MANAGEMENT REPORT

SAF-HOLLAND AT A GLANCE

COMPANY PROFILE

The SAF-HOLLAND Group, located in Luxembourg, is the largest independent, listed commercial vehicle supplier in Europe that is focused on the trailer markets. With sales of approximately EUR 1,042.0 million in 2016 and on average more than 3,200 employees, the Company is one of the world's leading manufacturers of chassis-related systems and components, primarily for trailers, trucks and buses. The product range comprises axle and suspension systems, fifth wheels, kingpins and landing gear and is marketed under the SAF, Holland and Neway brands. SAF-HOLLAND sells its products to Original Equipment Manufacturers (OEMs) on six continents. The aftermarket business delivers the Group's spare parts to the service networks of Original Equipment Suppliers (OES) as well as to end customers and service centers through its extensive global parts distribution network. SAF-HOLLAND is one of the few suppliers in the truck and trailer industry that is broadly positioned internationally in almost all markets worldwide.

BUSINESS MODEL: DIRECT ACCESS TO END CUSTOMERS

SAF-HOLLAND's business model is distinguished by its focus on products that are crucially important to truck and trailer manufacturers in terms of quality, performance, innovation and standard of safety. SAF-HOLLAND's trailer products contribute roughly one-third of the total value of a standard trailer. SAF-HOLLAND's lightweight components and their inherent weight savings are setting industry standards and allowing end customers to optimize their total cost of ownership.

SAF-HOLLAND sells not only to vehicle manufacturers but also has direct access to its end customers – the fleet operators. For many products, it is the fleet operators themselves who determine the majority of trailer specifications, such as those for axle and suspension systems and choose their own suppliers at the same time. The direct contact is what keeps SAF-HOLLAND close to customers so that it can offer the right solutions for the customers' ever-changing demands.

Apart from the original equipment business, another key component of the Company's business model is the aftermarket business. With around 9,000 spare parts and service stations worldwide, SAF-HOLLAND possesses the largest and densest spare parts and service network in both Europe and North America. The guaranteed, rapid supply of spare parts is one of the main criteria sought by fleet operators when selecting suppliers and also represents a high barrier to entry for potential competitors. Because the demand in the aftermarket business lags 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: GLOBAL PRESENCE IN ALL MAJOR MARKETS

SAF-HOLLAND is present in all of the major truck and trailer markets worldwide. The Company has 19 production locations on six continents. The focus of production has traditionally been in the entrenched markets of North America and Europe. SAF-HOLLAND has also established production facilities in Brazil, South Africa, Turkey, India, China, Australia and the United Arab Emirates. This structure has made the Company one of the most geographically diverse suppliers in its sector.

SAF-HOLLAND also has one of the broadest spare parts and service networks of most of its competitors comprising around 9,000 spare parts and service stations as well as dealers and repair shops in over 80 countries. SAF-HOLLAND is densely represented throughout its core markets of Europe and North America.

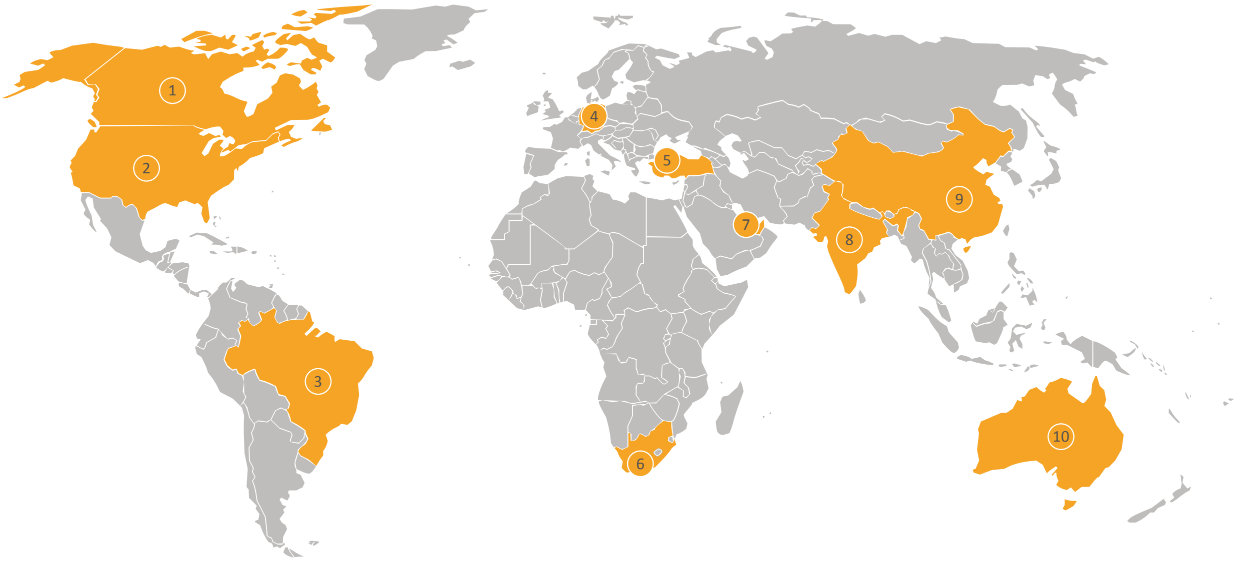
The Group's key sales markets are still in Europe and North America. SAF-HOLLAND's activities outside of these established markets are mainly concentrated in the BRIC countries and Australia. In China and Brazil, SAF-HOLLAND is not only active in the truck and trailer sector but also in the growing segment for bus suspensions.

PRODUCTS AND CUSTOMERS: CUSTOMIZED PRODUCTS TO MEET THE SPECIFIC NEEDS OF CUSTOMERS

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

SAF-HOLLAND markets its products for original equipment manufacturers under three umbrella brands worldwide: SAF, Holland and NEWAY. The SAF brand features axle and

SAF-HOLLAND production locations



1 **Canada**
Woodstock

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

3 **Brazil**
Alvorada
Jaguariúna

4 **Germany**
Frauengrund
Keilberg
Singen

5 **Turkey**
Düzce-Istanbul

6 **South Africa**
Johannesburg

7 **United Arab Emirates**
Dubai

8 **India**
Chennai

9 **China**
Baotou
Xiamen

10 **Australia**
Melton

suspension systems for trailers, the Holland logo is used on products with coupling and lifting technology, and NEWAY is the brand for suspensions for trucks and buses. At the local level and mainly in the Middle East and East Africa, SAF-HOLLAND also uses the TRILEX brand.

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

SAF-HOLLAND's product brands

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

LEADING MARKET POSITION

SAF-HOLLAND faces oligopolistic competitive structures in both Europe and North America – its two most important sales markets today. The three largest suppliers hold roughly 80–90 % of the market share in nearly all product segments.

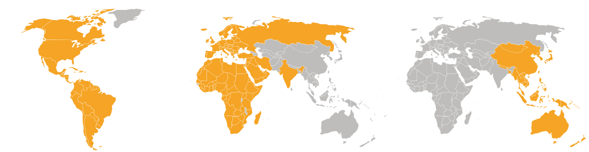
In Europe, SAF-HOLLAND is a leader in all of the relevant market segments and ranks as one of the top three suppliers in each of these markets. SAF-HOLLAND is a leader in axle and suspension systems for trailers in Europe. In North America, SAF-HOLLAND holds leading positions for fifth wheels, landing gear and kingpins.

ORGANIZATIONAL STRUCTURE

Since the 2016 financial year, SAF-HOLLAND has had a regionally focused Group structure comprised of the three regions EMEA/India, Americas and APAC/China, each consisting both of the original equipment and aftermarket businesses. Each division is fully responsible for its own results and controls all the necessary resources. Cross-unit functions and key tasks to support the business units are centrally organized within the Group.

Regionally focused structure since 2016

Americas	EMEA/India	APAC/China



all product groups	all product groups	all product groups

The Management Board's responsibilities are organized accordingly. In addition to the three members with functional responsibility (CEO, CFO and COO), the Americas and EMEA/India regions are each represented by their own board members. The APAC/China region will be directed by the chief executive officer until further notice. The plan over the medium term is to break down the Group's activities further and expand the Management Board to a total of eight members. Each of the five core regions would then have their own members representing them on the Management Board (Americas, Europe, Middle East/Africa/India, APAC and China).

LEGAL GROUP STRUCTURE

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

Legal group structure

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.
  - 100 % SAF-HOLLAND South Africa Ltd.
  - 100 % Jinan SAF AL-KO Axle Co., Ltd.
  - 100 % OOO SAF-HOLLAND Rus
  - 100 % SAF HOLLAND Otomotiv Sanayi ve Ticaret Limited Sirketi
  - 100 % SAF HOLLAND Middle East FZE
  - 100 % SAF-HOLLAND Austria GmbH
  - 80 % Corpco Tech, China
  - 10 % SQG S. u. G. gem. GmbH
  - 100 % **SAF-HOLLAND Inc.**
    - 100 % SAF-HOLLAND Canada, Ltd.
    - 100 % SAF-HOLLAND (Aust.) Pty., Ltd.
    - 100 % SAF-HOLLAND (Malaysia) SDN BHD
    - 100 % SAF-HOLLAND (Thailand) Co., Ltd.
    - 100 % SAF-HOLLAND Verkehrstechnik GmbH
    - 100 % SAF-HOLLAND Int. de Mecixo S. de R.L. de C.V.
      - 100 % SAF-HOLLAND International Services Mexico S. de R.L. de C.V.
    - 100 % SAF-HOLLAND Hong Kong Ltd.
    - 50 % SAF-HOLLAND Nippon, Ltd.
    - 34 % Castmetal FWI S.A.
    - 100 % SAF-HOLLAND India Pvt. Ltd.
    - 100 % SAF-HOLLAND (Xiamen) Co., Ltd.

In addition to the investments in the respective local subsidiaries, SAF-HOLLAND holds a strategic equity interest of over one-third of the French company Castmetal FWI S.A. since 2006. The other shares in the joint venture are held by the SAFE-Group, a producer of technical components made of cast steel and plastic injection molding for various industrial applications. The joint venture supplies SAF-HOLLAND with cast components for fifth wheels and suspension systems for the North American market. In addition, SAF-HOLLAND has held 57.5 % of the shares in the Brazilian suspension specialist KLL Equipamentos para Transporte Ltda. since October 2016. The remaining 42.5 % of the shares can be purchased through a put-/call-option at a later time.

ECONOMIC AND LEGAL INFLUENCES

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

Legal and regulatory requirements can promote higher product sales. For example, fuel consumption and emissions requirements for commercial vehicles are continually increasing worldwide. This increases the need for weight-reduced components – a development that benefits SAF-HOLLAND because its components are among the lightest on the market. Similar considerations apply in relation to the safety requirements. This area is also seeing more stringent regulations internationally, which again opens up attractive opportunities for SAF-HOLLAND because its products can help meet the more stringent safety standards.

STRATEGY AND OBJECTIVES

GROWTH "STRATEGY 2020"

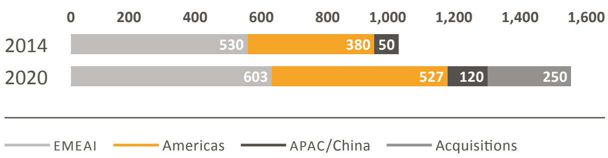
With the introduction of Growth "Strategy 2020" in 2015, SAF-HOLLAND has aligned its business to the global megatrends. The world's growing population and increase in purchasing power – especially in the middle class – are the key drivers for the expected increase in consumption. Rising demand for goods leads to steadily increasing transportation volumes and requires a substantial investment in transportation equipment, particularly in trucks and trailers, which are found at the beginning and end of every supply chain. This market growth is mainly seen in the emerging economies, particularly in the Asia Pacific, Middle Eastern and African markets.

In anticipation of this development, SAF-HOLLAND laid the groundwork early on in order to transform itself from an international company to a global group. The objective is to significantly expand the Group's presence in the emerging markets by expanding the product portfolio and entering new regional markets outside of the core markets of Europe and North America. A further strategic objective is the expansion of the aftermarket business across all regions. Over the medium term, this business is expected to constitute at least one-quarter of the Group's sales.

Based on sales of around EUR 960 million in financial year 2014, SAF-HOLLAND is targeting organic Group sales in 2020 of approximately EUR 1,250 million, representing organic sales growth of a good 4 % p.a. on average. Complementary collaborations, joint ventures and acquisitions are expected to add sales of roughly EUR 250 million and should boost total Group sales to an estimated EUR 1,500 million. The share of sales generated outside of today's core markets of Europe and North America is expected to rise from its current level of around 10 % to a total of 30 % under Growth "Strategy 2020". SAF-HOLLAND has already taken an important step in this direction by completing its acquisition of KLL in 2016, a leading supplier in Brazil of air suspension systems for trucks and buses as well as axles and mechanical and air suspension systems for trailers. We see tremendous medium-term sales potential in Brazil – a country with more than 200 million people and the largest economy and transportation market in South America.

"Strategy 2020" sales targets

EUR million



The adjusted EBIT margin is expected to reach an average level of at least 8 % by the year 2020. SAF-HOLLAND expects earnings per share to rise around 75 % compared to its level in 2014 and reach about EUR 1.20 by 2020. This target fully takes into account the higher number of shares resulting from the conversion rights of convertible bonds issued in 2014.

The Group plans to retain its high level of capital efficiency despite strong growth. The annual investment volume in the coming years is expected to hold steady at 2.5 % of sales with the ratio of net working capital to sales largely stable at around 12 %. The Group will continue to strive for a maximum leverage ratio (net debt/EBITDA) of 2.0, whereby a level of approximately 2.5 would be tolerated temporarily for larger acquisitions.

PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE INDICATORS

Achieving profitable growth and a sustainable rise in the Group's enterprise value is the focus of the Group's corporate management. Financial indicators are the primary tools used to assess current business development, determine the future strategy and make investment decisions. The following are the key financial performance indicators for the management of the SAF-HOLLAND Group:

— 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 integration costs) or derived from it the adjusted EBIT margin
— Earnings per share
— Net working capital (current assets less cash and cash equivalents, current non-interest-bearing liabilities and other current and non-current provisions) and the net working capital ratio (ratio of net working capital to the fourth quarter's sales extrapolated for the full year)

Financial performance indicators

EUR million

	Target 2020	2016	2015	2014	2013	2012
Sales	1,250–1,500	1,042.0	1,060.7	959.7	857.0	859.6
Adjusted EBIT	≥100–120	90.4	94.0	70.7	59.3	58.2
in % of sales	≥8%	8.7	8.9	7.4	6.9	6.8
Diluted earnings per share in EUR	~1.20	0.85	0.99	0.69	0.54	0.18
Net working capital	150–180	111.9	116.6[1]	102.7	76.1	82.4
in % of sales	12	11.1	12.0	10.9	9.4	10.2

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

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

Other important financial performance indicators considered in corporate management are the investment volumes, leverage ratio, equity ratio, liquidity, cash flow from operating activities and return on investment (ROI).

NON-FINANCIAL PERFORMANCE INDICATORS

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

INTERNAL GROUP CONTROL SYSTEM

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

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

INDUSTRY AND COMPANY-SPECIFIC EARLY INDICATORS

The primary company-specific early indicators are order intake and order backlog. These indicators are gathered for the respective Group companies and indicate the level of capacity utilization to be expected and the likely development of sales and earnings.

Management also continuously monitors and analyzes the statistics and forecasts for the overall economic development of the relevant countries and regions and the developments in the global truck and trailer markets – especially incoming orders and registration figures.

RESEARCH AND DEVELOPMENT

INNOVATIVE SOLUTIONS TO EXTEND OUR TECHNOLOGICAL LEADERSHIP

We consider ourselves as one of the technological leaders in our industry. We rely on innovative technologies and solutions to secure our long-term competitive position and increase our development edge. Our research and development activities are of significant strategic importance.

Our research and development expenses in the reporting year amounted to EUR 19.7 million (previous year: EUR 20.9 million). We also capitalized development costs of EUR 3.7 million (previous year: EUR 3.7 million), which resulted in a capitalization ratio of 15.8% (previous year: 15.0%). These were offset by the amortization of capitalized development costs in the amount of EUR 0.7 million (previous year: EUR 0.5 million). The R&D ratio based on Group sales amounted to 2.2% (previous year: 2.3%). At the end of the 2016 financial year, there was a total of 192 (previous year: 191) employees in the development, design and testing areas.

Multi-year overview of research and development

	2016	2015	2014	2013	2012
R&D expenses including capitalized development costs (EUR million)	23.4	24.6	21.9	19.1	19.4
R&D ratio (expenses as a percentage of sales)	2.2	2.3	2.3	2.2	2.3
Number of employees in the area of development, design and testing	192	191	171	164	160

Our development activities are not only focused on developing new products but also on adapting existing solutions to customer-specific or regional market requirements. This is why our teams of developers and engineers are not only located in our centers in Germany and the United States but are present worldwide. Direct proximity to our customers ensures that the specific market knowledge of the local units flows directly into our products.

OUR GOAL: OPTIMIZING OUR FLEET CUSTOMERS' TOTAL COST OF OWNERSHIP

The goal of our research and development activities is to offer our customers innovative products that ensure their fleets operate efficiently while optimizing their total cost of ownership. To achieve this goal, we have made the following areas the focus of our R&D activities:

- Weight reduction through the use of lightweight components: This allows larger loads and results in lower fuel consumption.
- Durability: Extended mileage and reduced maintenance expenses result in lower operating costs.
- Safety: The highest degree of driving safety and reliability ensure that our customers continue to meet increasingly stringent global safety standards.

WIDE RANGE OF INNOVATIVE SOLUTIONS AT THE IAA COMMERCIAL VEHICLES 2016

During the reporting year, SAF-HOLLAND presented a large number of development-stage product innovations at trade fairs in both Germany and abroad. Some of the most important trade fair appearances included the Mid-America Trucking Show in Louisville, Kentucky; the IANA Intermodal Expo in Houston, Texas; Automechanika in Frankfurt, Germany; and above all the IAA Commercial Vehicles fair in Hanover, Germany. SAF-HOLLAND presented a total of 14 new solutions from the product, component and services area at the IAA alone. These solutions were largely related to the Company's core products such as axles, suspensions, brakes and fifth-wheel couplings. New functionalities were also presented, specifically those offering added value to our end customers.

SAF TRAK

One of the many highlights at the IAA included the trailer axle concept SAF TRAK for which SAF-HOLLAND received the coveted "Trailer Innovation 2017" award for the chassis category. SAF TRAK is a hydraulically driven trailer axle. As a start assistant, the SAF TRAK System assists tractors on gradients and difficult road surfaces, especially at construction sites and landfills, using a hydraulically driven motor. Details on how the SAF TRAK operates can be found in the image section of this annual report.

After the SAF TRAK concept was presented for the first time in April 2016 at the bauma trade fair, a leading trade fair for construction machinery, SAF TRAK was subsequently presented to several customers who made valuable suggestions for the product's further development. The concept was also well-received by trade publications. With SAF TRAK, SAF-HOLLAND is able to give an impressive demonstration of its system capabilities beyond those related to mechanical components. Series production of SAF TRAK is scheduled to start at the end of 2017.

INTRA LIGHT & INTRA CD LIGHT

We presented further groundbreaking product innovations at the IAA Commercial Vehicles fair with the introduction of two new axle systems from the INTRA series. Axle systems for use in curtainsiders (INTRA light) or tippers (INTRA CD Light) are impressive due to their significantly lower weight, which allows an even higher payload with less fuel consumption. The INTRA Light adds additional weight savings of up to 20 kilograms per axle, or 60 kilograms per trailer, compared to a standard INTRA system. The INTRA CD Light, which is especially designed for difficult terrain and emphasizes durability, offers additional weight savings of up to 11 kilograms per axle, or 33 kilograms per trailer, compared to a standard INTRA CD. These products are scheduled to launch in Europe in 2018.

THE P89 DISC BRAKE

Another highlight in the reporting year was the North American introduction of our latest generation of disc brake technology, the P89 disc brake. SAF-HOLLAND's P89 trailer disc brake stands out due to its sharply improved braking performance, high running performance, long life and ease of maintenance. At the same time, it offers a price advantage of up to 40 % compared to the market's other currently available disc brakes and therefore represents a compelling alternative to drum brakes, also in terms of price. In July 2016, SAF-HOLLAND received the first large order to equip 1,800 trailers with this new generation of disc brakes from U.S. Xpress, one of the largest truckload carriers in the United States. In the image section of this annual report, we provide further information about this order and show the importance U.S. Xpress believes brake disc technology has for the North American market.

PERSISTENT HIGH NUMBER OF PRIORITY APPLICATIONS IN THE 2016 FINANCIAL YEAR

The number of priority applications validates our innovative strength and the effectiveness of our research and development activities. With 36 new international applications acquired in the reporting year, we have continued to expand our portfolio of priority applications. Since a priority application always signifies an initial filing of a patent family, the increase described was also accompanied by a number of related sub-applications and extensions.

Number of priority applications

	2016	2015	2014	2013	2012
Number of priority applications	36	30	41	26	20

CORPORATE GOVERNANCE

MANAGEMENT AND CONTROL

SAF-HOLLAND is a Société Anonyme (S.A.) under Luxembourg law. Management and control of the Company are organized differently than in the case of 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. follows the single-tier principle of the Anglo-American board system.

BOARD OF DIRECTORS

The business of SAF-HOLLAND S.A., a holding company without its own operating business, is managed by the Board of Directors. The focus of the Board of Directors' activities is first and foremost the SAF-HOLLAND Group's strategic direction and the supervision of the business activities of the operating companies.

The Board of Directors may consist of external members (non-executive directors) and the Company's operating managers (executive directors). The Board elects a chairperson and deputy chairperson from its own members as appropriate. In accordance with the Articles of Association, the Board's decisions are made with a simple majority. To carry out its duties, the Board of Directors sets up an Audit Committee, similar to the Audit Committee of the Supervisory Board.

At SAF-HOLLAND, the Board of Directors currently consists of seven members. Five of these members, including the Chairman Bernhard Schneider, are non-executive directors. The sixth member is Chief Executive Officer Detlef Borghardt (CEO) of SAF-HOLLAND. By having this structure, there is one member of the Board directly involved in the Company's day-to-day business. In addition, Jack Gisinger, who has been an associate member of the Board of Directors since December 6, 2016, will be nominated to the Board of Directors at the Annual General Meeting on April 27, 2017. Until December 31, 2015, Jack Gisinger had been a member of SAF-HOLLAND's Management Board and the president of the Powered Vehicle Systems business unit.

At the end of the Annual General Meeting on April 28, 2016, Ms Martina Merz took over the office of deputy chairman of the Board of Directors from Mr Sam Martin.

Further information on the activities of the Board of Directors during the 2016 financial year can be found in the corresponding report on page 123.

Board of Directors

as of December 31, 2016

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

MANAGEMENT BOARD

The executive board of SAF-HOLLAND GmbH is the top operational management body of the SAF-HOLLAND Group. It acts like the management board of a German stock cooperation (Vorstand) and is responsible for the operational management of the Group. The worldwide Group activities are further coordinated by the Management Board in which, besides the members of the executive board of SAF-HOLLAND GmbH, also further members of the management from the different regions of the Group are represented. The members of the Management Board are appointed by SAF-HOLLAND S.A. The Board of Directors, the executive board of SAF-HOLLAND GmbH and the Management Board respectively maintain a close, continuous and faithful working relationship.

At the beginning of the year 2016, the Management Board was reconfigured to reflect the change in SAF-HOLLAND Group´s organizational structure according to regions. In addition to the three members with functional responsibility (CEO, CFO and COO), the Americas and EMEA/India regions are now each represented by their own presidents. The APAC/China region will be directed by the CEO until further notice. At the end of 2016, SAF-HOLLAND's Management Board consisted of the following six members:

Management Board

as of December 31, 2016

Detlef Borghardt	Chief Executive Officer President Region APAC/China
Wilfried Trepels	Chief Financial Officer (until December 31, 2016)
Arne Jörn	Chief Operating Officer
Alexander Geis	President Region EMEA/India
Guoxin Mao	President Region China
Steffen Schewerda	President Region Americas

PERSONNEL CHANGES TO THE MANAGEMENT BOARD DURING THE 2016 FINANCIAL YEAR

In May 2016, Mike Kamsickas resigned from his position as chief operating officer for personal reasons. In October 2016, the Board of Directors appointed Arne Jörn as his successor. Guoxin Mao, President of the Region China, was appointed as a member of the Management Board on August 9, 2016. Wilfried Trepels gave notice of his resignation from SAF-HOLLAND in September 2016 to take effect as of the end of that year. On March 1, 2017, Dr Matthias Heiden assumed the position of chief financial officer. In the interim period, Dr Martin Kleinschmitt temporarily assumed the function of CFO.

BASIC ELEMENTS OF THE REMUNERATION SYSTEM

Members of the Board of Directors receive remuneration for their service and additional payment for assuming additional tasks such as chairing the Audit Committee. The CEO of the Management Board does not receive additional compensation for his work on the Board of Directors.

The Management Board's performance-related remuneration system is based on agreed short- and medium-term targets. Management Board members also have a share-based compensation component that is based on the Company's medium- to long-term success. Further details on share-based compensation for Management Board members can be found in the notes to this annual report on page 71.

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

As a Luxembourg société anonyme (S.A.) listed solely in Germany, SAF-HOLLAND is neither subject to the Luxembourg nor the German standards for corporate governance. Nevertheless, the Board of Directors, the Management Board and the executive board of SAF-HOLLAND GmbH are committed to responsible and transparent corporate governance, business integrity, sustainability and compliance with ethical values. Therefore, SAF-HOLLAND complies with the recommendations and suggestions of the German Corporate Governance Code on a voluntary basis to the extent allowed by Luxembourg corporate law and the Company's single-tier board structure. The existing limitations are reflected in the Declaration of Conformity pursuant to Section 161 AktG, which we submit on a voluntary basis.

The Declaration of Conformity submitted by the Board of Directors in March 2017 is permanently available on our website at http://corporate.safholland.com/en/company/about-us/corporate-governance/corporate-governance.

COMPLIANCE IS BASED ON A COMPREHENSIVE CODE OF CONDUCT

Corporate integrity has the highest priority at SAF-HOLLAND. Therefore, we believe the concept of compliance refers not only to compliance with the applicable national and international laws and regulations but also signifies a commitment to ethical and moral values. We have therefore set up a compliance organization to support our employees in meeting these requirements.

The head of the Compliance & Legal Affairs department oversees the compliance management and reports directly to the chief financial officer. The Internal Audit department supports the head of the Compliance & Legal Affairs department in carrying out her duties.

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

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

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

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

Other compliance issues, such as the handling of receiving benefits and insider information are regulated by Group-wide binding guidelines and memorandums. If there were any changes in the legal framework, such as the implementation of the European Union regulation on market abuse (MAR) during the 2016 financial year, the corresponding information is updated, and the employees affected are informed.

TARGET FOR THE SHARE OF WOMEN IN MANAGEMENT POSITIONS

The law for the equal participation of women and men in executive 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.

With female representation on the Board of Directors of roughly 29 % on December 31, 2016, SAF-HOLLAND S.A. nearly meets the female quota for supervisory boards of a minimum 30 % required under German law. SAF-HOLLAND has also set targets at its German locations for female representation in the second and third management levels below the Management Board (Vice Presidents and Directors). The Company is striving to reach a female quota of 12.5 % at each of these management levels by mid-2022. The quota among directors is expected to reach 9 % as early as mid-2017. This target compares with the level of female representation in Germany's overall workforce of currently just under 12 %. At the end of 2016, the level of female representation in management positions was 5.6 %.

ANNUAL GENERAL MEETING

The shareholders of SAF-HOLLAND exercise their voting rights at the Annual General Meeting. Each share is entitled to one vote. The Annual Ordinary General Meeting takes place each year within the first six months of the financial 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 decides 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 resolves changes to the Articles of Association and important corporate actions including, among others, the election of members to the Board of Directors and extensions in terms of office.

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 exercise their voting rights through a proxy of their choice, a company-appointed proxy or in writing.

TRANSPARENCY

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

ACCOUNTING AND AUDITING

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

The consolidated financial statements have been audited by PricewaterhouseCoopers Société coopérative, Luxembourg, who was selected by the 2016 Annual General Meeting. The consolidated financial statements were audited in accordance with the provisions of the International Standards on Auditing adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. The auditors assured the Board of Directors of their independence and objectivity prior to accepting the audit mandate. The financial statements are reviewed, approved and published by the Board of Directors no longer than 90 days after the end of the financial year.

MANAGERS' TRANSACTIONS

Managers of the Company are obliged under Article 19 of Regulation (EU) No. 596/2014 on market abuse (Market Abuse Regulation) to disclose to SAF-HOLLAND S.A. and the CSSF (Commission du Surveillance du Secteur Financier) 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.

We did not receive any notifications of transactions concluded by managers during the 2016 reporting year. All current and past notifications are available on our website at http://corporate.safholland.com/en/investor-relations/publications/announcements.

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 13 of this annual report.

b) The transfer of shares is not limited 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 as amended (Transparency Directive) are as follows:

Name of the shareholder	Shares[1,2]	% share of voting rights[1]
Delta Lloyd Asset Management N.V.	2,297,665	5.07 %
Fidelity Management and Research Limited Liability Company	2,283,397	5.03 %

[1] As of December 31, 2016
[2] Total number of SAF-HOLLAND shares: 45,361,112

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

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

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

g) As of December 31, 2016, the Company was not aware of any agreements between shareholders that would lead to a restriction on the transfer of shares or voting rights as defined by Directive 2004/109/EC as amended (Transparency Directive).

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

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

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

j) In October 2012, the Company issued a corporate bond with a nominal value of EUR 75 million, a coupon of 7 % and maturing in 2018. In the event of a change of control, as defined in detail in Article 5 (3) (b) of the bond's terms and conditions, each bondholder has the discretionary right to declare due any or all of the bonds plus the interest accrued up to the chosen redemption date. After a change of control, the chosen redemption date is specified by the Company and communicated in an announcement to the bondholders. The redemption date is a business day between at least 60 to not more than 90 calendar days following the announcement's publication.

The Company issued a convertible bond with a nominal value of EUR 100.2 million, a coupon of 1 % and 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 between at least 40 to not more than 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.

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) relating to drawn and undrawn lines of credit in a total volume of EUR 156 million also include provisions in the event of a change of control. Following a change of control, the Company must immediately inform the agent of that event. The creditors have the discretionary right to declare due via the agents all outstanding credit lines plus any interest that may have accrued and all other amounts owed in accordance with the respective loan agreements, provided they notify the agents within a period of 30 days. The agent is obliged to inform the Company of this notification within ten days.

Under two loan agreements dated June 13, 2016, the Company, 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 amount to EUR 25 million and are to be repaid no later than June 26, 2026.

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

k) There are no agreements between the Company and members of the Board of Directors or employees that provide for compensation arrangements for the members of the Board of Directors or the employees in the event of a takeover offer if the employment relationship is terminated without good cause or as a result of a takeover offer.

ECONOMY AND INDUSTRY ENVIRONMENT

OVERALL ECONOMIC DEVELOPMENT: WORLD ECONOMY CONTINUES TO GROW MODERATELY

The world economy continued its moderate recovery in 2016. At 3.1 %, global growth remained close to the previous year's level (3.2 %). Although the acceleration in growth projected at the start of the year by the International Monetary Fund (IMF) failed to materialize, several uncertainties did fade throughout the course of the year. Fears of a growth slump in the emerging markets were left unvalidated. The commodity markets experienced a significant recovery, and concerns about potential added pressure on the world economy from the political crises in the Middle East and the Ukraine and the forthcoming Brexit have decreased. Even a second interest rate increase by the U.S. Federal Reserve was not enough to cause any upset.

Economic development was stable in the eurozone where growth – supported by the ultra-loose monetary policy of the European Central Bank and the low oil price – reached 1.7 % and was exactly in line with the IMF's expectations at the start of the year. Growth in the United States, on the other hand, was muted at just 1.6 % compared to the IMF's expectation of 2.6 % as the year began. The United States was burdened by the slow recovery in the manufacturing industry and especially the weakness in the energy sector from falling commodity prices. The economic performance of the large emerging markets was varied. Whereas the Chinese economy was able to achieve growing stability over the course of the year, Brazil and Russia continued to struggle with a recession.

INDUSTRY DEVELOPMENT: STRONG REGIONAL DEVELOPMENTAL DIFFERENCES; EUROPE SHINES AS A PILLAR OF GROWTH

The development of the global commercial vehicle markets varied greatly in 2016. The Western European truck and trailer market provided the largest growth stimulus while the North American heavy truck (Class 8) market underwent a correction that was stronger than expected and had an increasing impact on the trailer market as the year progressed. The development in the emerging markets was also mixed. China reported positive growth rates while the important Brazilian market remained under pressure. Russia, on the other hand, saw the first signs of recovery. Australia, another important market for SAF-HOLLAND, also started to stabilize in mid-2016.

STRONG GROWTH IN THE EUROPEAN COMMERCIAL VEHICLE MARKET

According to estimates by the market research institute CLEAR, the Western European trailer market raised production by 8.0 % in 2016, marking the fourth consecutive year of growth. Growth in Germany, which is by far the single largest market, amounted to 9.3 %. Double-digit growth rates were achieved in both the Italian and Spanish trailer markets, whereas momentum in the Eastern European trailer market was more subdued. CLEAR estimates production in Eastern Europe grew by 2.8 %. Poland continued its upward trend of the past few years and registered an increase of 18.5 %. Trailer production in Russia grew 17.1 %, but started from a very low level. Production in this market was just half of the level recorded in 2011.

The European truck market also achieved gratifying growth rates this past year. According to the European Automobile Manufacturers Association (ACEA) trade association, new registrations of commercial vehicles of all types increased by 11.6 % across the European Union in 2016. In the heavy-duty truck segment (over 16 t), which is the relevant vehicle category for SAF-HOLLAND, new registrations increased an impressive 12.3 %. Momentum normalized in the course of the year as expected and after an increase of 17.8 % in heavy truck registrations in the first half of the year, growth in the second half amounted to just 7.1 %.

After several years of declining registration figures, the Russian market for heavy trucks managed to stabilize in 2016 at a low level. After getting off to a weak start in the year, the decline in registrations was offset in the months that followed with registrations for the year 4.2 % higher year-on-year.

MARKET CORRECTION IN NORTH AMERICA

The correction expected for heavy trucks in North America materialized in 2016 with Class 8 production figures falling 29.4 % to roughly 228,000 units. According to market research institute ACT Research, the correction was even stronger than had been expected at the start of the year (250,000 to 270,000 units expected). The correction resulted from excess capacity after the record numbers of new registrations in the past several years. Growth was also held back by the reluctance of many of the fleet operators to invest as a result of the relatively slow momentum of the U.S. manufacturing industry. New orders for Class 8 trucks fell by roughly 35 %, whereby this figure is exaggerated due to the high number of cancellations. In addition, incoming orders have been bottoming out at a low level since the second quarter.

New orders for trailers only started to weaken in early 2016 and ended up falling around 30 % for the full year. High order backlogs have allowed trailer manufacturers to limit production declines to 7.1 %, or approximately 358,000 units.

The Brazilian market remained weak in 2016. Despite the insignificant absolute levels reached after years of decline, the Brazilian market for heavy trucks recorded another 18.5 % drop in registrations in 2016.

MARKET DEVELOPMENTS IN APAC/CHINA VARY

The situation in most of the truck and trailer markets in the ASEAN countries remained challenging in the year 2016. The development of the single largest market, China, was different with truck sales increasing last year by 8.8 %, according to data from the manufacturers association CAAM. Heavy trucks even registered a rise of 33.1 %. The bus segment, on the other hand, recorded a year-on-year sales decline of 8.7 %.

Due to the beginning of a gradual recovery in commodity prices, the Australian market, which is an important market for SAF-HOLLAND, stabilized in the course of 2016 after getting off to a slow start. Registration figures for heavy trucks for the full year were at the prior year's level. Registration figures in Australia, however, are still around 20 % below their level prior to the financial market crisis.

KEY EVENTS DURING THE 2016 FINANCIAL YEAR

CASH OFFER TO ACQUIRE HALDEX

In July 2016, SAF-HOLLAND S.A. announced a cash offer for the acquisition of all issued and outstanding shares of the publicly listed Swedish company Haldex AB through its wholly owned subsidiary SAF-HOLLAND GmbH. The objective of the takeover offer was to create an integrated provider for chassis-related components for commercial vehicles. The total value of the offer for the Haldex shares was approximately EUR 442.1 million. The offer's acceptance period was August 1–24, 2016.

Following the announcement of a higher offer for Haldex from another bidder in early August, SAF-HOLLAND disclosed on August 11, 2016 that it will not increase its bid in response and decided to withdraw its offer. This decision reflects SAF-HOLLAND's clear M&A principles, one of which is that acquisitions must add both strategic and financial value. SAF-HOLLAND is committed to these principles because it believes they are in the best interest of its shareholders.

GROUNDBREAKING ORDER FOR DISC BRAKE TECHNOLOGY IN NORTH AMERICA

SAF-HOLLAND secured a groundbreaking order in July from U.S. Xpress, one of the largest truckload carriers in the United States. For the first time, U.S. Xpress will equip 1,800 of its newly ordered trailers with the latest SAF-HOLLAND P89 disc brake technology marking its change to disc brakes from drum brakes, which are still widely used in the United States. SAF-HOLLAND has been a pioneer in disc brake technology in Europe for many years and possesses extensive know-how in this area. The Company expects this structurally expanding market segment to increase the sales potential in North America in the next few years, particularly in light of the fact that the use of disc brake technology in SAF-HOLLAND's axle systems can also increase the value sold-in per vehicle. More information on the order from U.S. Xpress can be found in the image section of this annual report.

MAJORITY TAKEOVER OF BRAZILIAN COMPANY KLL

In early September, SAF-HOLLAND signed the agreements to acquire a 57.5 % stake in the Brazilian suspension specialist KLL Equipamentos para Transporte Ltda. (KLL). The acquisition was completed on October 5, 2016 and, since that date, KLL has been included in the scope of consolidation. The remaining 42.5 % stake will continue to be held by the founding family. SAF-HOLLAND can purchase these shares at a later time through a put-/call-option.

KLL is one of Brazil's leading suppliers of air suspension systems for trucks and buses as well as mechanical and air suspensions and axles for trailers. KLL currently employs around 200 staff. The customer base includes nearly all major manufacturers of trucks, buses and trailers in Brazil. This acquisition gives SAF-HOLLAND direct access to key truck customers for its truck-related product range and at the same time positions SAF-HOLLAND as a market leader for air suspension systems for buses. SAF-HOLLAND is also expanding its market share in trailer axle and suspension systems and is enhancing its technology portfolio through the addition of mechanical suspension systems. In the course of the acquisition, SAF-HOLLAND is consolidating its existing activities in Brazil yielding both cost savings and efficiency gains.

SALES AND EARNINGS PERFORMANCE, NET ASSETS AND CASH FLOWS

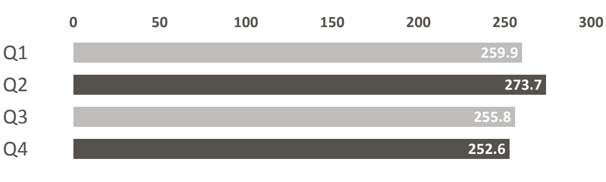
FORECAST VERSUS ACTUAL BUSINESS DEVELOPMENT

GROUP ACHIEVES FULL-YEAR 2016 SALES AND EARNINGS TARGETS

In the 2016 financial year, SAF-HOLLAND successfully countered many of the effects of the weak environment in several of the transportation markets worldwide. The Group's positive development in Europe, market share gains and the increase in the aftermarket business enabled SAF-HOLLAND to maintain essentially stable organic sales. As a result, organic sales – representing sales excluding negative currency effects of EUR 12.7 million and the contribution to sales from the purchase of KLL – reached a level of EUR 1,052.9 million. This amount represents a marginal year-on-year decline of 0.1 %. Important to note is that the AerWay product line, which still contributed about EUR 6.8 million to Group sales in 2015, was sold at the end of 2015. The acquired suspension specialist KLL contributed EUR 1.8 million to Group sales in the fourth quarter of 2016. Based on the above, SAF-HOLLAND reached the lower end of its Group sales target range of EUR 1,050 to EUR 1,070 million. Initially, the Company had forecast steady to slightly higher organic sales in the range of EUR 1,050 to EUR 1,070 million. SAF-HOLLAND gave a more specific forecast with the publication of the half-year results in August 2016 stating it expected to reach to the lower end of the forecast range as a result of the progressively weaker-than-expected market environment in North America in 2016.

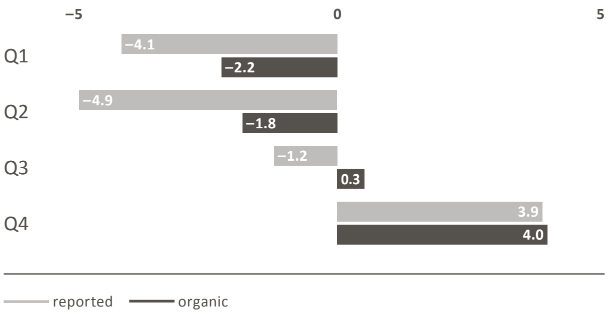
Sales by quarter 2016

EUR million



Sales by quarter (YoY) 2016

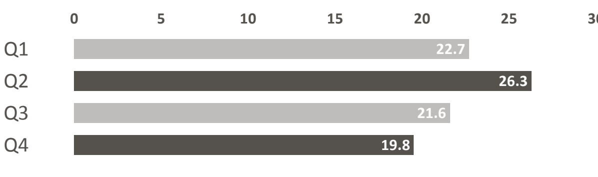
in %



The SAF-HOLLAND Group's regional sales development reflected the market's development as a whole. Although SAF-HOLLAND's development in the Americas region was significantly better than the market in terms of truck and trailer production, the performance still did not satisfy the Company's own expectations. The Group was able to offset some of the pronounced weakness in North America with strong demand in Europe. In the APAC/China region, sales were slightly better than expected but had little effect on the Group's sales overall.

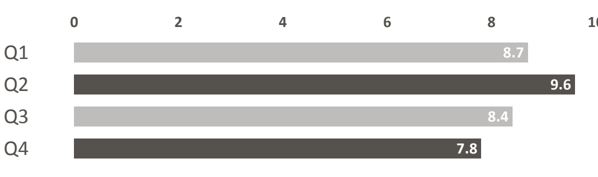
Adjusted EBIT by quarter 2016

EUR million



Adjusted EBIT margin by quarter 2016

EUR million



SAF-HOLLAND's adjusted EBIT margin of 8.7 % for the 2016 financial year meant it had also achieved its target for an adjusted EBIT margin tending rather towards the upper half of the range of 8–9 %. After announcing the original 8–9 % target range, the Group gave a more specific target in August 2016 stating it expected to reach the upper half of that range. In achieving its earnings target, the Group was faced not only with a difficult market environment but also several unexpected factors. For example, typhoon damage and the introduction of SAP in China, which resulted in the recognition of extraordinary write-downs on inventories and old stock, as well as one-time expenses from warranties, together amounted to a total charge of EUR 1.6 million and brought down earnings.

In North America, the Group was confronted not only with a steep decline in production rates for trucks and trailers but also a steady rise in steel prices during the year. This development adversely affected earnings because price increases are typically only passed on to customers after a certain time period.

	Actual 2015	Forecast 2016 (March 2016)	Revision August 2016	Actual business development 2016
Sales	EUR 1,060.7 million	Between EUR 1,050 and EUR 1,070 million (organic)	Lower end of range of EUR 1,050 and EUR 1,070 million	EUR 1,042.0 million (reported) EUR 1,052.9 million (organic)
Adjusted EBIT margin	8.9 %	8–9 %	Upper half of the 8–9 % range	8.7 %
Net working capital ratio	12.0 %	12–13 %	–	11.1 %

NET WORKING CAPITAL BETTER THAN EXPECTED

We exceeded our target for capital efficiency in the 2016 financial year. Due to the planned increase in sales contributions from new regions, we were projecting a slight rise in the net working capital ratio limited to a range of 12 to 13 % after amounting to 12.0 % in the 2015 financial year. With our achievement of 11.1 % as of the end of 2016, we not only reached this target but also managed to substantially improve this ratio compared to the end of 2015. By tying up less working capital and making lower payments for investments compared to the prior year, the Group was able to achieve significantly higher free cash flow in 2016.

SALES AND EARNINGS PERFORMANCE

ORGANIC SALES HOLD STEADY IN 2016

Despite declines in most of the commercial vehicle markets worldwide in 2016, Group sales held steady at a high level. Sales in 2016 reached EUR 1,042.0 million (previous year: EUR 1,060.7 million), or 1.8 % lower than the previous year. Items affecting sales included negative currency effects of EUR 12.7 million and the absence of sales and earnings contributions from the divested AerWay product line, which had a slightly lower margin than the Group's average and had still contributed EUR 6.8 million to sales in the Americas region in 2015. The first-time consolidation of the Brazilian suspension specialist KLL Equipamentos para Transporte Ltda. in October (sales contribution of EUR 1.8 million) could only partially compensate for the AerWay effect. Organic sales, which do not include negative currency effects or the contribution to sales from the purchase of KLL, nearly matched last year's level and amounted to EUR 1,052.9 million in the 2016 financial year.

After a decline in sales in the first nine months of 3.4 %, SAF-HOLLAND achieved organic sales growth in the fourth quarter of 2016 of 3.9 % for a total of EUR 252.6 million (previous year: EUR 243.2 million), despite clear weakness in the US market in the same period. On an organic basis, sales grew 4.0 %. The negative currency effects of EUR 0.6 million and slightly positive effect of EUR 0.3 million from the change in the scope of consolidation had little impact on a quarterly basis.

Sales by business area

EUR million

	2016		2015	
Original equipment	772.2	74.1 %	792.7	74.7 %
Spare parts	269.8	25.9 %	268.0	25.3 %
Total	**1,042.0**	**100.0 %**	**1,060.7**	**100.0 %**

ORIGINAL EQUIPMENT BUSINESS: SOLID SALES GROWTH IN THE EMEA/INDIA REGION; STRONG FINAL QUARTER IN THE APAC/CHINA REGION DRIVEN BY REGULATION

Sales in the original equipment business resumed growth in the fourth quarter, marking the first time in the 2016 financial year. Sales rose by 3.5 % to EUR 187.9 million (previous year: EUR 181.5 million). A chief contributor was the double-digit growth in the APAC/China region. The recent entry into force of the GB 1589 standard in China triggered a distinct acceleration in demand in the fourth quarter, particularly for trailer components. Further information on the effects of this standard is presented in the section on the development of the APAC/China segment on page 41.

Sales in the original equipment business for the full year declined 2.6 % to EUR 772.2 million (previous year: EUR 792.7 million) mainly due to negative currency and consolidation effects (e.g., absence of the AerWay product line). SAF-HOLLAND achieved solid growth in the EMEA/India region where demand for truck and trailer components remained robust. Worth mentioning is the positive development in Eastern Europe outside of the Russian Federation. Markets in the Middle East such as Turkey and Saudi Arabia, on the other hand, were significantly weaker in the second half of the year.

In the Americas region, the original equipment business experienced a decline throughout the whole of 2016. Although the orders for trailers and Class 8 trucks increased in the fourth quarter of 2016, customer call orders were weaker again toward the end of the year in North America. Some of the major US truck and trailer manufacturers halted production longer than usual over the holidays.

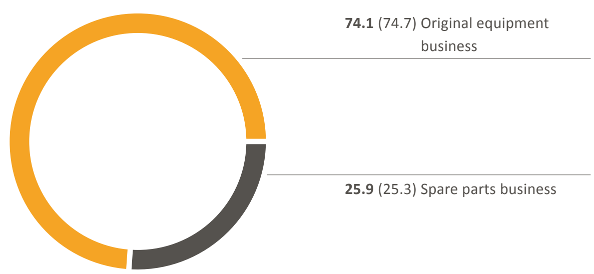
FULL-YEAR SALES IN THE SPARE PARTS BUSINESS SLIGHTLY HIGHER

Sales in the spare parts business in the 2016 financial year were 0.7 % higher amounting to EUR 269.8 million (previous year: EUR 268.0 million). Sales growth stemmed primarily from the EMEA/India region. This rise was the result of the higher demand from fleet operators for spare parts following the rise in transportation volumes in a majority of the region's core markets, as well as higher sales of products under the SAUER GERMANY QUALITY PARTS brand for older trucks and trailers in their "second life." The APAC/China region even achieved double-digit growth in 2016, albeit starting from a very low level. This region's activities are currently focused on establishing a base of installed products and customers to provide a foundation for the aftermarket business. The spare parts business in the Americas regions, in contrast, performed in line with the market for commercial vehicle spare parts and declined by a mid single-digit percentage amount in 2016. Demand for spare parts was very restrained after record new registrations in 2014 and 2015, particularly in the heavy Class 8 truck segment. As a rule, demand for service and spare parts increases only two to three years after the new vehicles are registered.

In the fourth quarter of 2016, sales of the spare parts business increased 4.9 % to EUR 64.7 million (previous year: EUR 61.7 million). The better sales development in comparison to the first nine months (–0.6 %) was not only the result of solid demand from the EMEA/India region but also a slight pickup in the spare parts business in the Americas region.

Share of Group sales by business area 2016

in %



OPERATING RESULT CONTINUES AT A HIGH LEVEL

Income Statement

EUR million

	2016		2015	
Sales	1,042.0	100.0%	1,060.7	100.0%
Cost of sales	−835.5	−80.2%	−857.8	−80.9%
Gross profit	**206.5**	**19.8%**	**202.9**	**19.1%**
Other operating income	1.2	0.1%	3.3	0.4%
Selling expenses	−60.7	−5.8%	−61.4	−5.8%
Administrative expenses	−50.9	−4.9%	−44.6	−4.2%
Research and development costs	−19.7	−1.9%	−20.9	−2.0%
Operating result	**76.4**	**7.3%**	**79.3**	**7.5%**
Finance result	−13.5[1]	−1.3%	−4.0[2]	−0.4%
Share of net profit of investments accounted for using the equity method	2.1	0.2%	2.3	0.2%
Result before taxes	**65.0**	**6.2%**	**77.6**	**7.3%**
Income taxes	−21.5	−2.1%	−25.9	−2.3%
Result for the period	**43.5**	**4.2%**	**51.7**	**4.9%**
Number of shares[3]	45,361,112		45,361,112	
Basic earnings per share in EUR	**0.98**		**1.14**	
Diluted earnings per share in EUR	**0.85**		**0.99**	

[1] As of 2016, the vast majority of unrealized exchange gains and losses from the valuation of intercompany foreign currency loans is no longer recognized in the finance result. Accordingly, unrealized exchange gains from the valuation of intercompany foreign currency loans of EUR 1.0 million in 2016 (Q4/2016: unrealized exchange gains of EUR 2.7 million) were recognized directly in other comprehensive income at the rate on the reporting date.

[2] The finance result for the 2015 financial year includes unrealized exchange gains from the valuation of intercompany foreign currency loans at the rate on the reporting date of EUR 6.8 million (Q4/2015: unrealized exchange gains of EUR 1.8 million).

[3] Weighted average number of ordinary shares.

EARNINGS DEVELOPMENT INFLUENCED BY HALDEX TRANSACTION AND VALUATION OF INTERCOMPANY FOREIGN CURRENCY LOANS

Earnings development in 2016 was strongly influenced by one-time expenses for the Haldex takeover bid that was ultimately withdrawn, the acquisition of KLL and a change in the recognition of unrealized exchange gains and losses from the valuation of the predominant portion of the intercompany foreign currency loans, which have been accounted for as part of a net investment in a foreign operation since the beginning of the 2016 financial year. Since that time, they have been directly recognized under other comprehensive income (OCI). Transaction-related costs brought down the result before taxes by an amount of EUR 4.1 million. In the previous year, unrealized exchange gains from the valuation of intercompany foreign currency loans totaling EUR 6.8 million were recognized in the finance result. In 2016, however, this position no longer had any significant effect. The above factors, which significantly burdened the Group's earnings, were partially offset by a EUR 3.6 million improvement in gross profit.

SIGNIFICANT IMPROVEMENT IN GROSS MARGIN

Despite a EUR 18.7 million decline in Group sales, gross profit rose to EUR 206.5 million (previous year: EUR 202.9 million), representing a gross margin improvement of 70 basis points in the 2016 financial year to 19.8% (previous year: 19.1%). This increase resulted mainly from savings generated from the plant consolidation in the EMEA region, process improvements, better production network efficiency and lower costs from the greater bundling of purchasing activities within the Group. Some of this improvement was offset by the insufficient market-related utilization of the production capacity in North America. The company managed to curtail the impact of this factor on profits, however, because we had started to adjust our capacity at an early stage. The problems with capacity utilization in Brazil were similar to those in North America. A negative effect on gross margins resulted from a gradual rise in steel prices in North America during the year, which typically can only be passed on to customers at a later stage. In China, we were also required to recognize extraordinary write-downs on inventories and old stock due to typhoon damage and valuation adjustments made in the course of introducing SAP, as well as one-time expenses from warranties, which together totaled EUR 1.6 million. These write-downs had a negative impact on the gross margin.

The gross margin in the fourth quarter of 2016 was significantly higher year-on-year and reached 19.2% (previous year: 18.1%). This rise was due not only to the effects already described but also to a favorable product mix.

OPERATING RESULT DECLINES DUE TO TRANSACTION COSTS

Stringent cost controls were responsible for limiting the overall rise in operating expenses, particularly in the case of selling expenses, which declined slightly in the 2016 financial year to EUR 60.7 million (previous year: EUR 61.4 million). Selling expenses as a percentage of Group sales remained stable at 5.8 %.

SAF-HOLLAND's Group-wide research and development costs were slightly lower than in the previous year amounting to EUR 19.7 million (previous year: EUR 20.9 million). The fact that a high number of development projects were completed helped reduce these costs. The R&D expense ratio excluding capitalized development costs was 1.9 % (previous year: 2.0 %). Development costs in the amount of EUR 3.7 million (previous year: EUR 3.7 million) were capitalized while scheduled amortization of development costs amounted to EUR 0.7 million (previous year: EUR 0.5 million). Including capitalized development expenses, R&D costs in 2016 amounted to EUR 23.4 million (previous year: EUR 24.6 million) yielding an R&D ratio of 2.2 % (previous year: 2.3 %).

The sharp rise in administrative expenses in the 2016 financial year to EUR 50.9 million (previous year: EUR 44.6 million) is mainly due to one-time effects from the takeover bid for the Swedish company Haldex AB and the acquisition of the Brazilian suspension specialist KLL (legal and consulting costs and brokerage fees, among others). In calculating the adjusted earnings figures, an adjustment was made for one-time transaction costs that came to a total of about EUR 4.1 million. Subsequent transaction costs of EUR 0.7 million were recognized in the fourth quarter along with EUR 0.9 million in transaction costs initially recognized under finance expenses in the third quarter and later reclassified to administrative expenses in the fourth quarter.

Other operating income declined to EUR 1.2 million in 2016 (previous year: EUR 3.3 million). This decline was largely a result of posted income of EUR 1.4 million from fixed asset disposals in the prior year 2015 resulting from the sale of the AerWay product line and real estate at the former location in Wörth am Main, Germany, that was no longer needed as a result of plant consolidation.

The total of these factors more than offset the improvement in the gross margin. The operating result came in at EUR 76.4 million in the 2016 financial year (previous year: EUR 79.3 million). The operating income margin was almost unchanged at 7.3 % (previous year: 7.5 %). The slight decline in the margin compared to the prior year was mainly the result of lower other operating income in the amount of EUR 1.2 million (previous year: EUR 3.3 million) and the one-time transaction expenses for Haldex and KLL totaling EUR 4.1 million. Results also came under pressure from the aforementioned extraordinary write-downs on inventories and old stock, as well as from one-time expenses for warranties in China. Despite their one-time nature, these charges were not adjusted in the calculation of adjusted earnings. In the fourth quarter of 2016, the operating result reached EUR 16.1 million (previous year: EUR 14.6 million), which was 10.3 % above the prior year's level.

WEAKER FINANCE RESULT LARGELY DUE TO CHANGES IN ACCOUNTING OF EXCHANGE GAINS FROM THE VALUATION OF INTERCOMPANY FOREIGN CURRENCY LOANS AND THE HALDEX TRANSACTION

The finance result in 2016 was EUR –13.5 million (previous year: EUR –4.0 million). This decline largely resulted from the change in the accounting of unrealized and non-cash exchange gains and losses from the valuation of intercompany foreign currency loans. The finance result in the previous year still included an exchange gain of EUR 6.8 million. Since the beginning of the 2016 financial year, translation effects from the valuation of the predominant portion of the intercompany foreign currency loans are accounted for as part of a net investment in a foreign operation and directly recognized in other comprehensive income (OCI). Consequently, this item no longer had an appreciable effect on results in 2016.

The effects resulting from the takeover offer for Haldex are fully recognized in the financial statements for the year 2016 and resulted in a slightly positive effect on the finance result. The Group had acquired approximately 3.6 % of the Haldex shares before issuing the takeover bid. The Group sold all of these shares on the stock market in the fourth quarter because the position was no longer of strategic importance and due to the potential risk of antitrust issues, which was to be eliminated in accordance with the Group's risk management system. The sale resulted in a gain of EUR 5.7 million. This gain was partly offset by transaction expenses of EUR 5.1 million incurred to hedge the potential purchase price in Swedish krona of the planned acquisition of Haldex for the purpose of transaction security.

In 2015, SAF-HOLLAND created the financing basis for the acquisitions planned under "Strategy 2020" and specifically for the financing of the takeover bid for Haldex by issuing a promissory note. This issue caused a rise in net interest income and expenses in the 2016 financial year to EUR –11.7 million (previous year: EUR –8.8 million). Important to note is that only a very minimal amount of interest was generated from investing the liquid assets from the promissory note.

The finance result in the fourth quarter of 2016 was EUR –3.2 million (previous year: EUR –1.5 million). This year-on-year decline largely resulted from the change in the accounting treatment of unrealized and non-cash exchange gains and losses from the valuation of intercompany foreign currency loans mentioned above. The fourth quarter of 2015 still contained a gain of EUR 1.8 million versus an insignificant amount of income in the fourth quarter of 2016. The sale of the Haldex shares in the fourth quarter of 2016 also generated a finance expense of EUR 0.9 million because the average price of the shares sold was below the price used to measure the shares' value on the September 30, 2016 reporting date. These expenses compare to a positive effect of EUR 0.9 million from the reclassification of transaction costs contained in the third quarter's finance result to administrative costs. Net interest income and expenses in the fourth quarter amounted to EUR –3.2 million (previous year: EUR –2.5 million).

2016 BASIC EARNINGS PER SHARE OF EUR 0.98 AND ADJUSTED EARNINGS PER SHARE OF EUR 1.18

The result before taxes in 2016 decreased to EUR 65.0 million (previous year: EUR 77.6 million). This decline was higher on a percentage basis than the decline in the operating result and was the outcome of the effects on the finance result already described.

The tax rate for the whole of 2016 remained essentially unchanged at 33.1% (previous year: 33.4%). The Group tax rate in the fourth quarter was disproportionately high as a result of the earnings development at some of the subsidiaries and the recognition of trade taxes on the gain from the sale of the Haldex shares.

The result for the period fell accordingly by 15.9% in the 2016 financial year to EUR 43.5 million (previous year: EUR 51.7 million). It is important to note that the previous year's result still included roughly EUR 4.5 million in non-cash exchange gains (after taxes) from the valuation of intercompany foreign currency loans.

Based on an unchanged number of ordinary shares outstanding of 45.4 million, basic earnings per share for the 2016 financial year were EUR 0.98 (previous year: EUR 1.14), and diluted earnings per share amounted to EUR 0.85 (previous year: EUR 0.99).

DIVIDEND SET TO INCREASE BY 10%

SAF-HOLLAND's dividend policy provides for a dividend distribution to shareholders of generally 40 to 50% of the available net earnings. Available net earnings do not take into account purely accounting and non-cash effects such as the gain from the valuation of intercompany foreign currency loans in the 2015 financial year. Accordingly and taking into account the strong development of free cash flow, the Board of Directors will propose a 10.0% higher dividend of EUR 0.44 per share (previous year: EUR 0.40) to the Annual General Meeting on April 27, 2017. This amount is equivalent to a total distribution of around EUR 20.0 million (previous year: EUR 18.1 million) and a payout ratio of 46.4% (previous year: 38.6%) of available net earnings. Based on SAF-HOLLAND's 2016 year-end share price of EUR 13.64, the dividend represents an attractive dividend yield of 3.2% (previous year: 3.2%).

Reconciliation of adjusted earnings figures

EUR million

	2016	2015[2]	2015
Result for the period	43.5	51.7	51.7
Income taxes	21.5	25.9	25.9
Finance result	13.5[1]	4.0	4.0[3]
Depreciation and amortization from PPA	5.3	7.0	7.0
Restructuring and transaction costs	6.6	5.4	5.4
Adjusted EBIT	**90.4**	**94.0**	**94.0**
in % of sales	8.7	8.9	8.9
Depreciation and amortization	17.3	15.3	15.3
Adjusted EBITDA	**107.7**	**109.3**	**109.3**
in % of sales	10.3	10.3	10.3
Depreciation and amortization	–17.3	–15.3	–15.3
Finance result	–13.5[1]	–10.7	–4.0[3]
Adjusted result before taxes	**76.9**	**83.3**	**90.0**
Income taxes	–23.2	–25.7	–27.8
Adjusted result for the period	**53.7[4]**	**57.6[5]**	**62.2[5]**
in % of sales	5.2	5.4	5.9
Number of shares[6]	45,361,112	45,361,112	45,361,112
Adjusted basic earnings per share in EUR[7]	**1.18**	**1.27**	**1.37**
Adjusted diluted earnings per share in EUR[8]	**1.03**	**1.10**	**1.18**

1 As of the 2016 financial year, the vast majority of unrealized exchange gains and losses from the valuation of intercompany foreign currency loans are no longer recognized in the finance result. Accordingly, unrealized exchange gains from the valuation of intercompany foreign currency loans of EUR 1.0 million in 2016 (Q4/2016: unrealized exchange gains of EUR 2.7 million) were recognized directly in other comprehensive income at the rate on the reporting date.
2 For better comparability, the 2015 finance result – as of the line item adjusted EBITDA – is presented in accordance with the method used in 2016. As a result, unrealized exchange gains of EUR 6.7 million in 2015 (Q4/2015: unrealized exchange gains of EUR 1.8 million) are no longer recognized under this item.
3 The finance result for the 2015 financial year includes unrealized exchange gains of EUR 6.8 million (Q4/2015: unrealized exchange gains of EUR 1.8 million) from the valuation of intercompany foreign currency loans at the rate on the reporting date.
4 A uniform tax rate of 30.20% was assumed to calculate the adjusted result for the period.
5 A uniform tax rate of 30.90% was assumed to calculate the adjusted result for the period.
6 Weighted average number of ordinary shares.
7 The calculation of adjusted basic earnings per share also includes the result attributable to non-controlling interests of EUR –0.8 million (previous year: EUR 0.1 million).
8 Calculated taking into account 8.1 million shares equivalents (previous year: 8.1 million) and EUR 1.2 million (previous year: EUR 1.2 million) of earnings contribution from the convertible bonds issued in 2014 and non-controlling interests of EUR –0.8 million (previous year: EUR 0.1 million).

2016 FINANCIAL YEAR ADJUSTED EBIT MARGIN OF 8.7% WITHIN TARGET RANGE

EBIT adjusted for purchase price allocation effects (depreciation and amortization from PPA) and restructuring and transaction costs of EUR 11.9 million (previous year: EUR 12.4 million) declined 3.8% and amounted to EUR 90.4 million (previous year: EUR 94.0 million) in 2016. At 8.7% (previous year: 8.9%), the adjusted EBIT margin was in the upper half of the target range of 8 to 9%, as forecasted. Around EUR 0.7 million of the restructuring and transaction costs were attributed to the acquisition of KLL and a further EUR 3.4 million was attributed to the takeover offer for Haldex.

The adjusted EBIT in the fourth quarter of 2016 was EUR 19.8 million (previous year: EUR 20.4 million) yielding an adjusted EBIT margin of 7.8% (previous year: 8.4%). At EUR 3.0 million, adjustment items were well below the previous year's figure (EUR 4.5 million) and included the effects from the purchase price allocation (EUR 1.3 million compared to EUR 2.1 million) and restructuring and transaction costs of EUR 1.7 million (previous year: EUR 2.4 million). In connection with the acquisition of KLL, further transaction costs of EUR 0.3 million were incurred in the fourth quarter of 2016. Compared to the fourth quarter of 2015, adjusted EBIT was somewhat lower mainly as a result of income of EUR 1.4 million from fixed asset disposals related to the sale of the AerWay product line and property at the former location in Wörth, Germany, that was no longer needed. There was no corresponding income in the fourth quarter of 2016. In addition, KLL, which in the fourth quarter was included in the Group's result for the first time, generated an operating loss of EUR 0.4 million on the basis of adjusted EBIT in the fourth quarter as a result of the ongoing weak market environment in Brazil.

As a result, the adjusted result before taxes for the financial year amounted to EUR 76.9 million (previous year: EUR 90.0 million). The decline was primarily due to the weaker finance result (EUR –13.5 million compared to EUR –4.0 million). The previous year's finance result benefited significantly from the unrealized exchange gains from the valuation of intercompany loans already described.

If the unrealized gain in 2015 had been recognized in other comprehensive income (in line with the accounting in 2016), the adjusted result before taxes in 2015 would have been EUR 83.3 million. On a comparable basis, the adjusted result before taxes in 2016 would have declined by 7.7% to EUR 76.9 million (previous year: EUR 83.3 million) mainly due to the lower other operating income and the higher interest expenses which increased by EUR 2.9 million.

ADJUSTED RESULT FOR THE PERIOD DECLINES 13.7%

After taxes, the adjusted result for the period in 2016 was EUR 53.7 million (previous year: EUR 62.2 million). As in the case of the result before taxes, this decline was largely due to the unrealized exchange gains from the valuation of intercompany foreign currency loans still contained in the prior year.

On a comparable basis, that is, if the unrealized exchange gains had been recognized in other comprehensive income in 2015 as well, the adjusted result for the period would have declined 6.8% from EUR 57.6 million in 2015 to EUR 53.7 million.

Adjusted basic earnings per share for the 2016 financial year amounted to EUR 1.18 (previous year: EUR 1.37), while adjusted diluted earnings per share totaled EUR 1.03 (previous year: EUR 1.18).

BUSINESS DEVELOPMENT BY REGION: STRONG BUSINESS IN EMEA/INDIA LARGELY COMPENSATES FOR WEAK MARKET IN THE AMERICAS

Overview of regions

EUR million

	EMEAI		Americas		APAC/China		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Sales	568.8	540.0	402.3	449.4	70.9	71.3	1,042.0	1,060.7
Cost of sales	–451.6	–444.2	–326.9	–359.5	–57.0	–54.1	–835.5	–857.8
Gross profit	**117.2**	**95.8**	**75.4**	**89.9**	**13.9**	**17.2**	**206.5**	**202.9**
in % of sales	20.6	17.7	18.7	20.0	19.6	24.2	19.8	19.1
Other operating income and expenses	–58.9	–50.9	–45.4	–46.1	–11.8	–11.9	–116.1	–108.9
Adjusted EBIT	**58.3**	**44.9**	**30.0**	**43.8**	**2.1**	**5.3**	**90.4**	**94.0**
in % of sales	10.3	8.3	7.4	9.7	3.0	7.5	8.7	8.9

EMEA/INDIA REGION: BETTER PROFITABILITY; STRONG GROWTH IN PARTS OF EASTERN EUROPE

In the 2016 financial year, sales in the EMEA/India region rose 5.3% to EUR 568.8 million (previous year: EUR 540.0 million). On a currency-adjusted basis, sales rose to EUR 574.2 million (previous year: EUR 540.0 million) for an increase of 6.3%. This growth reflects the better economic development in parts of the region resulting in a stronger demand for transportation capacity and a rising demand for trailers from fleet operators. SAF-HOLLAND registered rapid growth in Southern Europe, particularly in Italy and Spain, as well as in several Eastern European countries such as Poland. The Russian subsidiary was able to increase sales for the first time in years, albeit from a low basis after years of market weakness. The subsidiaries in the Middle East region developed well overall winning large contracts from major original equipment manufacturers in the 2016 financial year. The steady growth in the EMEA/India region in recent years has resulted in a high utilization of the region's current capacity. Production capacity in Europe has been gradually expanded in anticipation of the growth planned in the years ahead. SAF-HOLLAND has also built a new production facility for axle systems in Turkey in close proximity to its customers. This facility will expand the existing capacity in the EMEA/India region by up to 15%. One advantage of the facility's location in Dücze is lower transportation costs, which also benefits customers; another is the ability to make faster deliveries to adjacent sales markets from production facilities close by. Despite today's difficult political and economic conditions in some of the Middle Eastern countries, we see promising potential from the emerging business with vehicle manufacturers in both Turkey and neighboring Iran. SAF-HOLLAND has already acquired some interesting orders from these areas.

Adjusted EBIT in the EMEA/India region rose 29.8% to EUR 58.3 million (previous year: EUR 44.9 million). The adjusted EBIT margin reached 10.3% (previous year: 8.3%). The margin improvement resulted above all from an advantageous product mix and economies of scale, which can be attributed to major contracts in the regions of the Middle East and Africa, among others.

The solid business development of the first nine months continued during the fourth quarter of 2016. In the period from October to December 2016, sales grew 6.2 % (currency-adjusted 6.5 %) to EUR 138.0 million (previous year: EUR 130.0 million). Adjusted EBIT was EUR 13.7 million (previous year: EUR 9.3 million), and the adjusted EBIT margin reached 9.9 % (previous year: 7.2 %).

AMERICAS REGION: MARKET SHARE GAINS AMID A DIFFICULT ENVIRONMENT

Sales in the Americas region in the 2016 financial year declined by 10.5 % to EUR 402.3 million (previous year: EUR 449.4 million). Sales on an organic basis declined 8.5 % after adjusting for negative currency effects of EUR 4.7 million and negative effects of EUR 5.0 million from divestiture of a product line as well as the change in the scope of consolidation (EUR –6.8 million from the sale of the AerWay product line in 2015; EUR +1.8 million sales contribution from KLL in 2016). As a result of this performance, SAF-HOLLAND significantly outperformed the overall market.

The comparatively better development of SAF-HOLLAND in the Americas region can be attributed to market share gains. In the 2016 financial year, SAF-HOLLAND not only won a pioneering order for disc brake technology from U.S. Xpress but also received a contract from Navistar making SAF-HOLLAND a standard equipment supplier for the prestigious North American truck manufacturer. The spare parts business, in contrast, was difficult. After record new registrations in the years 2014 and 2015, today's average fleet age is relatively low resulting in a correspondingly low level of demand for spare parts. The spare parts business did, however, for the first time report again a year-on-year growth in the fourth quarter, which marked the first time in 2016.

Given the persistently difficult market environment in Brazil, the sales of the Brazilian subsidiary in 2016 remained at a very low level. The activities in Brazil have been consolidated since the fourth quarter of 2016 after the acquisition of the suspension specialist KLL, which should lead to cost savings and efficiency gains.

The adjusted EBIT for the Americas region reached EUR 30.0 million (previous year: EUR 43.8 million) resulting in an adjusted EBIT margin of 7.4 % (previous year: 9.7 %). Although the Group was able to reduce costs significantly through early capacity adjustments, better efficiency and strict overall cost control, the negative effect on earnings from the persistently weak market environment during the year could not be offset completely. These factors prompted SAF-HOLLAND's decision in January 2017 to restructure its North American plant network and adjust its production capacity to coincide with the changed market environment by consolidating its total seven production plants into five locations. Further information about these changes can found in the section entitled "Events after the balance sheet date" on page 54.

The region's results were also influenced by higher steel prices in North America. Higher material prices are typically passed on to customers only after a certain time delay, which temporarily led to a burden on earnings in the reporting year. Many of the price adjustments were passed on to customers in the fourth quarter.

Sales in the Americas region in the fourth quarter of 2016 declined 6.2 % (7.0 % on an organic basis) to EUR 92.6 million (previous year: EUR 98.7 million). Adjusted EBIT was EUR 5.7 million (previous year: EUR 10.0 million), and the adjusted EBIT margin reached a level of 6.2 % (previous year: 10.1 %).

APAC/CHINA: BUSINESS IN CHINA PICKS UP AT THE YEAR'S END

In the full year of 2016, sales in the APAC/China region were almost stable at EUR 70.9 million (previous year: EUR 71.3 million). On a currency-adjusted basis, sales grew 3.1 %. After business in the first three quarters being dominated by weaker economic development in most ASEAN markets and declines at our subsidiary Corpco due to the subdued environment in the Chinese bus market, sales increased sharply in the fourth quarter by 51.7 % to EUR 22.0 million (previous year: EUR 14.5 million). On a currency-adjusted basis, sales rose even 54.8 % to EUR 22.4 million. The pick-up resulted from the introduction of the new GB 1589 standard in China, which limits the weight and length of truck and trailer combinations (further information can be found in the "Risks and Opportunities Report" on page 46). This new standard caused a significant increase in customer interest at the end of the reporting year that could continue in 2017 as fleet operators make the appropriate adjustments or increase investments in new semi-trailers and trailers.

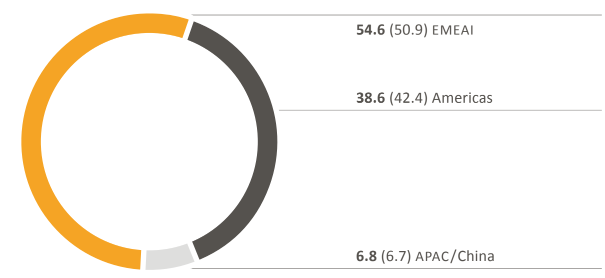
Our established China business with trailer axle systems and components at the Xiamen site continued to be well utilized as a result of this greater demand and resulted in significantly higher sales in the fourth quarter. The Australian subsidiary also reported an improvement in sales during the fourth quarter but starting from a low base.

The result of the APAC/China region was impacted by two special factors in the 2016 financial year. The buildings at the Xiamen location in Southern China were hit by a severe typhoon in the third quarter, which damaged portions of the inventory. In addition, inventory adjustments were carried out in the course of introducing SAP in China. One-time expenses for warranties in China and inventory corrections at the Corpco location in Baotou were necessary in the fourth quarter. These factors resulted in a negative impact on the result for the 2016 financial year totaling EUR 1.6 million and led to a 2016 adjusted EBIT for the region of EUR 2.1 million (previous year: EUR 5.3 million), as well as an adjusted EBIT margin of 3.0 % (previous year: 7.5 %).

The region's adjusted EBIT in the fourth quarter of 2016 was EUR 0.4 million (previous year: EUR 1.1 million) yielding an adjusted EBIT margin of 1.8 % (previous year: 7.6 %).

Regional share of Group sales 2016

in %



NET ASSETS

BALANCE SHEET CONTINUES TO BE DOMINATED BY HIGH LIQUIDITY

As of the December 31, 2016 reporting date, total assets increased 14.2 %, or EUR 126.2 million, to EUR 1,014.7 million (December 31, 2015: EUR 888.5 million). Most of this increase was accounted for by the build-up of liquidity in the amount of EUR 83.8 million. The first-time consolidation of KLL also resulted in an increase in total assets of EUR 25.6 million.

At EUR 344.6 million, liquid assets were the largest single asset item (December 31, 2015: EUR 260.7 million; EUR 145.7 million thereof were cash and cash equivalents and EUR 115.0 million other short-term investments). By maintaining significantly higher liquidity, SAF-HOLLAND has the financing necessary to carry out the acquisitions planned under its "Strategy 2020". Despite the payment of the net purchase price of EUR 7.5 million for KLL, liquid assets increased by EUR 39.8 million in the fourth quarter of 2016 alone. In addition to strong free cash flow of EUR 29.2 million, this rise was also derived from the cash proceeds from the sale of the Haldex shares (EUR 19.0 million) in the fourth quarter.

Other current assets (excluding other short-term investments and cash and cash equivalents) increased overall by EUR 16.4 million. The majority of this increase resulted from inventories, which increased by EUR 13.0 million to EUR 131.0 million (December 31, 2015: EUR 118.0 million). There was a corresponding increase in days inventory outstanding as of December 31, 2016 to 58 days (previous year: 53 days). An amount of EUR 4.8 million was attributable to the first-time consolidation of KLL. The appreciation of the US dollar and Canadian dollar against the euro in comparison to the end of 2015 also resulted in a currency-related increase in inventory. In addition, intermediate goods were stocked up in preparation for the start of production at the new Turkish plant, which meant that the reduction in inventory (September 30, 2016: EUR 124.6 million, or 54 days) originally targeted for the fourth quarter could not be achieved. The build-up in inventory, however, was accompanied by an even stronger increase in trade payables resulting in an overall reduction in working capital in 2016.

Trade receivables for the full year were virtually unchanged at EUR 116.7 million (previous year: EUR 116.5 million). The days sales outstanding fell as of December 31, 2016 to 42 days (December 31, 2015: 43 days), thereby achieving the Group's target to significantly reduce trade receivables (reduced by EUR 23.2 million) compared to their level on September 30, 2016 (EUR 139.9 million, or 49 days). At the end of September, SAF-HOLLAND still had an above-average share of outstanding receivables in regions where longer payment periods are customary.

Current financial assets at the end of 2016 were EUR 1.0 million (previous year: EUR 3.1 million). As of September 30, 2016 (EUR 21.2 million) this position still contained the Haldex shares acquired in advance of the takeover offer. These shares were then sold during the fourth quarter of 2016.

Non-current assets increased and amounted to EUR 406.3 million at the year's end (December 31, 2015: EUR 380.3 million). This rise was mainly due to the first-time consolidation of KLL, which led to an increase in this item of EUR 18.3 million. A total of EUR 12.8 million of this amount is attributed to property, plant and equipment, EUR 2.8 million to goodwill and EUR 2.4 million to other intangible assets. Consequently, goodwill increased to EUR 56.1 million (previous year: EUR 53.0 million) and intangible assets rose to EUR 149.5 million (previous year: EUR 145.4 million). The rise in property, plant and equipment to EUR 144.3 million (previous year: EUR 127.8 million) resulted both from KLL and the construction of the new plant in Turkey. Depreciation and amortization of intangible assets and property, plant and equipment in the amount of EUR 22.6 million was slightly below the level of additions, which totaled EUR 25.0 million.

Overview of net assets

EUR million

	12/31/2016	12/31/2015
Total assets	1,014.7	888.5
Equity	305.6	287.8
Equity ratio	30.1 %	32.4 %
Adjusted equity ratio[1]	45.1 %	45.3 %
Net debt[2]	97.1	122.4

[1] Adjusted for cash and cash equivalents and other short-term investments above the figure targeted by SAF-HOLLAND of approximately EUR 7 million.

[2] Taking into account cash and cash equivalents and other short-term investments (December 31, 2016: EUR 0.0 million; December 31, 2015: EUR 115.0 million).

ADJUSTED EQUITY RATIO REMAINS STABLE AT 45 %

Equity as of December 31, 2016 was higher at EUR 305.6 million (previous year: EUR 287.8 million). This rise reflected primarily the result for the period of EUR 43.5 million generated in the 2016 financial year and was partly offset by the dividend distribution for the 2015 financial year of EUR 18.1 million. There was also a negative effect of EUR 18.2 million on equity resulting from the valuation of the call option for the remaining 42.5 % interest in KLL, for which a corresponding liability had to be recognized. This effect was partially offset by positive exchange differences of EUR 5.3 million arising from the translation of foreign operations and a EUR 3.9 million increase in non-controlling interests following the first-time recognition of non-controlling interests in KLL. As of the end of 2016, the equity ratio was 30.1 % compared to its level of 32.4 % on December 31, 2015. Equity rose by EUR 9.8 million in comparison to September 30, 2016, due to the result for the period of EUR 7.2 million generated in the fourth quarter. The negative effect on equity from the valuation of the KLL call option recognized in the fourth quarter of 2016 was largely offset by changes in accumulated other comprehensive income, which mainly affected the revaluation of defined benefit plans and exchange differences from the translation of foreign business operations.

The balance sheet ratios as of December 31, 2016 and the end of the 2015 financial year were influenced by the liquidity held. When total assets are adjusted for cash and other short-term investments, which exceed the target of roughly EUR 7 million set by SAF-HOLLAND, the calculated equity ratio as of December 31, 2016 is 45.1 % compared to 45.3 % as of December 31, 2015. This level is significantly above the Group's targeted level of around 40 %.

NET DEBT IN 2016 FALLS BY APPROXIMATELY EUR 25 MILLION

Non-current liabilities increased as of the end of 2016 and amounted to EUR 555.4 million (December 31, 2015: EUR 475.4 million). Most of this change stemmed from non-current interest-bearing loans and bonds, which increased to EUR 435.6 million (December 31, 2015: EUR 379.3 million) mainly due to the assumption of a long-term loan (EUR 50.0 million) in the second quarter of 2016. There was also an increase in other financial liabilities to EUR 18.2 million (previous year: EUR 0.7 million) attributed to the valuation as of December 31, 2016 of the call option for the remaining outstanding interest of 42.5 % in Brazilian KLL described above.

The rise in current liabilities of EUR 28.4 million to EUR 153.7 million (previous year: EUR 125.3 million) is primarily a result of the year-on-year increase in trade payables (EUR 106.7 million compared to EUR 89.9 million as of December 31, 2015). Trade payables declined only slightly by EUR 1.0 million in the fourth quarter of 2016, which was significantly less than the decline in the fourth quarter of 2015 (EUR 12.9 million). This development mainly triggered the improvement in working capital as of year-end 2016 and more than compensated for the effect of higher inventories.

Total current and non-current liabilities from interest-bearing loans and bonds amounted to EUR 441.7 million as of December 31, 2016 (previous year: EUR 383.2 million). Net debt (less cash and cash equivalents and other short-term investments) was reduced during the year by EUR 25.3 million to EUR 97.1 million (December 31, 2015: EUR 122.4 million). The reduction in net debt was a direct result of the free cash flow generated in the 2016 financial year minus the dividend payment and the payment for the acquisition of KLL. Net debt in the fourth quarter declined by EUR 33.1 million not only as a result of the free cash flow generated in the quarter but also the sale of the Haldex shares. The Group's total liquidity as of the December 31, 2016 reporting date amounted to EUR 492.6 million versus EUR 409.2 million at the end of 2015.

FINANCIAL POSITION: CASH FLOWS

IMPROVEMENT IN NET WORKING CAPITAL AND DISCIPLINED INVESTMENT SPENDING BOOST FREE CASH FLOW TO EUR 67.7 MILLION

Net cash flow from operating activities increased to EUR 92.7 million in the 2016 financial year (previous year: EUR 63.1 million). The year-on-year improvement resulted from significantly lower additional funds tied up in net working capital as a result of better working capital management. The change in provisions, inventories, trade receivables and trade payables yielded a net cash inflow of EUR 1.9 million versus a net outflow of EUR 25.9 million in the previous year. This inflow allowed the net working capital ratio (the ratio of net working capital to the fourth quarter sales extrapolated for the full year) to decline to 11.1 % at the end of 2016 (previous year: 12.0 %) and achieve a level even below our targeted rate for the 2016 financial year of 12 to 13 %. The change in net working capital resulted in a cash inflow of EUR 19.5 million in the fourth quarter of 2016 (previous year: EUR 13.4 million) and net cash flow from operating activities of EUR 38.8 million (previous year: EUR 33.1 million).

As described in the section "Net Assets," the improvement in net working capital in the 2016 financial year was mainly the result of higher trade payables, which led to a cash inflow of EUR 12.7 million (previous year: EUR –8.6 million). A further positive effect of EUR 1.5 million (previous year: EUR –6.5 million) stemmed from the rise in other provisions and pensions. These positive effects compare with a cash outflow of EUR 8.2 million (previous year: inflow of EUR 4.3 million) from the change in inventories. The change in trade receivables led to a cash outflow of EUR 4.1 million, which was significantly lower than in the previous year (EUR 15.0 million).

Cash flow before changes in net working capital in 2016 was slightly below the prior year's level (EUR 105.4 million) amounting to EUR 104.4 million. Most of the decline in the result before taxes to EUR 65.0 million (previous year: EUR 77.6 million) was offset by a higher level of depreciation and amortization of intangible assets and property, plant and equipment of EUR 22.6 million (previous year: EUR 21.7 million) and particularly net finance income and expenses of EUR 13.5 million (previous year: EUR 4.0 million). Allowances of current assets were little changed and amounted to EUR 4.5 million (previous year: EUR 4.6 million).

The cash conversion rate (cash flow from operating activities before income taxes paid divided by adjusted EBIT) as an indicator of the Company's ability to generate cash inflows from the operating business increased in 2016 to 117.6 % (previous year: 84.6 %).

Overview of financial position

EUR million

	2016	2015
Cash flow from operating activities before income taxes paid	106.4	79.5
Cash conversion rate[1]	117.7 %	84.6 %
Net cash flow from investing activities	89.8	–139.2
Investments in property, plant and equipment and intangible assets	25.0	28.1
in % of sales	2.4 %	2.6 %
Net cash flow from financing activities	15.3	176.2
Free cash flow[2]	67.7	35.0

[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.

INVESTMENT VOLUME OF EUR 25 MILLION IN THE 2016 FINANCIAL YEAR

Net cash flow from investing activities in 2016 was EUR 89.9 million and EUR –139.2 million in 2015. Both of these amounts, however, were affected by the purchase (in 2015) and sale (in 2016) of other short-term investments of EUR 115.0 million in each year. Excluding these effects, net cash flow from investing activities in 2016 would have amounted to EUR –25.2 million (previous year: EUR –24.2 million).

Investments in property plant and equipment and intangible assets added up to EUR 25.0 million in 2016 (previous year: EUR 28.1 million). The Group's strict investment discipline meant that the planned level of investments of roughly EUR 28 million was not fully realized, despite the construction of the new plant in Turkey. This level of investment is equivalent to an investment ratio of 2.4 % (previous year: 2.6 %). In addition, the acquisition of KLL in early October 2016 resulted in a payment of EUR 7.5 million. The purchase of Haldex shares (cash outflow of EUR 13.4 million in the second quarter of 2016) and the subsequent sale of these shares in the fourth quarter (cash inflow of EUR 19.0 million) had a positive net effect on net cash flow from investing activities of EUR 5.6 million in the 2016 financial year.

Net cash flow from investing activities in the fourth quarter of 2016 was EUR 2.2 million (previous year: EUR –118.4 million) and was mainly influenced by the sale of the Haldex shares and the acquisition of KLL. As described above, the same quarter in the previous year contained the purchase of other short-term investments in the amount of EUR 115.0 million.

FREE CASH FLOW INCREASES TO EUR 67.7 MILLION

Free cash flow (net cash flow from operating activities less investments in property, plant and equipment and intangible assets) increased significantly in the 2016 financial year and reached EUR 67.7 million (previous year: EUR 35.0 million). The main reasons for this rise were better working capital management and a lower level of investment. The free cash flow generated not only financed SAF-HOLLAND's dividend payment and the acquisition of KLL but also allowed the Company to visibly reduce its net debt. Free cash flow in the fourth quarter of 2016 was EUR 29.2 million (previous year: EUR 26.3 million).

Cash flow from financing activities in 2016 amounted to EUR 15.3 million (previous year: EUR 176.2 million) as a result of the lower assumption of current and non-current financial liabilities in the amount of just EUR 50.0 million in the 2016 financial year after EUR 200.0 million in 2015. In the previous year, SAF-HOLLAND issued a promissory note giving it the financing necessary to carry out the acquisitions planned under its "Strategy 2020". The cash outflow for the dividend payment amounted to EUR 18.1 million (previous year: EUR 14.5 million). In addition, there was a payment in 2016 for the redemption of foreign currency derivatives in the amount of EUR 5.1 million mainly in the context of the termination of the hedge for the presumed purchase price payment for Haldex in Swedish krona. Cash flow from financing activities in the fourth quarter of 2016 amounted to EUR –3.1 million (previous year: EUR 198.6 million). The fourth quarter of 2015 contained the assumption of a promissory note already described.

MANAGEMENT'S GENERAL STATEMENT ON THE FINANCIAL SITUATION IN THE 2016 FINANCIAL YEAR

The industry environment in the 2016 financial year proved once again to be challenging. Still, we are satisfied with our results. By generating almost stable organic sales and an adjusted EBIT margin of 8.7 %, we have fully achieved our targets. In terms of capital efficiency, we were even able to significantly exceed our forecast with a net working capital ratio of 11.1 % and thereby achieve a marked improvement in free cash flow. These figures show that with our balanced regional positioning, we are able to stay on course even in a difficult environment, expand our market position and generate solid results.

The overall good results, however, cannot hide the fact that we are not entirely satisfied with our results last year in North America. Therefore, SAF-HOLLAND made a decision in January to restructure the North American plant network and provide it with a sustainable foundation for the future.

We also achieved important strategic milestones in the reporting year. By acquiring KLL, we are not only strengthening our position in the important Brazilian market but also taking the first key step in pursuing our growth "Strategy 2020". Another one of our key strategic decisions was to abandon our efforts to acquire Haldex as it became apparent that a takeover would only be possible at conditions that are not economically feasible for the Group. We believe SAF-HOLLAND is in an ideal financial position to seize the emerging opportunities in the years ahead and benefit from the structural growth in our markets.

RISK AND OPPORTUNITIES REPORT

RISK MANAGEMENT SYSTEM

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

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

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS WITH RESPECT TO THE GROUP ACCOUNTING PROCESS

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

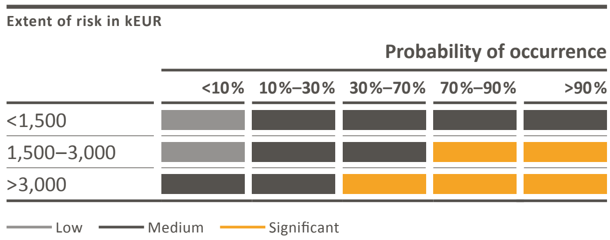
An internal control and risk management system is used to ensure the reliability of financial reporting and the compliance of the Group's accounting and financial statements with IFRS requirements. This system features both integrated and independent process monitoring as well as surveillance measures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

The Board of Directors bears the overall responsibility for the internal control and risk management system. The independent Internal Audit department is responsible for the effectiveness of the internal control and risk management system and the compliance with the system's guidelines, regulations and instructions. The accounting system for the business segments and subsidiaries is also included in these reviews. The Internal Audit department then forwards its audit reports to the respective divisional managers, the Management Board and auditors and reports directly to the Board of Directors. The Board of Directors and the Audit Committee receive regular reports on the results of the Internal Audit department. The audit of the consolidated financial statements by independent auditors provides additional external monitoring of the Group's accounting process.

OVERALL RISK ASSESSMENT

The criteria "probability of occurrence" and "extent of risk" are used to evaluate risks. In addition to assessing risks based on these criteria, we also subdivide the risks into "low," "medium" and "significant" risks as shown in the graph below. The extent of the risk is quantified at the level of adjusted earnings before interest and taxes (adjusted EBIT) prior to risk mitigation.

Risk categories



The SAF-HOLLAND Group's overall risk potential at the end of the 2016 financial year amounted to around EUR 35 million (gross), which is slightly higher than in the previous year (around EUR 31 million). Therefore, based on the Group's business volume and economic situation, we believe the Group's overall risk position, in terms of risks that can be directly influenced by the Group, is manageable and easy to control. Sufficient precautions were taken for these risks in the form of depreciation, amortization, impairments and provisions. Strategic risks comprised the Group's most important risk area in the past financial year and represented around one-third of the overall risk potential. Strategic risks have gained in importance compared to the previous year because they appear to have increased as a result of the Group's dependence on individual customers and due to the competitive situation. This rise in strategic risks was somewhat offset by the decline in other risks. No risks have been yet identified that would endanger the Group's continued existence or that of a key Group company.

RISK OVERVIEW

Risk areas		Individual risks	Individual risk 2016 compared to previous year[1]	Total risk 2016 compared to previous year[1]
Strategic risks	Significant	Customer dependency risk	higher	
	Significant	Competitive risk	higher	
	Significant	Vertical integration	higher	higher
Legal and regulatory risks	Medium	Trademark and patent protection risks	higher	
	Significant	Liability risks	higher	
	Medium	Trade risks	unchanged	
	Medium	Other regulatory risks	lower	unchanged
Technology risks	Significant	Marketing risks	unchanged	
	Significant	Risks from technological progress	lower	
	Medium	Risks from the loss of a cooperation	unchanged	unchanged
Operating risks	Medium	Procurement risks	unchanged	unchanged
IT risks	Medium	System outage and cybercrime risks	unchanged	unchanged
Personnel risks	Medium	Loss of knowledge risk	unchanged	
	Low	Strike risks	unchanged	unchanged
Financial risks	Low	Financing risks	unchanged	
	Significant	Currency risks	unchanged	
	Medium	Impairment risks	lower	unchanged
Other risks	Medium	Compliance risks	unchanged	
	Medium	Business relationship risks	higher	unchanged

Low Medium Significant

[1] An unchanged risk situation is defined as a year-on-year change in individual risk up to a maximum of EUR 0.2 million or a change in the total risk compared with the previous year up to a maximum of EUR 0.5 million.

MACROECONOMIC AND SECTOR RISKS

Macroeconomic and sector risks are not included in SAF-HOLLAND's risk management system because they are difficult to quantify. These risks reflect the general conditions for risks mentioned in the categories below and are the assumptions used in their quantification. It is important to note that on the other side of these risks lies opportunities.

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

We counter these risks primarily by having broadly diversified products, customers and regional markets. In the past, the investment cycles in the truck and trailer markets have often failed to coincide. Development also tends to vary in the respective regional markets, as was seen again in the 2016 financial year. We have also managed to offset some of the fluctuation in the original equipment business through our strength in the aftermarket business, which is far less economically sensitive.

STRATEGIC RISKS

Customer dependency risk

Customer dependency risk originates from the fact that the global truck business is dominated by a relatively small number of global manufacturers. The trailer business, on the other hand, has a different market structure with several hundred manufacturers operating in both North America and Europe.

SAF-HOLLAND responds to customer dependency risk by ensuring it has a balanced customer structure. The share of sales per customer largely mirrors the market share of the respective manufacturers. SAF-HOLLAND also has a number of customers who are small and medium suppliers of vocational trucks 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 improves its risk profile. In the 2016 and 2015 financial years, no one customer represented more than 10 % of Group sales.

Competitive risk

The importance of competitive risk increased in the 2016 financial year mainly due to the decline in the North American truck and trailer market, which prompted many competitors to significantly cut prices.

We mitigate this risk by taking several actions. For one, we make certain that our cost structures are always in line with the market. If necessary, we adjust our cost base to ensure that we always offer competitive pricing. We also continue to keep ahead of technology through innovation. For example, last year in North America, we received a major order for disc brakes – a technology that is still in its infancy in North America today. An elementary component of our innovative strength is our extensive research and development activities especially in the area of axle and suspension systems versus our competitors. These activities have helped us to establish our technological leadership. We also have strong capabilities in the field of lightweight construction. Another crucial competitive advantage is our aftermarket network, which spans roughly 9,000 spare parts and service stations, dealers and repair shops in more than 80 countries. We possess the densest network in Europe and North America, which represents a significant barrier to market entry for potential new competitors.

Vertical integration

A further strategic risk is that customers will no longer purchase axles but manufacture axles themselves, which is a development seen at some of the trailer manufacturers. This approach has been used for the last few years in Europe and has recently started in Asia and North America. Several trailer manufacturers, however, are taking the opposite approach – particularly in North America – and buying entire axle systems.

Overall, we believe vertical integration risk is manageable, even if its importance has rather increased over the past year. One reason is that only a small number of manufacturers would find it commercially viable to produce their own axles, and this refers solely to the production of standard axles. Another reason is that SAF-HOLLAND's customer base of trailer manufacturers numbers more than 350 companies in Europe alone.

LEGAL AND REGULATORY RISKS

Trademark and patent protection risks

In light of the competitive strength of our products and solutions, the misuse of SAF-HOLLAND's trademarks and patent rights can lead to economic damage. We counter these risks by continually and intensively monitoring the relevant patent applications and market developments worldwide, especially in the spare parts segment.

Liability risks

Product liability risks cannot generally be excluded. To isolate these risks as much as possible, SAF-HOLLAND manufactures Group-wide in accordance with high quality standards and thereby effectively minimizes potential risks due to product defects. 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 why we are able to meet the requirements of the DIN ISO 9001:2008 quality standard and the special requirements of the automotive industry (ISO/TS 16949:2009) at all of the locations and in all of the regions that supply to the truck industry. All of the regional locations that exclusively manufacture products for the trailer industry are DIN ISO 9001:2008 certified. The system capability of the welding technology at the German plants in Bessenbach is regularly verified through the ISO 3834-2 welding quality certification. Should any defective products still be shipped to customers despite the above quality assurance and it is necessary to recall the affected parts, the damage would be covered by insurance, the amount of which is checked annually for adequacy.

Trade risks

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

Other regulatory risks

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

TECHNOLOGY RISK

Marketing risks

We counter marketing risks first and foremost by continuously monitoring our competitors, especially with respect to their product range and the focus of their research and development. Among others, we use “benchmarking” to compare the competitors’ relevant products and activities. Our market monitoring also focuses on maintaining a permanent exchange with our customers so that we can recognize changes in demand at an early stage and develop new demand-oriented solutions. Our findings help us to avoid misdirected technological and conceptual developments that misinterpret the needs of the market.

Risks from technological progress

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

Risks from loss of a cooperation

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

OPERATING RISKS

Procurement risks

Procurement risks, which include the danger of reduced production and delivery capabilities and higher purchasing prices, can result from supply bottlenecks or substantial cost increases for materials and components. A key procurement risk is the degree of the Company’s dependence on individual suppliers. SAF-HOLLAND limits this risk by employing a multi-vendor strategy. We arrange multi-year framework contracts containing defined quantities and prices with our core suppliers and always keep a certain level of inventory available to compensate for any short-term bottlenecks.

Our main price-related risk involves the development of commodity prices, which is why some of our customer contracts are linked to changes in raw material prices, particularly prices for scrap steel. These contracts contain negotiating terms that allow us to offset rising commodity prices. Such adjustments, however, are usually only possible after a certain time delay, which means additional temporary costs may still occur.

IT RISKS

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 minimize these risks by using powerful structures that meet the industry’s standards. Our comprehensive and always current IT security approach ranges from access restrictions and controls to measures for data protection. Back-ups exist for essential hardware structures.

PERSONNEL RISKS

Loss of knowledge risk

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

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

FINANCIAL RISKS

Financing risks
We counter financing risks 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 financing risk of the SAF-HOLLAND Group is currently considered to be low. The Group not only has a high level of liquidity, which gives SAF-HOLLAND the financing necessary for future acquisitions under its "Strategy 2020", but has also broadly diversified its liabilities in terms of their maturity and nature. SAF-HOLLAND has received a corporate rating from the rating agency Euler Hermes since 2012. The current rating is BBB with a stable outlook, which was last reconfirmed in April 2016.

The risk of a change in interest rates on floating rate financial liabilities is principally hedged at a minimum of 70% using suitable instruments.

We counter the risk of insufficient liquidity through our forward-looking, Group-wide strategy for safeguarding liquidity. The ongoing liquidity situation is regularly monitored throughout the Group. The management also monitors the Group's compliance with the financial covenants contained in long-term credit agreements. Liquidity risks are therefore classified as low.

Further information on the Company's liquidity and financing can be found on pages 43ff. of this management report.

Currency risks
As a result of its global business activities, the Group is exposed to foreign currency risks arising from its investments, financing and operating business. Individual subsidiaries operate primarily in their respective national currencies, which keeps the foreign currency valuation risk for individual transactions low at the Group level. Sales and costs in most currency areas are largely recognized in the same currencies, which significantly limits transaction risks. The related risks to Group's sales arise when converting the national currencies into the euro, which is the Group's reporting currency. Thus, currency fluctuation risks for the given outlook, for example, may be possible depending on the exchange rate development of the relevant local currencies. These risks are generally accompanied by corresponding opportunities. When currency risks are hedged using financial instruments, these instruments are used exclusively to hedge the risk of the underlying transaction. Therefore, a net effect on the results of operations and financial position can be ruled out almost entirely.

As of this past financial year, there is virtually no longer the risk that the valuation of intra-company foreign currency loans could have a potential negative impact on results. As of 2016, intra- company foreign currency loans are being treated as part of a net investment in a foreign operation and are no longer recognized in the finance result but in "other comprehensive income" (OCI).

Impairment risks
Impairment risks can arise from the need to recognize unscheduled depreciation or amortization on assets. We counter these risks by adhering to a strict medium-term budget and compiling monthly reports both with respect to the Company's actual development and on the basis of a rolling planning process. Impairment risks in the reporting period were low.

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

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. The Internal Audit department is also involved in avoiding compliance risks. SAF-HOLLAND bases its response on common ethical and moral principles.

Business relationship risks
Risks arising from relationships to business partners are inherently limited by the broad diversification of our customer and supplier base. Identified risks are handled in cooperation with the respective business partner.

OPPORTUNITIES OVERVIEW

GLOBAL MEGATRENDS AS THE DRIVERS OF GROWTH IN FREIGHT TRANSPORTATION

Global freight transportation and, consequently, the markets for trucks and trailers, are reaping long-term benefits from several of the global megatrends. The most important of these trends is the general demographic development. The United Nations expects the world's population to grow close to 25 % to almost 9.2 billion people by the year 2040. The population in the developing and emerging countries is projected to grow six times faster than in the industrialized nations. Among the developing and emerging countries, special economic relevance is being attached to what is known as the Next 11 countries (Egypt, Bangladesh, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey and Vietnam) as well as to the BRIC countries Brazil, Russia, India and China.

The second megatrend – the globalization of the economy – promotes the growing international exchange of goods. An essential requirement for this exchange is a global transportation infrastructure. The development of road networks will play a central role in providing this infrastructure because the road networks in the developing and emerging countries have the highest need for expansion. The third megatrend, urbanization, is prompting an increasing number of people to move into cities. This trend is particularly evident in the developing and emerging countries. In the large urban areas, trucks and trailers represent the most important means of transporting supplies.

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

LONG-TERM GROWING WORLD MARKET FOR TRUCKS AND TRAILERS

In the world's strong growing regions, trucks and trailers are the most important links in the transportation chain. A market analysis published by the consulting company Deloitte Consulting predicts the growth of medium- and heavy-duty trucks sold worldwide will average 3.1 % p.a. from 2014 through 2024. The strongest growth is expected in the developing and emerging countries and should result in almost three-quarters of the world's truck market being located outside of the established industrial nations by the year 2024.

The demand for sophisticated transportation equipment should also rise steadily along with the growing safety regulations and the required compliance with environmental standards worldwide. This will provide a noticeable boost over the next several years to the trend towards lightweight construction, or the use of new combinations of materials and technological innovations. SAF-HOLLAND is also taking a leading role in the areas of lightweight construction, safety and durability.

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

OPPORTUNITIES RESULTING FROM NEW REGULATORY REQUIREMENTS

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

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

New commercial vehicle standards in China
The GB1589 standard was published in China in 2004 and introduced new regulations for the maximum weight, dimensions and total weight per axle allowed for medium and heavy trucks. The aim of this standard is to increase the safety provisions and reduce the burden on the roads from overloaded trucks. The provisions of the standard were made even more stringent in 2016. After a two-year transitional period, authorities will be strictly monitoring compliance with the new standard.

GB1589 provides for the reduction of the maximum weight of a truck and trailer combination from 55 to 49 tons. At the same time, it also limits a truck and trailer combination's length to a maximum of 18.1 meters as well as the width and height. Until now, truck and trailer combinations stretching 22 meters were allowed in China but due to a lack of monitoring there were also truck and trailer combinations on the roads of up to 27 meters in length.

Compliance with the new standards is handled differently in the respective provinces, and it is unclear as to how much longer the end-of-life vehicles that no longer meet the guidelines will be permitted. Still, it should be assumed that the GB1589 standard will mean that the medium-term focus of truck and trailer manufacturers will turn increasingly toward weight-saving and technologically sophisticated solutions. Our innovations and products provide us with highly competitive solutions to meet these requirements and therefore place us in an excellent position to significantly expand our market share in China.

Stricter emission regulations in the United States
A new directive with respect to CO_2 emissions for heavy-duty vehicles (Regulations for Greenhouse Gas Emissions from Commercial Trucks & Buses) was published in the United States in August 2016 by the American Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA). This is the second phase of the legislation on fuel efficiency and CO_2 reduction, which not only governs trucks but also includes rules for trailers manufactured as of 2018. The new rules are expected to lead to higher prices for trucks and trailers. Increases in exhaust emission regulations in the past have usually led to what is known as “pre-buy effects,” which describes a situation in which fleet operators stock up on lower-priced “old products” before the new guidelines take effect. This could spur demand for both trucks and trailers.

Apart from these short-term effects, more stringent regulations would also promote the increased use of lightweight components to meet requirements for better fuel efficiency. SAF-HOLLAND can also profit from this trend due its expertise in lightweight construction.

OPPORTUNITIES THROUGH THE INTRODUCTION OF DISC BRAKE TECHNOLOGY

In July 2016, SAF-HOLLAND received a breakthrough order from U.S. Xpress in the United States for complete axle and suspension systems for roughly 1,800 newly ordered trailers that are set to be equipped with the latest generation of disc brakes. This makes U.S. Xpress one of the first truckload carriers in the United States to switch to disc brake technology. This order could usher in a change in the United States from the widely used drum brakes to disc brakes. Whereas roughly 80 % of the trailers in Europe drive with higher performance disc brakes, the share of disc brakes in the United States is just at roughly 10 %. In addition to their weight advantages compared with drum brakes, disc brake technology scores highly with its significantly better braking performance. For example, a truck equipped with disc brakes driving at a speed of 75 mph has a 20 % shorter stopping distance, dropping from 129 meters to 104 meters.

In the United States, the share of disc brake technology over the medium term is expected to rise from today's level of 10 % to 30–35 %. SAF-HOLLAND has been a pioneer in disc brake technology in the European market for years and possesses extensive know-how in this area. By employing disc brake technology in our axle systems, we can increase the value sold-in per vehicle by 50 % and 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 reasonable terms and conditions. In view of the more difficult economic environments seen in several markets, we expect better opportunities going forward. We also believe that by taking an anti-cyclical approach we will be able to expand or enhance our position in selective markets.

A good example of this approach is our acquisition of KLL in the past financial year. This acquisition was an anti-cyclical investment based on the sharp drop of around 70% in the Brazilian commercial vehicle market over a period of several years. Given this poor performance, we see significantly more opportunities than risks in the Brazilian market over the next few years. The KLL acquisition also allows us to expand our product portfolio to include products that stand out based on their durability and relatively low prices. We also see great sales potential for these types of products in other emerging markets, which should open up some cross-selling opportunities.

OPPORTUNITIES FROM ENTERING NEW MARKETS
In the 2016 financial year, SAF-HOLLAND generated the majority of its sales in its traditional regions of Europe and North America. Under “Strategy 2020”, our stated objective is to expand the share of our sales outside of these core regions to around 30% by the year 2020.

Among others, we have started to build a new plant in Turkey for the production of axle systems in 2016 to achieve this goal. The intended location offers some advantages due to lower transportation costs and also provides an opportunity to deliver more quickly to bordering new markets and several of the “stan” countries (e.g., Kazakhstan or Pakistan). In the future, Iran may also play a greater role. After a relaxation of economic sanctions imposed by the United Nations, industry experts expect a significant boom in the release of pent-up investments for the country’s infrastructure and especially the transport sector.

THE NEW U.S. ADMINISTRATION
The new U.S. administration under President Trump, which has been in power since January 2017, announced an extensive program to stimulate economic growth in the United States. Although many of the details of this program are still unclear, it is evident that infrastructure projects will be one of the focal points of the new government. An acceleration of growth in the manufacturing sector, especially in the construction sector, would have a very positive effect on the demand for trucks and trailers, and thereby also on SAF-HOLLAND’s business in North America.

EVENTS AFTER THE BALANCE SHEET DATE

On January 17, 2017, SAF-HOLLAND announced the consolidation and restructuring of its North American plant network. This decision was the outcome of the continued weakness in the North American truck and trailer markets and part of an effort to centralize production closer to the customer base of the truck and trailer industry. The measures are designed to adapt the Company's structure to changes in the market situation and to ensure the long-term competitiveness of our activities in North America. This new structure will be accompanied by an adjustment in the current excess production capacity at the North American locations in order to improve capacity utilization. We will also optimize our internal logistics processes, which may improve delivery times.

The measures planned, which are to be implemented within a maximum period of 18 months, are expected to result in one-time restructuring costs of up to US$ 10 million in 2017. These costs should consist mainly of relocation costs, impairment on equipment and severance payments. SAF-HOLLAND expects the vast majority of these charges to be recognized in the 2017 financial year. Here it is important to point out that the Group's key indicator – adjusted EBIT – is generally adjusted for restructuring expenses. Moreover, approximately US$ 3.0 million in additional investments are planned for the remaining locations. SAF-HOLLAND currently expects an annual reduction in the direct cost base in the mid single-digit million US$ dollar range after the restructuring is completed.

There were no further events after the balance sheet date relevant for the report on the events after the balance sheet.

OUTLOOK

ECONOMIC AND INDUSTRY ENVIRONMENT

GLOBAL ECONOMIC GROWTH MOMENTUM TO PICK UP SLIGHTLY IN 2017

The outlook for the global economy has improved recently. Worries of a slowdown in the emerging markets have dissipated and some commodity prices – especially crude oil prices – have seen a significant recovery from the lows experienced in 2016. At the same time, with a second interest rate increase in December 2016 and the prospect of three further increases on the way for 2017, the US Federal Reserve has signaled a return to a less liquidity-driven monetary policy. An obstacle to world trade may turn out to be growing protectionism in some countries. In January 2017, the International Monetary Fund (IMF) confirmed its full-year 2017 forecast for an accelerated growth for the global economy of 3.4 % based on the above factors. This forecast compares to an expected global GDP growth of 3.1 % in the year 2016.

The United States looks particularly set to accelerate its growth. The IMF expects GDP growth in the United States to rise to 2.3 % compared to 1.6 % in 2016. This estimate does only partially include any boost to the economy that could result from the infrastructure spending and tax cuts expected from the new US administration. Depending on the nature of the economic stimulus package, growth in the US may end up even higher. The IMF's outlook for the eurozone, in contrast, is relatively subdued. Moderate growth of 1.6 % is expected in 2017, which is close to the 1.7 % growth rate recorded in 2016. In the view of the IMF, the risks threatening continued economic growth in Europe include the pending Brexit and the political uncertainty in the run-up to important elections in countries such as France and Germany. The IMF expects a majority of the emerging country economies to generally improve in the course of the year, despite the risks. This applies especially to countries such as Brazil and Russia where the IMF is projecting an end to the lengthy economic decline and a transition to marginal growth at a low level. The pace of economic growth in China is expected to slow minimally; however, with a projected increase in GDP of 6.5 %, momentum will remain at a comparatively high level.

SECTOR OUTLOOK: SECTOR ENVIRONMENT TO REMAIN CHALLENGING IN 2017

The global commercial vehicle market will remain challenging in 2017. Here it is important to point out that the SAF-HOLLAND Group generates more than 90% of its sales in the core regions of the Americas and EMEA/India. As in the prior year, strong regional differences in demand are expected in 2017, as are varying developments in the trailer and heavy truck vehicle segments – both important segments for the Company. Whereas the North American truck market is showing the first signs of stabilization, demand for trailers in the current year is expected to continue to decline. It is reasonable to assume that the overall solid demand situation in Europe will continue, even though years of growth may suggest that demand will taper off at a high level. The outlook recently improved for several of SAF-HOLLAND's important sales markets such as Russia, Australia and China.

Market situation to remain solid in core market of Europe

The European commercial vehicle market, where SAF-HOLLAND generated the majority of its sales in 2016, is expected to develop steadily and stay at a high level.

The market research institute CLEAR expects European trailer market production volume to hold steady in 2017 at a strong level of about 295,000 trailers (–1% vs. 2016) after three years of strong growth. CLEAR expects growth in the Eastern European trailer market to reach almost 10%, mainly driven by growth in most of the countries outside of the Russian Federation and a recovery in the high-volume Turkish market. CLEAR is slightly more cautious when it comes to Western Europe. Market researchers are not ruling out a single-digit percentage decline in trailer production in 2017. These cautious market expectations are mainly based on the negative effect anticipated from Great Britain's exit from the European Union.

The Western European truck market, which had a surprisingly strong upturn in 2016, is projected to contract slightly in 2017. However, after years of strong growth, the market should maintain a high level despite the pending slowdown. Industry observers expect vehicle production in the heavy-duty truck segment (above 16 tons) to range from a year-on-year mid-single-digit percentage decline to essentially no change.

In Eastern Europe, LMC Automotive, a provider of automotive industry forecasts, is projecting a 10.8% increase in heavy truck production. A projected upswing in the Turkish market, which fell sharply in the second half of 2016, should also have a positive effect. After years of decline, LMC Automotive expects vehicle purchases to rise in countries such as Russia, Belarus and the Ukraine due to better economic conditions and a high average age of vehicles. The starting level in these regions, however, is in same cases very low.

2017 to mark the bottom of the North American truck market

The market research institute ACT Research believes the North American market for heavy trucks (Class 8) bottomed at the turn of 2016/2017 after declining by about one-third in the previous year, followed by a sequential slight rise in production during the first quarter of 2017. For full-year 2017, market analysts are assuming a production decline of nearly 10% to 207,000 units (2016: 228,000 trucks). This expectation is based on the development of net orders for Class 8 trucks, which have been building a bottom since the second quarter of 2016. According to the market research institute FTR, orders increased from the third quarter to the fourth quarter of 2016 by around 40%.

The outlook for the North American trailer market is more restrained in 2017. In 2016, there was a lag in the performance of the trailer market to the correction in the truck market, and the decline in trailer production was far less than the decline registered in trucks. Accordingly, FTR expects 2017 US trailer production to contract by some 10% to 255,000 units.

In response to the weaker North American trailer market, SAF-HOLLAND promotes with its North American customers the purchase of complete axle systems equipped with integrated suspension rather than simply axles and the better performance and efficiency of disc brake technology. SAF-HOLLAND is ideally positioned in disc brake technology given its years of experience in Europe. This approach could significantly increase the Company's value sold-in per vehicle.

The noticeable decline in the volumes of spare parts for commercial vehicles in North America in 2016 was primarily the outcome from the record purchases recorded in the years 2014 and 2015, especially for new Class 8 trucks and trailers. Because experience shows that a great number of spare parts are needed for these new vehicles after two to three years, there could be a gradual rise in demand in the aftermarket in late 2017 and 2018. SAF-HOLLAND has not incorporated any of the effects of the prospective economic and employment policies of Donald Trump's new US administration into any of the Company's planning. An infrastructure package combined with tax incentives for companies and consumers could outshine the difficult market environment in 2017 and boost sales momentum in the transportation industry.

First glimmer of recovery in Brazil

After years of significant sales decline, which on the whole amounted to more than 80%, the Brazilian market for heavy trucks and trailers is signaling a stabilization in the course of 2017. Latent risks still exist however. LMC Automotive, for instance, expects production of heavy trucks to increase 18.0% in full-year 2017 given the forecasts for gradual economic recovery and the first political reforms under the new president. Even with this type of growth, the market would still be roughly two-thirds lower than its level in 2013. LMC Automotive is consequently forecasting double-digit growth rates for the subsequent years. In September 2016, SAF-HOLLAND acquired a majority stake in the Brazilian company KLL. Together with this suspension specialist, SAF-HOLLAND may be able to profit significantly from the beginnings of a modest upswing in the Brazilian transportation market, not only in the trailer segment but also the truck and bus segments.

Still little momentum in the APAC region; regulation in China provides opportunities

Most of the truck and trailer markets in the emerging countries in the APAC/China region are expected to grow moderately again in 2017, although the regional development of the transportation markets will widely vary. According to LMC Automotive, the Australian truck market – an important market for SAF-HOLLAND – should see registrations rise a moderate 2.5% in 2017 after two years of significantly lower sales. Demand for trailers should also increase slightly. LMC Automotive is less optimistic when it comes to China where it is forecasting a slight decrease of approximately 1% in heavy truck production. Here it is important to bear in mind that SAF-HOLLAND's production in China is currently focused on products for the trailer and bus segments and that it still has a very small market share. The stricter application of the GB 1589 standard by the Chinese authorities since September 21, 2016, increases the opportunities for a larger pickup in demand – particularly for trailer components. Restrictions on the maximum weight permitted (49 t), the total length of a truck and trailer combination and the standardization of container dimensions all support increased demand. These factors are what sparked a strong rise in customer interest at the end of 2016 – a trend that is expected to persist in 2017 – and will prompt fleet operators to invest in new trailers and semi-trailers. It also indicates that weight reduction is becoming a key requirement in the Chinese market.

COMPANY OUTLOOK: SOLID SALES AND EARNINGS DEVELOPMENT

SAF-HOLLAND's focus is the Company's medium- to long-term business development, which is being addressed by the "Strategy 2020" already described. Growth opportunities are realized particularly through expanding the business to markets outside of the existing core markets, the targeted expansion of the product portfolio and joint ventures and acquisitions that enhance our business.

From today's perspective, we expect the solid business performance of SAF-HOLLAND to continue in 2017. We expect the market environment to be mixed in many of the regional markets. In North America, we do not expect to see any signs of improvement in the truck and trailer markets until later in the year. Factors such as the infrastructure programs and tax cuts announced by the new US president remain hard to assess but still represent opportunities, as do the stricter transportation laws in China.

The Group has a relatively comfortable starting position due to its regional diversification, strong foothold in the core markets of North America and Europe and the accompanying economic diversification.

FOCUS ON PRODUCT DEVELOPMENT AND DIGITIZATION

With our strong focus on engineering and application technology, we will drive forward the development of new products and new customer- and country-specific applications in 2017, thereby differentiating ourselves from the competition. As discussed in the research and development report (page 23ff), the topics that play an important role are weight reduction and the resulting CO_2 savings, new developments in brake technology and, of key importance, the digitalization of products and processes. We see a strong potential to enhance our business model from the interlacing of our mechanical components with sensor functions and using electronic evaluation for providing data. Therefore, the Company anticipates R&D cost as a percentage of sales to rise slightly in 2017.

INVESTMENT IN NEW REGIONS AND OPTIMIZATION OF THE INTERNATIONAL PRODUCTION NETWORK

In comparison to other manufacturing companies, SAF-HOLLAND's business model demands a lower level of capital intensity of around 2.5% of sales on average and combines the development-intensive original equipment business with a long-term oriented spare parts business.

In line with our business strategy, a growing portion of investment in 2017 aside from the usual maintenance and replacement investments is expected to be made in our expansion. Our current investment focus is on expanding our business in new markets, especially in the APAC/China region.

The restructuring of the North American plant network, which is essentially taking place in 2017, will include, among others, the consolidation of the existing seven production sites into five focused plants located near our customers and will be accompanied by potential cost savings. The improvements will cause additional project-related investment of around USD 3 million in the region. The Group plans to invest a total of EUR 28 to 31 million in property, plant and equipment and intangible assets in 2017. As a result, investment in 2017 is expected to be slightly higher than in 2016 with a moderately higher investment ratio.

The majority of the investments planned for expanding business activities in new regions will be made in the area of engineering, directed at setting up regional development capacity and testing and test bench centers or serve to expand local production facilities. The main focus in China is to set up production more efficiently by increasing the level of automation and standardization of processes and centralizing and streamlining the production network.

Our agenda in the area of information technology includes the increased linking of data from our production sites. Not only are we introducing SAP at our new location in Düzce, Turkey, we are also working on the data-technical linking of the Chinese locations to improve transparency and provide the foundation for further process improvements.

SUSTAINABLE DIVIDEND POLICY: DIVIDEND TO INCREASE FOR THE 2016 FINANCIAL YEAR

SAF-HOLLAND generates a solid level of operating free cash flow, which it plans to use, among others, to finance acquisitions and pay dividends. The Company pursues a sustainable dividend policy and intends to continue to enable shareholders to participate in the Company's success. Our general aim is to distribute 40 to 50% of our available net earnings (result for the period excluding non-cash components) as a dividend to our shareholders, provided our equity ratio adjusted for exceptional factors is at a level of roughly 40%. Exceptional factors such as the promissory note issue in the amount of EUR 200 million in November 2015, which initially caused an increase in total assets and a temporary decline in the equity ratio, are adjusted for accordingly.

For the 2016 financial year, the Board of Directors intends to propose a 10.0% increase in the dividend to EUR 0.44 per share (previous year: EUR 0.40) to the Annual General Meeting on April 27, 2017. This is equivalent to a total distribution of EUR 20.0 million (previous year: EUR 18.1 million) or 45.9% (previous year: 35.0%) of the result for the period, or 46.4% (previous year: 38.6%) of the available net earnings, which reflects the strong development in free cash flow. Based on the closing price of SAF-HOLLAND shares in 2016 of EUR 13.64, this represents an unchanged high dividend yield of 3.2% (previous year: 3.2%).

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

Our planning is based on the expectation that the global economy will grow slightly more than 3% in 2017 and that the trend in the economies of our current core markets of Europe and North America will tend to be positive. We expect the development of transportation markets and the demand for trailers and trucks to vary widely by region, as described, amid a generally mixed environment. Regional markets such as Brazil, Russia and parts of the Middle East are at a low level while Australia is improving and demand in China is picking up. Structural trends such as the increased tendency of major US customers to use disc brake technology and purchase complete axle systems help us increase our sales per vehicle.

SALES AND EARNINGS DEVELOPMENT 2017 TO REMAIN SOLID IN A CHALLENGING MARKET ENVIRONMENT

In the year 2017, SAF-HOLLAND expects the market environment in important markets – especially North America and Brazil – to remain challenging and only start to pick up in the second half of the year. Given the anticipated solid market performance in Europe, market share gains and the start-up of significant major orders, the Company expects to achieve Group sales in the 2017 financial year in the range of EUR 1,060 million to EUR 1,090 million. This forecast is based on the assumption of an unchanged scope of consolidation and stable currency exchange rates.

The EBIT margin adjusted for special items should again be within a range of 8% to 9% in the 2017 financial year. From today's standpoint, we expect the margin to rather tend toward the mid-point of the range due to the upfront investment necessary to achieve the goals of our "Strategy 2020".

In line with our targets under "Strategy 2020", additional Group sales and earnings contributions may result from collaborations, joint ventures or acquisitions that may take place at some time during the year. This assumes the availability and realization of appropriate opportunities at reasonable prices and a manageable risk profile. In 2017, management's activities will again be focused on generating external growth.

ONE-TIME EXPENSE FOR RESTRUCTURING THE NORTH AMERICAN PLANT NETWORK

As already announced, SAF-HOLLAND will be consolidating its North American plant network in 2017. This consolidation is expected to result in a one-time restructuring charge of up to US$ 10 million. This charge will consist mainly of relocation costs, impairment charges on equipment and severance payments. SAF-HOLLAND expects that the vast majority of these charges will be recognized in the 2017 financial year. Here it should be noted that the Group's key indicator – adjusted EBIT – is generally adjusted for restructuring expenses. SAF-HOLLAND expects to achieve an annual reduction in the North American direct cost base in the mid single-digit million US$ dollar range after the restructuring is completed.

PROFITABILITY TO REMAIN HIGH

Despite the difficult market situation in several markets brought on by economic or political issues, the management expects the Group's net assets, financial position and results of operations to continue their solid development in the 2017 financial year. The financial strength will remain at a high level based on ongoing disciplined investment spending and the Group-wide optimization of net working capital, whereby the year 2017 may see a temporary increase in inventories due to the plant consolidation in the United States. As a result, net working capital ratio is anticipated in the range of 12 to 13%. We expect the Company to continue to generate strong free cash flow in 2017, but below the high level generated in the 2016 financial year due to the factors already mentioned.

The SAF-HOLLAND Group remains confident overall that it is well positioned to meet the sales, earnings and return targets set under its medium-term "Strategy 2020".