLAND's products provide highly competitive solutions for these requirements and place the Group in an opportune position to greatly increase its market share in China.

Stricter emission regulations in the United States

A new directive (Regulations for Greenhouse Gas Emissions from Commercial Trucks & Buses) in the United States regulating the CO_2 emissions of heavy commercial vehicles was published in 2016 by the US Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA). This is the second phase of legislation on fuel efficiency and CO_2 emission reduction, which includes not only trucks but also regulations for trailers from 2018 onwards. For smaller trailer manufacturers, the tightened regulations apply to models built in 2019 and thereafter.

Even stricter requirements are scheduled to be introduced in 2021, 2024 and 2027. According to the EPA, the tightened regulations planned will not only require better aerodynamics but also the use of tire pressure monitoring systems and lightweight components in order to meet the requirements for improved fuel efficiency. SAF-HOLLAND has extensive expertise in both of these product areas and is therefore expected to benefit from these stricter regulations in the medium term.

INCREASING DEMAND FOR DISC BRAKE TECHNOLOGY

Whereas the overwhelming majority of trailers in Europe have been equipped with disc brakes for many years, the percentage of trailers equipped with disc brakes in the US is only slightly above 10 %. Traditional drum brakes still dominate the US market, despite being clearly inferior in terms of performance, weight and ease of maintenance. Disc brakes have clear advantages in terms of safety due to their better braking performance. A truck equipped with disc brakes, for example, needs 20 % less braking distance (dropping from 129 meters to 104 meters at a speed of 75 mph) compared to drum brakes.

Meanwhile, the interest in disc brake technology is now also picking up in the United States. In 2016, SAF-HOLLAND received a milestone order from U.S. Xpress to equip 1,800 newly ordered trailers with the latest generation of disc brakes. In the 2018 financial year, SAF-HOLLAND secured a further large contract from XTRA Lease – North America's largest fleet rental operator – for axle systems with integrated disc brake technology for roughly 6,000 trailers. The proportion of disc brake technology in the US is expected to increase in the medium term to 30-35 %. SAF-HOLLAND has been playing a pioneering role in this segment of the European market for years and possesses extensive know-how. By employing disc brake technology in its axle systems, the Group will be able to increase its added value per vehicle by 50 % or more.

OPPORTUNITIES THROUGH ACQUISITIONS

SAF-HOLLAND has already proven its ability to successfully consolidate its market position and accelerate its growth through acquisitions. As part of Strategy 2020, the Company plans to generate a portion of its sales growth over the next few years through collaborations, joint ventures and targeted acquisitions. In seeking these opportunities, SAF-HOLLAND continuously monitors the markets and conducts potential analyses in the relevant regions for both the original equipment and aftermarket businesses.

In the last few years, interesting options have presented themselves from potential sellers of family-run businesses but not at attractive terms and conditions. In view of the challenges facing many of these sellers, SAF-HOLLAND expects better opportunities going forward to expand its position in selective markets. A good example of this approach was the acquisition of KLL in the 2016 financial year. Through this acquisition, SAF-HOLLAND expanded its product portfolio to include products that stand out based on their durability and relatively low prices. The Group sees excellent sales potential for these types of products in other emerging markets, which should open up some cross-selling opportunities.

The takeover of the York Group in the 2018 financial year was another example of how SAF-HOLLAND is pursuing its strategic objectives. York is one of the market leaders in India, which is one of the largest and fastest growing transportation markets in the world. So far, demand for robust and reliable trucks and trailers has dominated the market, with price playing a crucial role. With York's product portfolio, SAF-HOLLAND will initially meet the current market demand. However, as already seen in China, market observers expect India and other APAC markets to transition to gradually stricter loading and safety regulations over the next few years. Therefore, the Group also expects these markets to shift toward technologically more sophisticated solutions. With the York acquisition, SAF-HOLLAND has gained a foothold for itself and its product portfolio at an early stage and is in a strong position to exploit the available market potential.

OPPORTUNITIES FROM PENETRATING NEW MARKETS

In the 2018 financial year, SAF-HOLLAND generated roughly 87 % of its sales in its traditional regions EMEA and Americas. Within the scope of its Strategy 2020, the Group's stated objective is to expand the share of its sales outside of these core regions to around 30 % over the medium term.

For this reason, SAF-HOLLAND has expanded its footprint significantly outside of its core regions over the last few years. In addition to the aforementioned acquisitions of KLL in Brazil and York in India, SAF-Holland also started operations at its new plant in Düzce-Istanbul (Turkey) in 2017 for the production of axle systems. This location offers some advantages due to lower transportation costs and also provides an opportunity to deliver more quickly to bordering new markets. Industry experts expect a significant boom in the release of pent-up investments in infrastructure in these countries and the transportation sector in particular.

In addition, in the past financial year, the Group decided to significantly expand its manufacturing capacity in China to take advantage of the high growth in modern axle and suspension systems for trailers expected in the years ahead. With a high single-digit million investment, a new central production center with a production area of around 46,000 m^2 is currently being built in the Yangtze River Delta. Operations are scheduled to begin in the third quarter 2019. This is yet another example of how the Company is laying the foundation for long-term, profitable growth in this region.

EVENTS AFTER THE BALANCE SHEET DATE

ACQUISITION OF PRESSUREGUARD LLC

SAF-HOLLAND Inc. acquired a 51 % stake in the manufacturer of tire pressure management systems, PressureGuard LLC, based in Nashville, Tennessee, effective January 9, 2019. A purchase option for the remaining outstanding shares in the company was agreed between SAF-HOLLAND and the previous owner, Servitech Industries, Inc. This option may be exercised at a later date. The purchase price for the acquired stake is in the low single-digit million euro range. PressureGuard's management team will remain at the company in their current roles to support the company's current production and its integration into the SAF-HOLLAND Group.

ACQUISITION OF THE BUSINESS OPERATIONS OF OY ARNE STARA AB

With effect from February 1, 2019, SAF-HOLLAND GmbH acquired the business operations of the family-owned Finnish Stara Group. The Stara Group was previously a distribution partner of SAF-HOLLAND GmbH, focused primarily on axle and suspension systems for trailers in Finland and Sweden. The acquisition was completed in two steps. First, SAF-HOLLAND GmbH acquired all of the shares in Stara Parts Oy, located in Finland, and of Trailax AB, located in Sweden, from the Finnish company Oy Arne Stara AB. In a second step, Stara Parts acquired the business operations of Oy Arne Stara AB. The purchase price was in the low tens of millions.

NEW SEGMENTATION IN CORPORATE MANAGEMENT

On January 1, 2019, a new segment structure was introduced to corporate management and reporting in order to better achieve the goals defined in the corporate strategy. The APAC/China region is now divided into the regions "APAC" and "China." As of January 1, 2019, corporate management and Group reporting have been conducted through the "EMEA," "Americas," "APAC" and "China" segments. The four regions cover both original equipment and spare parts business.

CHANGE AT THE COMPANY'S TOP MANAGEMENT

As of February 28, 2018, Arne Jörn, who at that time was the Chief Operating Officer (COO), resigned from the Company. Dr. André Philipp was appointed his successor and assumed his position in the SAF-HOLLAND Group effective January 1, 2019.

Also effective January 1, 2019, SAF-HOLLAND combined all global purchasing activities and appointed Alexander Geis as the Group's Chief Procurement Officer (CPO), in addition to his role as President of the EMEA region.

In addition, Mike Ginocchio, who was previously Vice President of the APAC/China region, was appointed President of the APAC/India region and a new member of the Management Board effective January 1, 2019.

On February 25, 2019, SAF-HOLLAND announced the appointment of Alexander Geis as the new chair of SAF-HOLLAND's Group Management Board effective February 26, 2019. Alexander Geis previously served on the Board and was responsible for the EMEA region and global procurement. The former chair of the Group Management Board, Detlef Borghardt, resigned from his duties effective February 25, 2019.

OUTLOOK

ECONOMIC CONDITIONS AND SECTOR ENVIRONMENT

GLOBAL ECONOMY REMAINS ROBUST, INCREASED RISK FROM FESTERING TRADE CONFLICTS

Leading economic research institutes expect the global economy to grow this year and next but believe that growth has already peaked in some regions and may lose some momentum. For 2019 the International Monetary Fund (IMF) expects a growth rate of 3.5 % for the global GDP and 3.6 % for 2020.

The IMF expects GDP growth of 1.6 % in the eurozone in 2019. The biggest risk factor remains the upcoming Brexit. For Germany, the IMF expects economic growth of 1.3 % in 2019 and 1.6 % in 2020.

In light of the worsening trade conflict between the United States and China in recent months, experts expect US growth to slow down to 2.5 % in 2019 and to 1.8 % in 2020.

The IMF is more optimistic when it comes to Brazil, where it expects the economic recovery to continue in 2019, whereas it forecasts a relatively stable GDP in Russia.

According to the IMF, economic growth in China and other Asian countries will be weaker this year compared to 2018. In China, the pace of GDP growth in 2019 is expected to slow down only slightly but remain at a comparably high level of 6.2 %.

Expected economic development in key markets in 2019

in %

	2017	2018	2019
Euro zone	2.4	1.8	1.6
Germany	2.5	1.5	1.3
United States	2.2	2.9	2.5
Brazil	1.1	1.3	2.5
Russia	1.5	1.7	1.6
China	6.9	6.6	6.2
India	6.7	7.3	7.5

Source: IMF (World Economic Outlook January 2019).

SECTOR ENVIRONMENT: SOLID COMMERCIAL VEHICLE MARKETS WITH REGIONAL DIFFERENCES

The prospects for 2019 remain favourable in the commercial vehicle markets that are relevant for SAF-HOLLAND. A relatively high level of production can be expected in North America based on the record order intake and backlog for Class 8 trucks and trailers. In the China region, the premium segment is more relevant for SAF-HOLLAND than the overall market. It expects that the tightened regulatory requirements for vehicle safety and load limits should fuel further investments of Chinese fleet operators. The situation is different in the important European core market. After several years of growth, production figures for trailers in Europe are expected to decline in 2019.

RELEVANCE OF THE MARKETS FOR SAF-HOLLAND

Due to the breakdown according to customer group into the OE (truck, trailer) and aftermarket business, the regions relevant to SAF-HOLLAND vary in their importance.

While the EMEA region (approximately 4 % of Group sales) and the Americas region (approximately 11 % of Group sales) are relevant for the truck customer group, all markets worldwide are important for the trailer and aftermarket customer groups.

Sales share by customer groups (2018)

	Trucks	Trailers	Aftermarket
Share of sales 2018	14 %	62 %	24 %

STABLE EUROPEAN TRUCK MARKET

According to estimates published by LMC Automotive, the Western European truck market is set to decline slightly in 2019. Industry observers expect a decline in production by almost 1 % drop in production. It should be noted, however, that the Western European truck market is only of minor importance for SAF-HOLLAND. In the years ahead, the market is expected to continue its multi-year uptrend and grow at over 2 % per year. In Eastern Europe, LMC Automotive expects the market to grow by 6 %, primarily driven by the continued market recoveries in Russia and Belarus.

DECLINING DEMAND FOR TRAILERS IN EUROPE IN 2019

After sustained growth in the period from 2012 to 2018, the market research institute CLEAR expects a decline in trailer production in 2019. The market researchers base their assessment on the fact that catch-up effects have further stimulated the demand for trailers and many European fleet operators have modernized and expanded their vehicle fleets in recent years. CLEAR predicts decline in production of roughly 10 %. Here, however, the high base of comparison with the previous year has to be taken into account, as more than 9 % more trailers were manufactured than the average of the last 3 years. In its medium-term forecast, CLEAR expects a record level of production and registrations in Europe for the period until 2021 after a temporary slowdown in 2019.

HIGHER ORDER INTAKE IN THE NORTH AMERICAN TRUCK MARKET

The continued high growth in the US economy and the disproportionately strong rise in freight volumes and freight rates led to strong demand in 2018 for additional transportation capacity in North America. At the same time, the Electronic Logging Device (ELD) introduced by the Federal Motor Carriers Safety Administration (FMCSA) on April 1, 2018, caused additional bottlenecks for fleet operators. The ELD obliges truck drivers to document their breaks, which in practice, lead to shorter operating times. Fleet operators responded to these bottlenecks with a flood of orders for new equipment. Due to the limited capacity of the truck manufacturers, however, these orders can only be completed in the course of 2019. As a result, ACT Research expects North American Class 8 truck production to increase 3 % year-on-year to approximately 335,000 units. Stronger growth is expected particularly in Mexico (+ 21 %), while the USA (+ 2 %) and Canada (+ 6 %) are expected to see a slightly lower increase.

NORTH AMERICAN TRAILER MARKET AT A HIGH LEVEL

For the North American trailer market, the outlook for 2019 is somewhat more subdued. In contrast to the continued high demand expected for Class 8 trucks, the trailer market is anticipated to decline slightly in 2019. ACT Research, for example, expects to see 2 % fewer trailers rolling off the production belts in 2019 than in the strong previous year.

CONTINUED GROWTH IN BOTH TRUCKS AND TRAILERS IN BRAZIL

Based on the moderate growth expectations and political reforms in Brazil, LMC Automotive expects heavy truck production to increase by 11 % in 2019, which indicates a continuation in Brazil's truck market recovery that began in 2017. Even at this level, however, truck production will still be significantly lower than it was prior to the last downturn in 2013. After strong growth of over 60 % in the trailer market in 2018, demand for trailers will be a bit more restrained, according to CLEAR. Market experts expect an increase in the production of trailers of around 5 % for 2019.

DECLINE IN TRUCK AND TRAILER DEMAND IN CHINA; PREMIUM SEGMENT CONTINUES TO GROW

After high growth rates in some of the prior years, the consolidation of truck and trailer demand in China, which was expected by many market observers, will continue in 2019. The expectation for the current year is a decline in production of heavy trucks of around 16 %. However, the slowdown should only be short-term, and production should rise moderately again until 2023. Still, it is important to keep in mind that the Chinese truck market has no significance for SAF-HOLLAND.

The introduction of the second phase of the GB 1589 standard in July 2018 and the GB 7258 standard as of January 1, 2019, will have a significant influence on the demand for trailers in China. The newly introduced load limits and safety regulations significantly affect the automobile and hazardous goods transporters in particular. The premium segment – the relevant segment for SAF-Holland – with more demanding, weight-reduced applications with air suspension and disc brake technology for the trailer sector, is estimated to amount to around 30 % of the market in 2025 (2018: 18 %). Market observers are therefore forecasting average growth of 20 % in the premium segment from 2019 through 2021.

In Australia, a regional market that is important for SAF-HOLLAND, LMC Automotive anticipates a decline in registrations of heavy and medium-duty trucks of almost 3 % in 2019. After a rise in the production of trailers of almost 7 % in 2018, CLEAR is forecasting a decline of 6 % in the current year.

Both CLEAR and LMC Automotive are also forecasting a slight decline in most other truck and trailer markets in the APAC region. In India, trailer production is expected to decline by 6 % and truck production by 10 % in 2019.

OUTLOOK ON BUSINESS DEVELOPMENT

SAF-HOLLAND places its medium to long-term business development at the forefront of its business activities. This will be realized within the scope of the 2020 growth strategy. To realize the growth opportunities the Company is rolling out its business into new regions outside the existing core markets, investing in technology, selectively expanding the product portfolio and entering into joint ventures and acquisitions.

Based on the expectations for the Group's relevant markets, SAF-HOLLAND is anticipating a somewhat more challenging market environment in 2019 than in the prior year. Despite a slight decline projected in the demand for trailers in the key core markets of Europe and North America in 2019, SAF-HOLLAND still expects the general industry development in 2019 to have only a minor impact on the business development. The Group's regional diversification should prove to be a significant advantage again in 2019.

INVESTMENTS IN REGIONS AND INFORMATION TECHNOLOGY

In the 2019 financial year, SAF-HOLLAND plans to increase its investment volume to around EUR 68 to 70 million, which will bring up the investment ratio from 3.1 % in 2018 to a level of 4 % to 5 %.

The higher investment budget is based on expansion of the York manufacturing site in Pune, India, and the completion of the construction of a new production center at the Yangzhou site in the Yangtze Province of China. In light of the higher demand expected over the next several years for advanced disc brake and air suspension technology in China, SAF-HOLLAND will significantly expand its production capacity in the region. The new Yangzhou plant will have a total area of approximately 46,000 m² and is scheduled to commence operations in the second half of 2019. The Group will invest a low double-digit million euro range in this production center in 2019.

Another focus of investment is the area of digitization. Among other initiatives, SAF-HOLLAND is implementing the Hybris e-commerce solution from SAP. This solution will offer our aftermarket customers the most up-to-date online shopping experience across all customer transactions. By achieving even closer integration and a merger of data with the SAP back-end system, SAF-HOLLAND is creating a centralized overview of its customers for even better customer management. The Company's investment in digitization globally in 2019 is expected to be in the mid-single-digit million euro range.

SAF-HOLLAND expects to continue to maintain an investment ratio of 4 % to 5 % in subsequent years and remain above its long-term average of 2.5 % to 3.0 %.

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

With respect to the medium-term goals under Strategy 2020, SAF-HOLLAND still expects to achieve an adjusted Group EBIT margin of at least 8.0 % in the next several years. This expectation is based on the assumption that the global economy will grow at just over 3.5 % per year and that the economic situation in the current core markets of Europe, North America and China will continue to develop in a stable to positive manner. SAF-HOLLAND expects to increase sales per vehicle and gain additional market share through structural market growth in innovative solutions such as lightweight construction, disc brake technology and automated driving.

2019 SALES GROWTH AND EARNINGS IMPROVEMENT IN CHALLENGING MARKETS

Based on the high level of Group sales achieved in 2018, SAF-HOLLAND expects to be able to increase Group sales by 4 % to 5 % in the 2019 financial year. This forecast is based on the assumption of constant exchange rates and an unchanged scope of consolidation.

Start-up costs for the restructured North American plant network are set to continue to decline in 2019 alongside a simultaneous optimization in the process chain and the integration of capacity planning and logistics processes. Until the persistent production start-up inefficiencies are eliminated, the Company expects to incur additional operating expenses. However, these expenses are expected to gradually decline over the course of the year. SAF-HOLLAND expects to see incremental improvements in its cost structure and profitability in 2019. The appointment of the new COO Dr. Phillip as of January 1, 2019, will also facilitate these improvements. Mr. Phillip's core responsibilities include the operational implementation of the strategic goals in North America.

From a current perspective, SAF-HOLLAND is forecasting an adjusted Group EBIT margin for the full year 2019 around the midpoint of the range of 7 to 8 %. This assumption is based on continued solid earnings performance in the EMEA, China and APAC regions. In light of the projected development in the Americas region, the Company expects the adjusted Group EBIT margin to improve throughout the year 2019.

In line with the objectives of the 2020 growth strategy, further sales and earnings contributions may also stem from collaborations, joint ventures or acquisitions concluded during the year. These would focus on rounding off SAF-HOLLAND's technology portfolio and combining mechanical components with sensors and electronics. Any collaborations, joint ventures or acquisitions would be concluded only if suitable opportunities were offered and could be realized at a reasonable purchase price and a clear risk profile.

CAPITAL EFFICIENCY EXPECTED TO EXCEED THE PRIOR YEAR'S LEVEL

Despite the challenging market situations in some markets due to economic or political reasons, management expects a solid Group's net assets and financial position in the 2019 financial year. Amid higher investments in the pipeline and the group-wide optimization of the net working capital, the Group's financial base is expected to remain strong. However, a temporary increase in inventories cannot be ruled out in 2019 as a result of the ongoing plant consolidation in the United States. The net working capital ratio is therefore projected to reach 13 %. Free cash flow in 2019 is expected to exceed the level reported in 2018.

Overall, the SAF-HOLLAND Group considers itself well positioned to achieve the sales, earnings and profitability targets formulated in its 2020 medium-term strategy.

ALTERNATIVE PERFORMANCE MEASURES

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

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

In complying with the requirements of the European Securities and Markets Authority (ESMA) Guidelines on Alternative Performance Measures (APM), SAF-HOLLAND provides an overview of the Alternative Performance Measures used, as well as their definition and compilation, on the SAF-HOLLAND website at https://corporate.safholland.com/apm