CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

kEUR

	Notes	2016	2015
Sales	(4)	1,041,995	1,060,704
Cost of sales	(5.1)	–835,496	–857,778
Gross profit		**206,499**	**202,926**
Other operating income	(5.2.1)	1,159	3,281
Selling expenses	(5.2.2)	–60,729	–61,415
Administrative expenses	(5.2.3)	–50,927	–44,547
Research and development costs	(5.2.4)	–19,689	–20,942
Operating result	(4)	**76,313**	**79,303**
Finance income	(5.2.5)	8,359	9,290
Finance expenses	(5.2.5)	–21,853	–13,247
Share of net profit of investments accounted for using the equity method	(6.3)	2,136	2,264
Result before tax		**64,955**	**77,610**
Income tax	(5.3)	–21,494	–25,911
Result for the period		**43,461**	**51,699**
Attributable to:			
Equity holders of the parent		44,234	51,627
Non-controlling interests		–773	72
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	(6.10)	1,303	2,937
Income tax effects on items recognized in other comprehensive income	(6.10)	–698	–341
Items that may be reclassifed subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(6.10)	5,277	–774
Changes in fair values of derivatives designated as hedges, recognized in equity	(6.10)/(7.1)	–274	274
Income tax effects on items recognized in other comprehensive income	(6.10)	76	–76
Other comprehensive income		**5,684**	**2,020**
Comprehensive income for the period		**49,145**	**53,719**
Attributable to			
Equity holders of the parent		49,814	53,741
Non-controlling interests		–669	–22
Basic earnings per share in EUR	(7.2)	**0.98**	**1.14**
Diluted earnings per share in EUR	(7.2)	**0.85**	**0.99**

CONSOLIDATED BALANCE SHEET

kEUR	Notes	12/31/2016	12/31/2015
Assets			
Non-current assets		**406,268**	**380,252**
Goodwill	(6.1)	56,059	52,985
Intangible assets	(6.1)	149,520	145,372
Property, plant and equipment	(6.2)	144,263	127,750
Investments accounted for using the equity method	(6.3)	15,425	14,102
Financial assets	(7.1)	1,243	1,368
Other non-current assets	(6.4)	3,528	3,668
Deferred tax assets	(5.3)	36,230	35,007
Current assets		**608,428**	**508,260**
Inventories	(6.5)	130,988	118,008
Trade receivables	(6.6)	116,666	116,535
Income tax assets		1,808	1,611
Other current assets	(6.7)	13,423	8,279
Financial assets	(7.1)	975	3,079
Other short-term investments	(6.8)	–	115,000
Cash and cash equivalents	(6.9)	344,568	145,748
Total assets		**1,014,696**	**888,512**
Equity and liabilities			
Total equity	(6.10)	**305,577**	**287,800**
Equity attributable to equity holders of the parent		**300,399**	**285,818**
Subscribed share capital		454	454
Share premium		268,644	268,644
Legal reserve		45	45
Other reserve		720	436
Retained earnings		45,055	36,338
Accumulated other comprehensive income		–14,519	–20,099
Shares of non-controlling interests		**5,178**	**1,982**
Non-current liabilities		**555,436**	**475,417**
Pensions and other similar benefits	(6.11)	38,393	37,336
Other provisions	(6.12)	6,872	8,042
Interest bearing loans and bonds	(6.13)	435,599	379,276
Finance lease liabilities	(7.1)	–	1,509
Other financial liabilities	(6.15)	18,238	707
Other liabilities	(6.16)	615	838
Deferred tax liabilities	(5.3)	55,719	47,709
Current liabilities		**153,683**	**125,295**
Other provisions	(6.12)	9,918	7,202
Interest bearing loans and bonds	(6.13)	6,067	3,917
Finance lease liabilities	(7.1)	1,587	465
Trade payables	(6.14)	106,714	89,940
Income tax liabilities		5,660	756
Other financial liabilities	(6.15)	972	178
Other liabilities	(6.16)	22,765	22,837
Total equity and liabilities		**1,014,696**	**888,512**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

kEUR

2016

	Attributable to equity holders of the parent								
	Subscribed share capital	Share premium	Legal reserve	Other reserve	Retained earnings	Accumulated other comprehensive income	Total amount	Shares of non-controlling interests	Total equity (Note 6.10)
As of 01/01/2016	**454**	**268,644**	**45**	**436**	**36,338**	**–20,099**	**285,818**	**1,982**	**287,800**
Result for the period	–	–	–	–	44,234	–	**44,234**	–773	**43,461**
Other comprehensive income	–	–	–	–	–	5,580	**5,580**	104	**5,684**
Comprehensive income for the period	**–**	**–**	**–**	**–**	**44,234**	**5,580**	**49,814**	**–669**	**49,145**
Dividend	–	–	–	–	–18,144	–	**–18,144**	–	**–18,144**
Transfer to other reserve	–	–	–	284	–284	–	**–**	–	**–**
Put option for acquisition of remaining shares of KLL Equipamentos para Transporte Ltda.	–	–	–	–	–17,089	–	**–17,089**	–	**–17,089**
Addition of shares of non-controlling interests	–	–	–	–	–	–	**–**	3,865	**3,865**
As of 12/31/2016	**454**	**268,644**	**45**	**720**	**45,055**	**–14,519**	**300,399**	**5,178**	**305,577**

2015

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

CONSOLIDATED STATEMENT OF CASH FLOWS

kEUR		Notes	2016	2015
Cash flow from operating activities				
Result before tax			**64,955**	**77,610**
–	Finance income	(5.2.5)	–8,359	–9,290
+	Finance expenses	(5.2.5)	21,853	13,247
+/–	Share of net profit of investments accounted for using the equity method	(6.3)	–2,136	–2,264
+	Amortization/depreciation of intangible assets and property, plant and equipment	(5.2.7)	22,609	21,741
+	Allowance of current assets	(6.5)/(6.6)	4,458	4,576
+/–	Loss/Gain on disposal of property, plant and equipment		125	–236
+	Dividends from investments accounted for using the equity method		943	19
Cash flow before change of net working capital			**104,448**	**105,403**
+/–	Change in other provisions and pensions		1,506	–6,540
+/–	Change in inventories		–8,205	4,271
+/–	Change in trade receivables and other assets		–4.100[1]	–14,976[1]
+/–	Change in trade payables and other liabilities		12,748	–8,632
Cash flow from operating activities before income tax paid			**106,397**	**79,526**
–	Income tax paid	(5.3)	–13,729	–16,439
Net cash flow from operating activities			**92,668**	**63,087**
Cash flow from investing activities				
–	Purchase of other short term investments	(6.8)	–	–115,000
+	Proceeds from sale of other short term investments		115,000	–
–	Purchase of property, plant and equipment	(6.2)	–19,311	–22,166
–	Purchase of intangible assets	(6.1)	–5,695	–5,898
+	Proceeds from sales of property, plant and equipment		944	3,666
–	Purchase of other financial assets	(5.2.5)	5,730	–
–	Payments for acquisition of subsidiaries net of cash	(3)	–7,513	–
+	Interest received		670	248
Net cash flow from investing activities			**89,825**	**–139,150**
Cash flow from financing activities				
–	Dividend payments to shareholders of SAF-HOLLAND S.A.	(6.10)	–18,144	–14,516
+	Proceeds from borrowing of non-current other loans	(6.13)	50,000	–
+	Proceeds from promissory note loan		–	200,000
–	Paid transaction costs relating to the issuance of the promissory note loan		–	–805
–	Paid transaction costs relating to finance agreements		–514	–525
–	Payments for replacement of foreign currency derivatives		–5,232	–
–	Payments for finance lease		–532	–432
–	Interest paid		–11,938	–8,415
+/–	Change in drawings on the credit line and other financing activities	(6.13)	1,622	942
Net cash flow from financing activities			**15,262**	**176,249**
Net increase/decrease in cash and cash equivalents			**197,755**	**100,186**
+/–	Effect of changes in exchange rates on cash and cash equivalents		1,065	1,397
Cash and cash equivalents at the beginning of the period		(6.9)	**145,748**	**44,165**
Cash and cash equivalents at the end of the period		(6.9)	**344,568**	**145,748**

[1] As of December 31, 2016, trade receivables in the amount of EUR 26.4 million (previous year: EUR 25.6 million) were sold in the context factoring contract. Assuming the legal validity of the receivable, no further rights of recourse exist against SAF-HOLLAND from the sold receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the January 1 through December 31, 2016 Financial Year

1. CORPORATE INFORMATION

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

The consolidated financial statements for SAF-HOLLAND S.A. and its subsidiaries (the "Group") as of December 31, 2016 were authorized for publication by the resolution of the Board of Directors on March 14, 2017. Shareholder approval of the financial statements is required under Luxembourg law.

2. ACCOUNTING AND VALUATION PRINCIPLES

2.1 BASIS OF PREPARATION

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

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

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

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

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Impairment of goodwill and intangible assets with indefinite useful lives

The Group tests goodwill and other intangible assets with indefinite useful lives for impairment at least once a year and when there is an indication of impairment. The Group's impairment tests as of October 1, 2016 are based on calculations of the recoverable amount using a discounted cash flow model. Future cash flows are derived from the Group's five-year financial plan, which was approved by the Board of Directors. Cash flows beyond the planning period are extrapolated using individual growth rates. The recoverable amount depends heavily on the discount rate used in the discounted cash flow model, expected future cash inflows and outflows and the growth rate used for purposes of extrapolation.

Assumptions are based on the information available at the time, particularly the expected business developments, current conditions and realistic assessments of the future development of the global and industry-specific environment. The key assumptions underlying the Company's planning are based on projected unit volumes for the truck and trailer markets published by market research companies and planning discussions with the Group's major customers. Although management believes that the assumptions used to calculate the recoverable amount are reliable, any unforeseen changes in these assumptions could lead to an impairment charge that could adversely affect the Group's net assets, financial position and results of operations. The basic assumption to determine the recoverable amount for the various cash-generating units and intangible assets with indefinite useful lives, including a sensitivity analysis, are discussed in more detail in Note 6.1. As of December 31, 2016, the carrying amount of goodwill totaled EUR 56.1 million (previous year: EUR 53.0 million), and that of intangible assets with indefinite useful lives amounted to EUR 34.9 million (previous year: EUR 33.5 million).

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

Measurement of property, plant and equipment and intangible assets with finite useful lives requires the use of estimates for determining the fair value at the acquisition date, particularly for assets acquired in a business combination. Furthermore, the expected useful lives of these assets must be determined. The determination of fair values and useful lives of assets and impairment testing in the case of indications of impairment are based on management's judgment. As of December 31, 2016, the carrying amounts of property, plant and equipment totaled EUR 144.3 million (previous year: EUR 127.8 million), and those of intangible assets with finite useful lives amounted to EUR 114.6 million (previous year: EUR 111.9 million). Further details are provided in Notes 6.1 and 6.2.

Deferred tax assets

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

Deferred tax assets are recognized for all unused tax loss carryforwards to the extent that it is probable that there will be taxable profits against which the losses can be utilized. Deferred tax assets for all unused interest carryforwards are recognized to the extent that it is probable that they can be used in the future to reduce taxable income. As of December 31, 2016, the carrying amount of deferred tax assets for tax loss carryforwards amounted to EUR 3.7 million (previous year: EUR 2.9 million). Unrecognized tax loss carryforwards amounted to EUR 41.1 million (previous year: EUR 24.7 million). In addition, as of December 31, 2016, the carrying amount of capitalized deferred tax assets for interest carryforwards was EUR 18.2 million (previous year: EUR 22.3 million). Further details are provided in Note 5.3.

Pensions and other similar obligations

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

Due to the long-term nature of pension plans, such estimates are subject to significant uncertainty. As of December 31, 2016, the carrying amount of pensions and other similar obligations was EUR 38.4 million (previous year: EUR 37.3 million). Further details, including a sensitivity analysis, are given in Note 6.11.

Other provisions

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

As of December 31, 2016, other provisions amounted to EUR 16.8 million (previous year: EUR 15.2 million). Further details are provided in Note 6.12.

Share-based payments

The Group initially recognizes the cost of share units (appreciation rights) granted to members of the Management Board and certain managers at the fair value of the appreciation rights at the grant date and subsequently measures them on each balance sheet date as well as on the settlement date. Estimating the fair value of share-based payments requires the selection of an appropriate valuation model depending on the terms and conditions of the agreements. This model incorporates a variety of inputs for which assumptions must be made to estimate the fair value. The main inputs are the expected life of the option, the volatility of the share price and the forecast dividend yield. The expected volatility is based on the average historical volatility of a peer group during the same period, which is provided by Bloomberg. The period of volatility is based on the remaining period of the performance share unit program. Due to the Group's past restructuring, the actual historical volatility of the Group was not used because the management does not believe it represents future share price performance. In 2016, the carrying amount of obligations was EUR 5.0 million (previous year: EUR 4.3 million). Further details are presented in Note 6.12.

Derivative financial instruments

Where the fair value of financial assets and financial liabilities recognized in the balance sheet cannot be derived from an active market, it is determined by using valuation models. The inputs to these models are taken from observable markets when possible, otherwise determining the fair value requires a degree of judgment. This judgment considers inputs such as liquidity risk, credit risk and volatility. Changes in the assumptions about these factors could affect the recognized fair value of financial instruments. As of December 31, 2016, the fair value of derivative financial instruments was EUR –0.6 million (previous year: EUR 0.2 million). Further details are provided in Note 7.1.

2.3 SUMMARY OF KEY ACCOUNTING POLICIES

Consolidation principles

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

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

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

Business combinations

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

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

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

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

Investments in associates and joint ventures

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

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

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

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

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

Foreign currency translation

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

The most important functional currencies of foreign operations are the US dollar (USD) and the Canadian dollar (CAD). The exchange rates for these currencies as of the balance sheet date were EUR/USD = 1.05356 (previous year: 1.09075) and EUR/CAD = 1.41884 (previous year: 1.51309). The weighted average exchange rates for these two currencies were EUR/USD = 1.10635 (previous year: 1.10963) and EUR/CAD = 1.46572 (previous year: 1.41743).

Goodwill

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

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

Intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Scheduled depreciation is generally based on the following useful lives:

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

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

Borrowing costs

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

Leases

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

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

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

Investments accounted for using the equity method

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

Impairment of non-financial assets

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

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

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

Financial instruments

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

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

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

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

IAS 39 classifies financial liabilities into the following categories:

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

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

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

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

Primary financial instruments

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

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

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

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

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

Derivative financial instruments

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

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

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

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

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

Hybrid financial instruments

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

Impairment of financial assets

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

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

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

Derecognition of financial assets and liabilities

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

- The contractual rights to receive cash flows from a financial asset have expired.
- The Group has transferred its contractual rights to receive cash flows from a financial asset to a third party or has accepted a contractual obligation to remit a cash flow to a third party without material delay in the context of an agreement which fulfills the conditions of IAS39.19 (a "transfer contract") and at the same time either (a) has transferred substantially all risks and rewards associated with the ownership of the financial asset or (b) has neither transferred nor retained substantially all risks and rewards associated with the ownership of the financial asset but has transferred control over the asset.

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

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

Inventories

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

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

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

Cash and cash equivalents

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

Other provisions

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

Share-based payments

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

Pensions and other similar obligations

Defined benefit plans and similar obligations

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

Past service cost is recognized immediately in profit and loss.

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

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

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

Defined contribution plans

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

Other post-employment benefit plans

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

Other long-term employee benefit plans

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

Taxes

Current income taxes

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

Deferred income taxes

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

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

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

Deferred income taxes relating to items recognized directly in other comprehensive income are recognized in accumulated other comprehensive income and not in the result for the period.

Revenue recognition

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

Government grants

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

2.4 CHANGES IN ACCOUNTING POLICIES

The accounting and valuation methods applied correspond basically to the methods used in the previous year with the following exceptions:

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Annual Improvements 2012-2014 Cycle

These improvements include: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

In addition, there were further changes in accounting policies which have no effect on the Group's net assets, financial position and results of operations.

2.5 PUBLISHED STANDARDS THAT ARE NOT YET MANDATORY

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

IFRS 9 "Financial Instruments – Classification and Measurement"

IFRS 9, issued in July 2014, replaces the existing guidelines of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 provides amended guidance on the classification and measurement of financial instruments, including a new model on expected credit losses for calculating the impairment of financial assets as well as the new general accounting provisions for hedging instruments. It also carries over the guidelines on recognition and derecognition of financial instruments from IAS 39.

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

The Group is currently assessing the impact on its consolidated financial statements of adopting IFRS 9.

IFRS 15 "Revenue from Contracts with Customers"

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

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

Based on analysis carried out by the Group, no significant impact is expected on the consolidated financial statements as a result of the application of IFRS 15.

IFRS 16 "Leases"

In January 2016, the IASB issued the new IFRS 16 standard, which requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting under IAS 17 "Leases". As a result of the first-time adoption, the majority of the obligations from operating rental and lease agreements currently presented under section 7.4 "Other financial obligations" will be presented as an extension to the balance sheet. Application of IFRS 16 is required for financial years beginning on or after January 1, 2019.

The Company is currently assessing the impact on its consolidated financial statements from the application of IFRS 16 and will apply the standard in the financial year beginning on January 1, 2019.

In addition, there were further changes in accounting standards which have no effect on the Group's net assets, financial position and results of operations.

3. SCOPE OF CONSOLIDATION

Acquisitions

On October 5, 2016, SAF-HOLLAND do Brasil Ltda. acquired a 57.5 % interest in KLL Equipamentos para Transporte Ltda., an unlisted company based in Brazil specializing in the manufacture of air suspension systems for trucks and buses and axles and mechanical and air suspension systems for trailers. As part of the acquisition, the contracting partners received a call/put option for the purchase/sale of the remaining 42.5 % interest, which can be exercised four years after the acquisition. The other financial liabilities resulting from the put option are accounted for in accordance with IAS 39. Because SAF-HOLLAND do Brasil Ltda. holds the majority of voting rights, it has obtained control over KLL Equipamentos para Transporte Ltda. as of the acquisition date.

The initial consolidation of KLL Equipamentos para Transporte Ltda. was carried out in accordance with IFRS 3 using the acquisition method. The results of the company acquired were included in the Consolidated Financial Statements from the date of acquisition. Transaction costs recognized as expense in connection with the acquisition amounted to EUR 0.7 million. As of 31 December 2016, the earnings contribution of KLL Equipamentos para Transporte Ltda. was EUR –0.6 million. The sales thereby generated amounted to EUR 1.8 million. If the business combination had taken place at the beginning of the year, the group's sales would have amounted to EUR 1,052 million and consolidated result before tax would have been EUR 63.9 million.

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

The following information shows the preliminary purchase price allocation and the amounts of the main groups of assets acquired and liabilities assumed that were recognized as of the acquisition date:

kEUR	Fair value as of acquisition date
Brand	1,095
Other intangible assets	1,104
Property, plant and equipment	12,588
Inventories	3,996
Trade receivables	1,985
Other assets	924
Cash and cash equivalents	552
	22,244
Deferred tax liabilities	2,267
Interest bearing loans and borrowings	8,577
Trade payables	925
Other liabilities	1,380
	13,149
Total of identified net assets	**9,095**
Shares with non-controlling interests	–3,865
Goodwill from the acquisition	2,835
Consideration transferred	**8,065**

Goodwill in the amount of kEUR 2,835 includes non-separable intangible assets such as employee expertise and expected synergies. The tax deductibility of the goodwill requires the full acquisition of the outstanding shares in KLL Eqipamentos para Transporte Ltda. and a future reorganization of the Group's activities in Brazil.

The fair value of trade receivables amounted to kEUR 1,985 as of the acquisition date. The gross amount of trade receivables was kEUR 2,343. As of the acquisition date, an impairment of kEUR 358 was recognized on receivables.

The non-controlling interests in the acquired company are measured at the fair value of the proportional share in identifiable net assets of the acquired company and as of the acquisition date amounted to kEUR 3,865.

The cash outflow resulting from the acquisition is as follows:

kEUR	
Cash outflow	8,065
Cash acquired	552
Actual cash outflow	**7,513**

KLL Equipamentos para Transporte Ltda. was allocated to the Americas region.

The value of the put option for the remaining 42.5 % interest in KLL Equipamentos para Transporte Ltda. is dependent on future results and amounts to kEUR 17,089 as of the acquisition date.

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

Deconsolidations
No companies were deconsolidated during the reporting year.

Other changes
In the previous year, the associated company Lakeshore Air LLP, which was accounted for in the consolidated financial statements using the equity method, was liquidated in December 2015.

4. SEGMENT INFORMATION

On January 1, 2016, a new segment structure was introduced within the corporate management and reporting system to better achieve the targets defined under the Company's "Strategy 2020". The previous segments "Trailer Systems", "Powered Vehicle Systems" and "Aftermarket" were discontinued as part of SAF-HOLLAND's new focus on regions. Starting with the 2016 reporting period, corporate management and Group reporting are organized under the segments "EMEA/India," "Americas" and "APAC/China."

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

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

kEUR	2016	2015
Operating result	76,313	79,303
Share of net profit of investments accounted for using the equity method	2,136	2,264
EBIT	**78,449**	**81,567**
Additional depreciation and amortization from PPA	5,353	7,041[1]
Restructuring and transaction costs	6,612	5,418[2]
Adjusted EBIT	**90,414**	**94,026**

[1] Losses arising from the disposal of assets from PPA relate to the sale of the AerWay product line and amount to kEUR 576.
[2] Restructuring and transaction costs comprise aperiodic expenses in the amount of kEUR 1,020.

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

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

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

kEUR

	2015			
	Regions			
	Americas[1]	EMEAI[2]	APAC/China[3]	Consolidated
Sales	449,361	540,038	71,305	**1,060,704**
Cost of sales	–359,468	–444,240	–54,069	**–857,778**
Gross profit	**89,893**	**95,797**	**17,236**	**202,926**
Gross margin	20.0 %	17.7 %	24.2 %	**19.1 %**
Selling and administrative expenses, research and development costs, other income, share of net profit of investments accounted for using the equity method	–49,890	–59,139	–12,330	**–121,359**
Adjustments[4]	3,792	8,208	459	**12,459**
Adjusted EBIT	**43,794**	**44,867**	**5,365**	**94,026**
Adjusted EBIT margin	9.7 %	8.3 %	7.5 %	**8.9 %**
Depreciation	–9,996	–10,575	–1,170	**–21,741**

Includes Canada, the USA as well as Central and South America.
[2] Includes Europe, Middle East, Africa and India.
[3] Includes Asia/Pacific and China.
[4] Adjustments comprise depreciation and amortization expenses from in the amount of kEUR 7,041 as well as restructuring and transaction costs in the amount of 5,418 TEUR.

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

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

The following table presents the sales development by business unit:

Revenues from external customers

kEUR

	2016	2015
OEM	772,219	792,685
Aftermarket	269,776	268,019
Total	**1,041,995**	**1,060,704**

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

In both reporting year and the previous year, not one customer reached a share of 10 % of the Group's total sales.

The following table presents non-current assets by region:

Non-current assets

kEUR

	12/31/2016	12/31/2015
America	182,181	159,412
EMEAI	167,671	165,808
APAC/China	18,943	18,657
Total	**368,795**	**343,877**

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

5. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

5.1 COST OF SALES

Cost of sales consists of the following:

kEUR	2016	2015
Cost of materials	674,293	698,163
Personnel expenses	118,224	115,241
Depreciation and amortization of property, plant and equipment and intangible assets	12,207	10,755
Repair and maintenance expenses	9,420	8,266
Warranty expenses	6,805	5,387
Temporary employees expenses	4,455	4,883
Restructuring and transaction costs	1,145	3,522
Other	8,947	11,561
Total	**835,496**	**857,778**

In the 2016 financial year, cost of sales included inventory usage of kEUR 818,599 (previous year: kEUR 837,308).

5.2 OTHER INCOME AND EXPENSES

5.2.1 Other operating income

Other operating income consists of the following:

kEUR	2016	2015
Gain from disposal of property, plant and equipment	68	1,427
Income from reimbursements	–	747
Other	1,091	1,107
Total	**1,159**	**3,281**

The gains from disposal of property, plant and equipment in 2015 were mainly related to the sales of the AerWay product line and a property in Wörth am Main, Germany.

5.2.2 Selling expenses

The following overview shows the composition of selling expenses:

kEUR	2016	2015
Personnel expenses	30,909	30,506
Expenses for advertising and sales promotion	9,994	9,413
Depreciation and amortization of property, plant and equipment and intangible assets	4,166	4,498
Expenses for distribution	4,206	4,405
Trade receivable allowance	2,946	2,240
Commissions	714	1,650
Restructuring and transaction costs	613	89
Other	7,181	8,614
Total	**60,729**	**61,415**

5.2.3 Administrative expenses

Administrative expenses are shown in the following table:

kEUR	2016	2015
Personnel expenses	25,167	21,911
Expenses for office and operating supplies	4,186	4,111
Depreciation and amortization of property, plant and equipment and intangible assets	4,216	3,415
Legal and consulting expenses	3,568	3,058
Travel costs	1,835	2,002
Restructuring and transaction costs	4,854	1,783
Other	7,101	8,267
Total	**50,927**	**44,547**

5.2.4 Research and development costs

Research and development costs consist of the following:

kEUR	2016	2015
Personnel expenses	10,994	10,349
Depreciation and amortization of property, plant and equipment and intangible assets	2,020	3,073
Testing Cost	2,099	1,986
Restructuring and transaction costs	–	24
Other	4,576	5,510
Total	**19,689**	**20,942**

Development costs of kEUR 3,697 (previous year: kEUR 3,681) were capitalized in the financial year. Payments by the Bavarian Ministry of Economic Affairs of kEUR 102 (previous year: kEUR 265) were offset against research and development costs as performance-based grants.

5.2.5 Finance result

Finance income consists of the following:

kEUR	2016	2015
Finance income from the sale of other financial instruments	5,730	–
Unrealized foreign exchange gains on foreign currency loans and dividends	579	6,809
Realized foreign exchange gains on foreign currency loans and dividends	805	1,684
Finance income due to derivatives	488	560
Finance income due to pensions and other similar benefits	23	18
Interest income	670	203
Other	64	16
Total	**8,359**	**9,290**

Finance income from the sale of other financial instruments derived mainly from the sale of the Haldex shares acquired in the course of the planned acquisition of Haldex. The Group had acquired approximately 3.6 % of the Haldex shares before issuing the all-cash offer. During the fourth quarter, these shares were sold entirely through the stock exchange, as this position was no longer of strategic importance.

Unrealized foreign exchange gains on foreign currency loans and dividends in the prior year primarily consist of unrealized foreign exchange gains on intercompany foreign currency loans translated at the exchange rate on the reporting date.

Since the first quarter of 2016, the majority of intercompany foreign currency loans are now considered as part of a net investment in a foreign operation. In the course of the Groups regional realignment on January 1, 2016, intercompany foreign currency loans were remeasured with regard to the planned repayments. Given the market's development and the pursuit of the targets under "Strategy 2020", repayment of these loans is neither planned nor expected to be likely for the foreseeable future. Exchange rate effects resulting from the valuation of intercompany foreign currency loans at the closing rate on the reporting date are therefore recognized in other comprehensive income.

Finance expenses consist of the following:

kEUR	2016	2015
Interest expenses due to interest bearing loans and bonds	–12,399[1]	–8,996[1]
Reversal of transaction costs	–	–468
Amortization of transaction costs	–920	–545
Finance expenses due to pensions and other similar benefits	–1,239	–1,111
Finance expenses due to derivatives	–6,157	–816
Other	–1,138	–1,311
Total	**–21,853**	**–13,247**

[1] Includes the non-cash interest expense of kEUR 644 (previous year: kEUR 633) for the convertible bond.

The rise in interest expenses related to interest-bearing loans and bonds resulted from the issue of a promissory note in the amount of EUR 200 million in November 2015 and the assumption of new loans with a volume of EUR 50 million in June 2016.

The reversal of transaction costs from the previous year primarily resulted from the early reversal of capitalized transaction costs totaling kEUR –468 from the completion of refinancing in October 2015.

The amortization of transaction costs of kEUR –920 (previous year: kEUR –545) represents the contract closing fees recognized as expenses in the period in accordance with the effective interest method.

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

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

5.2.6 Expenses for employee benefits

Expenses for employee benefits consist of the following:

kEUR	2016	2015
Wages and salaries	–159,773	–155,673
Social insurance contributions	–22,784	–20,961
Pension expenses	–1,355	–1,079
Termination benefits	–1,382	–294
Total	**–185,294**	**–178,007**

Social insurance contributions include expenses from defined contribution plans in the amount of kEUR 6,970 (previous year: kEUR 6,557).

5.2.7 Depreciation and amortization

Depreciation and amortization expenses according to functional area:

kEUR	Depreciation of property, plant and equipment		Amortization of intangible assets		Total	
	2016	2015	2016	2015	2016	2015
Cost of sales	–11,424	–10,180	–783	–575	–12,207	–10,755
Selling expenses	–1,143	–1,220	–3,023	–3,278	–4,166	–4,498
Administrative expenses	–1,441	–1,227	–2,775	–2,188	–4,216	–3,415
Research and development costs	–902	–922	–1,118	–2,151	–2,020	–3,073
Total	**–14,910**	**–13,549**	**–7,699**	**–8,192**	**–22,609**	**–21,741**

Depreciation and amortization of property, plant and equipment and intangible assets arising from purchase price allocation amounted to kEUR 5,343 (previous year: kEUR 6,465).

5.3 INCOME TAXES

Income taxes consist mainly of the following:

kEUR	2016	2015
Current income taxes	–18,041	–15,882
Deferred income taxes	–3,453	–10,029
Income tax reported in the result for the period	**–21,494**	**–25,911**

The effective income tax rate for the Group for the year ended December 31, 2016 is 33.09 % (previous year: 33.39 %). The following table reconciles the actual versus the expected income taxes for the Group using the Group's corporate income tax rate of 30.20 % (previous year: 30.90 %). The Group tax rate is the weighted tax rates in the EMEA/India, Americas and APAC/China regions applied to the result before taxes. The German corporate income tax rate of 27.22 %, consisting of a corporate income tax of 15.83 % (including the solidarity surcharge) and a trade tax of 11.37 %, was used for the EMEA/India region. The tax rate for the Americas region was equivalent to the US tax rate of 37.00 % which consists of a federal tax rate of 35.00 % and a state tax rate of 2.00 %. The Chinese corporate tax rate of 25.00 % was applied in the APAC/China region.

The expected income tax expenses (current and deferred) based on the Group's income tax rate of 30.20 % deviate from the reported income tax expenses as follows:

kEUR	2016	2015
Result before income tax	**64,955**	**77,610**
Income tax based on Group's income tax rate of 30.20 % (previous year: 30.90 %)	–19,616	–23,981
Unused interest carry-forwards	–	–1,867
Unused tax loss carry-forwards	–2,561	–1,096
Use of previously not recognized tax loss carry-forwards	806	1,114
Non-deductible operating expenses	–982	–381
Tax-exempt income	907	–
Differences in tax rates	–77	437
Income taxes resulting from previous year	–38	55
Other	67	–192
Income tax based on effective income tax rate of 33.09 % (previous year: 33.39 %)	**–21,494**	**–25,911**

Deferred income taxes as of the balance sheet date consist of the following:

kEUR	12/31/2016	12/31/2015
Inventories	2,637	2,756
Pensions and other similar benefits	12,978	11,510
Other financial liabilities	261	25
Other provisions	2,629	2,256
Tax loss carry-forwards	3,710	2,904
Interest carry-forwards	18,231	22,351
Other	5,274	6,462
Deferred income tax assets	**45,720**	**48,264**
Intangible assets	–39,745	–35,828
Property, plant and equipment	–11,789	–11,397
Inventories	–	–215
Investments accounted for using the equity method	–5,736	–5,319
Other assets	–423	–578
Interest bearing loans and bonds	–859	–993
Other	–6,657	–6,636
Deferred income tax liabilities	**–65,209**	**–60,966**

As of the balance sheet date, deferred tax assets and liabilities of kEUR 9,490 (previous year: kEUR 13,257) were offset, having met the requirements for offsetting. The balance sheet thus includes deferred tax assets of kEUR 36,230 (previous year: kEUR 35,007) and deferred tax liabilities of kEUR 55,719 (previous year: kEUR 47,709).

The Group has tax loss carryforwards of kEUR 55,284 (previous year: kEUR 41,319) that are available indefinitely or with defined time limits to several Group companies to offset against future taxable income of the companies in which the losses arose or of other Group companies. Deferred tax assets have not been recognized with respect to tax loss carryforwards of kEUR 41,144 (previous year: kEUR 24,727) due to insufficient taxable income or opportunities for offsetting at the individual companies or other Group companies.

Unrecognized tax loss carryforwards expire as follows:

kEUR	12/31/2016	12/31/2015
Infinite	37,731	24,419
Within 5 years	3,413	308
Total	**41,144**	**24,727**

In addition to tax loss carryforwards, the Group has interest carryforwards of kEUR 70,253 (previous year: kEUR 84,141), which are available indefinitely to various Group companies for use in the future as a tax deduction. Interest carryforwards result from the interest limitation rules introduced by the business tax reform in Germany as well as a comparable regulation in North America.

In financial year 2016, deferred income taxes amounting to kEUR –622 (previous year: kEUR –417) were recognized in other comprehensive income.

Furthermore, temporary differences associated with investments in subsidiaries for which no deferred taxes have been recognized amounted to EUR 11.1 million (previous year: EUR 61.0 million).

6. NOTES TO THE CONSOLIDATED BALANCE SHEET

6.1 GOODWILL AND INTANGIBLE ASSETS

kEUR	Customer relationship	Technology	Development costs	Brand	Service net	Licences and software	Intangible assets	Goodwill
Historical costs								
As of 12/31/2014	**106,629**	**21,652**	**7,706**	**33,220**	**3,495**	**28,083**	**200,785**	**79,585**
Additions	–	–	3,691	–	–	2,207	**5,898**	–
Disposals	–	345	10	439	–	166	**960**	–
Transfers	–	–7	–	–	–	–67	**–74**	–
Foreign currency translation	4,595	690	–	1,333	–	699	**7,317**	**3,666**
As of 12/31/2015	**111,224**	**21,990**	**11,387**	**34,114**	**3,495**	**30,756**	**212,966**	**83,251**
Additions from initial consolidation	908	–	–	1,095	–	601	**2,604**	**2,835**
Additions	–	–	3,673	–	–	2,022	**5,695**	–
Disposals	–	–	–	–	–	228	**228**	–
Transfers	–	–	–	–	–	2,005	**2,005**	–
Foreign currency translation	1,630	219	121	490	–	599	**3,059**	**588**
As of 12/31/2016	**113,762**	**22,209**	**15,181**	**35,699**	**3,495**	**35,755**	**226,101**	**86,674**
Accumulated amortization								
As of 12/31/2014	**26,449**	**16,015**	**1,150**	**540**	**1,531**	**12,737**	**58,422**	**29,337**
Additions	3,054	1,948	515	100	175	2,400	**8,192**	–
Disposals	–	208	–	–	–	151	**359**	–
Foreign currency translation	1,077	330	–	8	–	–76	**1,339**	**929**
As of 12/31/2015	**30,580**	**18,085**	**1,665**	**648**	**1,706**	**14,910**	**67,594**	**30,266**
Additions from initial consolidation	–	–	–	–	–	405	**405**	–
Additions	3,087	894	734	136	174	2,674	**7,699**	–
Disposals	–	–	–	–	–	23	**23**	–
Foreign currency translation	484	133	25	–4	–	268	**906**	**349**
As of 12/31/2016	**34,151**	**19,112**	**2,424**	**780**	**1,880**	**18,234**	**76,581**	**30,615**
Carrying amount 12/31/2015	**80,644**	**3,905**	**9,722**	**33,466**	**1,789**	**15,846**	**145,372**	**52,985**
Carrying amount 12/31/2016	**79,611**	**3,097**	**12,757**	**34,919**	**1,615**	**17,521**	**149,520**	**56,059**

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

kEUR	2016		2015	
	Netbook value	Remaining useful life in years	Netbook value	Remaining useful life in years
Customer relationship "OEM"	28,387	30	29,358	31
Customer relationship "5th-Wheel"	12,192	22	12,752	23
SAP-Application	10,710	6.5	12,067	7.5

Impairment testing of goodwill and intangible assets with indefinite useful lives

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

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

A discounted cash flow method was used to calculate the recoverable amount. A detailed five-year plan based on past experience, current operating earnings, management's best estimate of future development and market assumptions served as the basis for calculating cash flows. The value contribution as of 2021 is supplemented by the perpetual annuity. The basis for the calculation of the perpetual annuity is the assumed long-term sustainably achievable result given the market environment's cyclical nature.

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

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

%	Discount factor before taxes
	2016
Americas	12.46
EMEAI	9.18
APAC/China	15.52

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

kEUR	Americas		EMEAI		APAC/China		Total	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Goodwill	26,444	23,369	23,442	23,442	6,173	6,174	56,059	52,985
Brand	14,187	12,613	20,617	20,618	115	235	34,919	33,466

Besides the brands "SAF" and "Holland" the group owns several other brands that are amortized over the intended useful life in accordance with the brand stategy followed.

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

6.2 PROPERTY, PLANT AND EQUIPMENT

kEUR	Land and buildings	Plant and equipment	Other equipment, office furniture and equipment	Advance payments and construction in progress	Total
Historical costs					
As of 12/31/2014	**73,089**	**118,885**	**21,165**	**7,873**	**221,012**
Additions	5,322	5,615	1,402	9,827	**22,166**
Disposals	4,748	4,286	989	25	**10,048**
Transfers	3,548	10,604	311	–14,389	**74**
Foreign currency translation	2,659	6,460	362	346	**9,827**
As of 12/31/2015	**79,870**	**137,278**	**22,251**	**3,632**	**243,031**
Additions from initial consolidation	7,716	10,091	153	–	**17,960**
Additions	848	5,419	2,513	10,531	**19,311**
Disposals	963	5,894	346	–	**7,203**
Transfers	894	4,389	1,164	–7,977	**–1,530**
Foreign currency translation	1,554	3,886	344	7	**5,791**
As of 12/31/2016	**89,919**	**155,169**	**26,079**	**6,193**	**277,360**
Accumulated depreciation					
As of 12/31/2014	**18,482**	**71,065**	**14,494**	**–**	**104,041**
Additions	2,733	8,527	2,289	–	**13,549**
Disposals	2,259	3,982	978	–	**7,219**
Foreign currency translation	806	3,829	275	–	**4,910**
As of 12/31/2015	**19,762**	**79,439**	**16,080**	**–**	**115,281**
Additions from initial consolidation	981	4,391	–	–	**5,372**
Additions	2,891	9,727	2,292	–	**14,910**
Disposals	925	5,096	318	–	**6,339**
Transfers	481	–11	5	–	**475**
Foreign currency translation	535	2,557	306	–	**3,398**
As of 12/31/2016	**23,725**	**91,007**	**18,365**	**–**	**133,097**
Carrying amount 12/31/2015	**60,108**	**57,839**	**6,171**	**3,632**	**127,750**
Carrying amount 12/31/2016	**66,194**	**64,162**	**7,714**	**6,193**	**144,263**

The carrying amount of technical and operating and office equipment held under finance leases as of December 31, 2016 is kEUR 2,754 (previous year: kEUR 2,789). There were no additions to technical equipment held under finance leases in the reporting year (previous year: kEUR 22). Depreciation during the financial year amounted to kEUR 117 (previous year: kEUR 131). The present value of minimum lease payments amounted to kEUR 1,587 (previous year: kEUR 1,974). Undiscounted minimum lease payments amounted to kEUR 1,605 (previous year: kEUR 2,153).

6.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The following investments were accounted for using the equity method:

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

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

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

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

kEUR	Castmetal FWI S.A.	
	12/31/2016	12/31/2015
Current assets	46,713	40,704
Non-current assets	9,261	9,707
Current liabilities	–10,292	–10,760
Non-current liabilities	–5,821	–2,536
Sales	34,022	42,193
Net profit of the financial year from continuing operations	6,169	7,455
Other comprehensive income	–11	22
Total comprehensive income	**6,158**	**7,477**
Group's share in total comprehensive income	2,099	2,549
Other equity holders	4,059	4,928

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

kEUR	12/31/2016	12/31/2015
Net assets of the associate	39,861	37,115
Equity interest of the Group	34.09 %	34.09 %
Other adjustments	744	453
Carrying amount of the investment in Castmetal FWI S.A.	14,333	13,106

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

A dividend of kEUR 943 was distributed by Castmetal FWI S.A. in 2016.

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

kEUR	12/31/2016	12/31/2015
Group's share in profit or loss	37	–285
Group's share in total comprehensive income	37	–285
Aggregate carrying amount of Group's share in this company	1,092	996

6.4 OTHER NON-CURRENT ASSETS

kEUR	12/31/2016	12/31/2015
Receivables from finance lease	886	1,000
VAT reimbursement claims	1,201	844
Claims from reinsurance	670	595
Defined benefit assets	68	279
Insurance premiums	96	129
Other	607	821
Total	**3,528**	**3,668**

6.5 INVENTORIES

kEUR	12/31/2016	12/31/2015
Raw materials	45,626	42,258
Work in progress	35,603	26,587
Finished and trading goods	40,819	41,657
Goods in transit	8,940	7,506
Total	**130,988**	**118,008**

Cost of sales includes allowances for inventories of kEUR 2,416 (previous year: kEUR 2,336). The inventory allowance is recorded in a separate allowance account and netted against the gross amount of inventory.

kEUR

	Allowance account
As of 12/31/2014	**5,859**
Charge for the year	2,412
Utilized	1,993
Released	76
Foreign currency translation	8
As of 12/31/2015	**6,210**
Charge for the year	2,416
Utilized	1,023
Released	–
Foreign currency translation	316
As of 12/31/2016	**7,919**

6.6 TRADE RECEIVABLES

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

kEUR

				Thereof not impaired on the reporting date and past due in the following periods					
	Carrying amount	Thereof neither impaired nor past due on the reporting date	Thereof impaired on the reporting date	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 120 days	Between 121 and 360 days	More than 360 days
Trade receivables as of 12/31/2016	116,666	71,871	3,624	20,432	7,392	3,022	2,067	4,438	3,820
Trade receivables as of 12/31/2015	116,535	76,568	411	10,599	12,595	4,942	2,124	8,279	1,017

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

kEUR

	Allowance account
As of 12/31/2014	**3,953**
Charge for the year	2,240
Utilized	1,865
Foreign currency translation	–125
As of 12/31/2015	**4,203**
Charge for the year	2,088
Utilized	1,106
Released	46
Foreign currency translation	102
As of 12/31/2016	**5,241**

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

The Group disposed of receivables with a volume of kEUR 26,359 as of the balance sheet date (previous year: kEUR 25,573) under a factoring agreement. Assuming the legal validity of the receivables, the factor bears the customer default risk for the purchased receivables.

6.7 OTHER CURRENT ASSETS

kEUR	12/31/2016	12/31/2015
VAT receivables	3,928	2,552
Prepaid expenses	1,636	1,712
Insurance premiums	313	430
Creditors with a debit balance	1,488	192
Deposit within the framework of factoring	1,409	330
Other	4,649	3,063
Total	**13,423**	**8,279**

6.8 OTHER SHORT-TERM INVESTMENTS

In previous year, other short-term investments resulted from the short-term deposit of liquid funds from the issue of the promissory note in November 2015. As of December 31, 2016, the Group had no short-term financial investments.

6.9 CASH AND CASH EQUIVALENTS

kEUR	12/31/2016	12/31/2015
Cash on hand, cash at banks and checks	344,154	145,742
Short-term deposits	414	6
Total	**344,568**	**145,748**

6.10 EQUITY

Subscribed share capital

The Company's subscribed share capital was unchanged compared to the prior year and amounted to EUR 453,611.12 as of the balance sheet date (previous year: EUR 453,611.12). Subscribed share capital is fully paid-in and consists of 45,361,112 (previous year: 45,361,112) ordinary shares with a nominal value of EUR 0.01 per share.

Authorized share capital

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

Articles of Association	Date of resolution/ expiration	Euro/ number of shares	Capital increase against	Subscription rights excluded/execution of capital increase
Article 5.3.4 ICW Article 5.3.6	June 4, 2012/valid until July 25, 2017	EUR 119,588.52 = 11,958,852 shares	Contribution in cash and/or in kind	–
Article 5.3.3 ICW Article 5.3.5	June 4, 2012/valid until December 22, 2020	EUR 45,361.11 = 4,536,111 shares	–	Capital increase can be executed under the exclusion of subscription rights
Article 5.4 ICW Article 5.4.2	July 15, 2014/valid until July 14, 2019	EUR 90,722.22 = 9,072,222 shares	To serve 2014 convertible bond	Capital increase is carried out when creditors of the convertible bond exercisetheir conversion rights

Share premium
As of December 31, 2016, the share premium was unchanged and amounted to kEUR 268,644 (previous year: kEUR 268,644).

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

Other reserves
Other reserves consist of a reserve that is subject to restrictions on distribution. This reserve ensures the Group adheres to specific requirements under Luxembourg tax law. A total of kEUR 284 was allocated to other reserves for tax purposes. As of December 31, 2016, other reserves totaled kEUR 720 (previous year: kEUR 436).

Retained earnings
Retained earnings include the result for the period attributable to shareholders of SAF-HOLLAND S.A. of kEUR 44,234 (previous year: kEUR 51,627).

A dividend of EUR 0.44 per share will be proposed for the 2016 financial year, corresponding to a total dividend distribution of kEUR 19,959 based on 45,361,112 shares. This amounts to a payout ratio of the available net earnings of 46.4 % and as such essentially achieved the targeted range. In this context, available net earnings are defined as the result for the period less unrealized foreign exchange gains on intercompany transactions, net of related income taxes. A dividend of EUR 0.40 per share was paid in the previous year, and the total dividend distribution amounted to kEUR 18,144.

Moreover, retained earnings were reduced by 17,089 TEUR due to the initial recognition of the put option in equity arising from the acquisition of KLL Equipamentos para Transporte Ltda. Subsequent changes in the value of the option are recognized through profit and loss.

Accumulated other comprehensive income

kEUR	Before tax amount		Tax (income)/expense		Net of tax amount	
	2016	2015	2016	2015	2016	2015
Revaluation defined benefit plan	1,303	2,937	–698	–341	605	2,596
Exchange differences on translation of foreign operations	5,277	–774	–	–	5,277	–774
Changes in fair values of derivatives designated as hedges, recognized in equity	–274	274	76	–76	–198	198
Total	**6,306**	**2,437**	**–622**	**–417**	**5,684**	**2,020**

The total amount of exchange differences on translation of foreign operations included in accumulated other comprehensive income is kEUR 3,966 (previous year: kEUR –1,311).

The total amount of changes in the fair value of derivatives designated as hedges after taxes included in accumulated other comprehensive income is kEUR 0 (previous year: kEUR 198).

The total amount after tax of the remeasurement of defined benefit plans included in accumulated other comprehensive income is kEUR –17,949 (previous year: kEUR –18,554).

The Group's target liquidity is an amount of cash and cash equivalents of EUR 7 million. The equity ratio adjusted for excess liquidity amounts to 45.1 % (previous year: 45.3 %).

6.11 PENSIONS AND OTHER SIMILAR OBLIGATIONS

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

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

Future pension payments for the plan of SAF-HOLLAND Verkehrstechnik GmbH depend on the length of service and the individual's income. In February 2011, the Company restructured its existing pension plans by amending the underlying supplemental agreements. The form was changed from a direct pension commitment to an indirect pension commitment by establishing a reinsured employee benefit fund. The conversion did not alter the benefits granted to employees. The pension plan remains a defined benefit obligation as defined by IAS 19 recorded under provisions for pensions and other similar obligations. Pension commitments of the employee benefit fund are covered by a group insurance contract. As these reinsurance claims do not constitute plan assets because the employees' claims are not protected against insolvency, the amount of the asset value of the pension liability insurance of kEUR 670 (previous year: kEUR 595) is recognized under other non-current assets in accordance with IAS 19.

The development of the asset value of the pension liability insurance is as follows:

kEUR	2016
Claims arising from the pension liability insurance at the beginning of the period	**595**
Allocation to pension liability insurance	83
Insurance compensation	–11
Interest income	3
Claims arising from the pension liability insurance at the end of the period	**670**

There are no legal or regulatory minimum investment commitments in Germany.

SAF-HOLLAND, Inc. sponsors three pension plans, which have been closed to new participants. The benefits paid in the context of the defined benefit plans depend on the length of the service or, in some cases, the individual income of the participants. The management of the plan assets has been assigned to Investment committee. The trustees of the plans are responsible for the administration of the assets of the trusts, taking direction from the Investment Committee. The plans are subject to the funding requirements under the Employee Retirement Income Security Act of 1974 as amended (ERISA). There is a regulatory requirement to maintain a minimum funding level of 80% in the defined benefit plans in order to avoid benefit restrictions.

SAF-Holland Canada Limited sponsors three Pension Plans, of which only one plan is open to new participants. The other plans are in the process of liquidation, with the approval of the regulatory authorities still pending. In accordance with the legal framework of the Ontario Pension Benefits Act (OPBA) and the Canadian Revenue Agency (CRA), there is a minimum funding requirement for pension plans which are not fully financed and will not be financed in the foreseeable future.

The development of the defined benefit plans as of December 31 is shown in the following table:

kEUR	Defined benefit obligation (DBO) (I)		Fair value of plan assets (II)		Effects of asset ceiling (III)		Net defined benefit balance (I – II + III)	
	2016	2015	2016	2015	2016	2015	2016	2015
Balance as of the beginning of the period	**103,606**	**100,896**	**66,694**	**63,782**	**145**	**182**	**37,057**	**37,296**
Current service cost	1,076	1,079	–	–	–	–	**1,076**	**1,079**
Past service cost	279	–	–	–	–	–	**279**	–
Interest expenses	3,858	3,684	–	–	6	7	**3,864**	**3,691**
Interest income	–	–	2,648	2,588	–	–	**–2,648**	**–2,588**
Components of defined benefit costs recognized in the Consolidated Statements of income	**5,213**	**4,763**	**2,648**	**2,588**	**6**	**7**	**2,571**	**2,182**
Actuarial gains/losses	581	–4,617	1,722	–1,680	–	–	**–1,141**	**–2,937**
Effects of asset ceilling	–	–	–	–	–162	–31	**–162**	**–31**
Remeasurements recognized in the Consolidated Statements of Comprehensive Income	**581**	**–4,617**	**1,722**	**–1,680**	**–162**	**–31**	**–1,303**	**–2,968**
Employer Contributions	–	–	489	1,412	–	–	**–489**	**–1,412**
Benefits paid	–4,600	–4,519	–4,203	–3,804	–	–	**–397**	**–715**
Foreign currency translation effects	3,647	7,083	2,772	4,396	11	–12	**886**	**2,675**
Other reconciling items	**–953**	**2,564**	**–942**	**2,004**	**11**	**–12**	**–**	**548**
Balance as of the end of the period	**108,447**	**103,606**	**70,122**	**66,694**	**–**	**145**	**38,325**	**37,057**
thereof:								
Germany	14,827	13,971	11	10	–	–	**14,816**	**13,961**
USA	66,464	64,417	53,012	51,317	–	–	**13,452**	**13,100**
Canada	17,031	14,943	17,099	15,367	–	145	**–68**	**–279**
Post-employment medical	10,125	10,275	–	–	–	–	**10,125**	**10,275**
Actual return on plan assets	**–**	**–**	**4,371**	**907**	**–**	**–**	**–**	**–**

The net balance from defined benefit plans in the amount of kEUR 38,325 (previous year: kEUR 37,057) consists of a net liability of kEUR 38,393 (previous year: kEUR 37,336) and net plan assets of kEUR 68 (previous year: kEUR 279). The net interest expense was kEUR 1,216 (previous year: kEUR 1,093).

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

	2016		2015	
	%	kEUR	%	kEUR
Equities	57.29	40,173	59.25	39,517
Bonds	30.35	21,284	28.00	18,672
Cash and money market	6.69	4,689	7.75	5,171
Real estate	2.61	1,830	4.75	3,169
Insurance	3.06	2,146	0.25	165
Total	**100.00**	**70,122**	**100.00**	**66,694**

Investments for the pension fund are managed through a diversified portfolio of highly liquid Institutional mutual funds, as regulated under the Investment Advisors Act of 1940. The portfolio is invested across various asset classes to include, but not limited to, US and Global Equities, US and Global Fixed Income and Real Estate.

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

kEUR	12/31/2016	12/31/2015
Defined benefit obligation	**108,447**	**103,606**
Fair value of plan assets	–70,122	–66,694
Benefit liabilities	**38,325**	**36,912**
Experience losses (+)/gains (–) related to defined benefit obligation	–1,034	60
Experience losses (+)/gains (–) related to plan assets	–1,723	1,680
Actuarial losses (+)/gains (–) due to changes in demographic assumptions	–1,382	–1,605
Actuarial losses (+)/gains (–) due to changes in financial assumptions	2,836	–3,072

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

%	German plan		US plan		Canadian plan		Post employment medical	
	2016	2015	2016	2015	2016	2015	2016	2015
Discount rate	1.90	2.20	3.94	4.13	3.85	4.00	3.76	3.92
Future salary increases	0.00/2,00[1]	0.00/2,00[1]	3.50	3.50	–[3]	–[3]	n/a	n/a
Future pension increases	2.00	2.00	–[2]	–[2]	–[3]	–[3]	n/a	n/a
Turnover rates	4.60	4.60	2.88	2.88	–	–	Sarason T5	Sarason T5

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

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

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

The mortality tables applied:

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

Healthcare cost inflation:

%	2016	2015
Initial rate (health care cost trend rate assumed for next year)	7.00	7.25
Ultimate rate (health care cost trend rate assumed to reduce cost)	5.00	5.00
Year of ultimate	2024	2024

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

kEUR	2016		2015	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate current service cost and interest expenses	94	–80	91	–77
Effect on the defined benefit obligation	950	–829	987	–860

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

kEUR				2016
	Germany	USA	Canada	Total
Increase of Discount Rate +0.75 percentage point	−1,756	−5,396	−2,006	**−9,157**
Reduction of Discount Rate −0.75 percentage point	2,160	6,267	2,260	**10,687**

kEUR				2015
	Germany	USA	Canada	Total
Increase of Discount Rate +0.75 %	−1,675	−5,316	−1,874	**−8,865**
Reduction of Discount Rate −0.75 %	2,059	6,170	1,874	**10,103**

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

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

kEUR					2015
	2016	2017–2020	2021–2025	2026 ff.	Total
Germany	453	1,864	2,204	16,179	**20,700**
USA	4,151	17,328	22,954	85,612	**130,045**
Canada	408	2,258	4,244	32,381	**39,291**
Total	**5,012**	**21,450**	**29,402**	**134,172**	**190,036**

The weighted average duration of pension plans is described below:

	Germany	USA	Canada
Weighted average duration as at 12/31/2016	18	12	17
Weighted average duration as at 12/31/2015	18	12	17

The employer contributions to defined benefit plans expected for the 2017 financial year amount to kEUR 673.

6.12 OTHER PROVISIONS

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

kEUR	Product warranty	Partial retirement	Environmental issues	Workers' compensation and health insurance benefits	Restructuring	Share based payment transactions	Other	Total
As of 01/01/2016	**5,295**	**596**	**586**	**1,714**	**773**	**4,270**	**2,010**	**15,244**
Additions	7,070	93	–	140	252	1,494	937	**9,581**
Utilized	4,470	–	39	1	679	854	1,747	**7,385**
Release	53	135	337	–	139	–	323	**987**
Interest effect from measurement	7	–	–	–	–	31	–	**38**
Foreign currency translation	107	–	7	68	18	75	24	**299**
As of 12/31/2016	**7,956**	**554**	**217**	**1,921**	**225**	**5,016**	**901**	**16,790**
Thereof in 2016								
Current	5,442	323	39	497	225	2,639	753	**9,918**
Non-current	2,514	231	178	1,424	–	2,377	148	**6,872**
Thereof in 2015								
Current	2,978	297	160	458	773	854	1,682	**7,202**
Non-current	2,317	299	426	1,256	–	3,416	328	**8,042**

Guarantees and warranties

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

Part-time retirement

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

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

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

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

Share-based payments

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

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

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

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

Payment under the Performance Share Unit Plan is limited to 200 % of the participant's gross annual salary at the time of payment.

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

The total of Share Units granted as of the balance sheet date amounts to 610,916 and consists of the following:

kEUR	Performance Share Unit Plan				
	2013–2016	2014–2015	2014–2017	2015–2018	2016–2019
Share Units outstanding at the beginning of the period	284,463	73,478	142,966	136,479	–
Share Units granted during the period	–	–	20,623	30,380	151,862
Share Units forfeited during the period	55,296	–	32,151	37,797	30,613
Share Units exercised during the period	–	73,478	–	–	–
Share Units expired during the period	–	–	–	–	–
Share Units outstanding at the end of the period	**229,167**	**–**	**131,438**	**129,062**	**121,249**
Share Units exercisable at the end of the period	–	–	–	–	–

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

	Performance Share Unit Plan			
	2013–2016	2014–2017	2015–2018	2016–2019
Expected remaining contractual life (years)	0.00	1.00	2.00	3.00
Average share price on measurement date (EUR)	13.64	13.64	13.64	13.64
Expected volatility	n/a	34.17 %	33.97 %	31.78 %
Risk free interest rate	–0.85 %	–0.86 %	–0.80 %	–0.72 %
Dividend return	3.00 %	3.00 %	3.00 %	3.00 %

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

The fair value is expensed over the contract term with recognition of a corresponding liability. As of December 31, 2016, provisions for these performance plans amounted to EUR 5.0 million (previous year: EUR 4.3 million). Expenses for the period in the amount of EUR 1.5 million (previous year: EUR 2.2 million) have been allocated to the relevant functional areas in the consolidated statement of comprehensive income.

6.13 INTEREST-BEARING LOANS AND BONDS

kEUR	Non-current		Current		Total	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Interest bearing bank loans	10,639	9,305	–	–	**10,639**	**9,305**
Convertible bond	97,743	97,069	–	–	**97,743**	**97,069**
Bond	75,000	75,000	–	–	**75,000**	**75,000**
Promissory note loan	200,000	200,000	–	–	**200,000**	**200,000**
Financing costs	–1,668	–2,249	–722	–540	**–2,390**	**–2,789**
Accrued interests	–	–	4,217	4,209	**4,217**	**4,209**
Other loans	53,885	151	2,572	248	**56,457**	**399**
Total	**435,599**	**379,276**	**6,067**	**3,917**	**441,666**	**383,193**

Under the agreement dated June 13, 2016, loans were assumed with a volume of EUR 50 million. The loans have a 10-year maturity and a coupon of 2.75 %.

In the prior year, a new agreement was signed with a smaller consortium of banks, which replaced the previous financing arrangement and ensures the supply of long-term financing at more favorable interest rates for the Group until October 2022. The arranged credit agreement consists of a multi-currency revolving credit line of about EUR 150 million, which is subdivided into EUR 120 million and USD 35 million. In addition, a promissory note was issued in the prior year with a volume of EUR 200 million. This promissory note is divided into six tranches with each tranche having a maturity of either 5, 7, or 10 years.

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

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

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

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

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

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

6.14 TRADE PAYABLES

Trade payables in the amount of kEUR 106,714 (previous year: kEUR 89,940) are non-interest-bearing and are normally settled within two to six months.

6.15 OTHER FINANCIAL LIABILITIES

Other financial liabilities in the amount of kEUR 18,238 reflect mainly the value of the put option for the outstanding shares of KLL Equipamentos para Transporte Ltda.

6.16 OTHER LIABILITIES

kEUR	Current		Non-current	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Liabilities for salaries and social security contributions	12,368	12,165	–	–
Other taxes	4,655	4,891	–	–
Anniversary obligations	277	206	573	613
Other	5,465	5,575	42	225
Total	**22,765**	**22,837**	**615**	**838**

7. OTHER DISCLOSURES

7.1 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

kEUR							12/31/2016
			Amounts recognized in balance sheet according to IAS 39				
	Category in accordance with IAS 39	Carrying amount	(Amortized) cost	Fair value recognized in equity	Fair value recognized in profit or loss	Amounts recognized in balance sheet according to IAS 17	Fair value
Assets							
Cash and cash equivalents	LaR	344,568	344,568	–	–	–	344,568
Trade receivables	LaR	116,666	116,666	–	–	–	116,666
Other financial assets							
Derivates without a hedging relationship	FAHfT	368	–	–	368	–	368
Other financial assets	LaR	1,850	1,850	–	–	–	1,850
Liabilities							
Trade payables	FLAC	106,714	106,714	–	–	–	106,714
Interest bearing loans and bonds	FLAC	441,666	441,666	–	–	–	475,336
Finance lease liabilities	n/a	1,587	–	–	–	1,587	1,587
Other financial liabilities							
Other financial liabilities	FLAC	18,238	18,238	–	–	–	18,238
Derivates without a hedging relationship	FLHfT	972	–	–	972	–	972
Of which aggregated by category in accordance with IAS 39							
Loans and receivables	LaR	463,084	463,084	–	–	–	463,084
Financial liabilities measured at amortized cost	FLAC	566,618	566,618	–	–	–	600,288
Financial assets held for trading	FAHfT	368	–	–	368	–	368
Financial liabilities held for trading	FLHfT	972	–	–	972	–	972

kEUR

							12/31/2015
			Amounts recognized in balance sheet according to IAS 39				
	Category in accordance with IAS 39	Carrying amount	(Amortized) cost	Fair value recognized in equity	Fair value recognized in profit or loss	Amounts recognized in balance sheet according to IAS 17	Fair value
Assets							
Cash and cash equivalents	LaR	145,748	145,748	–	–	–	145,748
Trade receivables	LaR	116,535	116,535	–	–	–	116,535
Other financial assets							
Derivates without a hedging relationship	FAHfT	839	–	–	839	–	839
Derivates with a hedging relationship	FAHfT	274	–	274	–	–	274
Other financial assets	LaR	3,334	3,334	–	–	–	3,334
Other short-term investments	LaR	115,000	115,000	–	–	–	115,000
Liabilities							
Trade payables	FLAC	89,940	89,940	–	–	–	89,940
Interest bearing loans and bonds	FLAC	383,193	383,193	–	–	–	413,304
Finance lease liabilities	n/a	1,974	–	–	–	1,974	1,974
Other financial liabilities							
Derivates without a hedging relationship	FLHft	885	–	–	885	–	885
Of which aggregated by category in accordance with IAS 39							
Loans and receivables	LaR	380,617	380,617	–	–	–	380,617
Financial liabilities measured at amortized cost	FLAC	473,133	473,133	–	–	–	503,244
Financial assets held for trading	FAHfT	1,113	–	274	839	–	1,113
Financial liabilities held for trading	FLHfT	885	–	–	885	–	885

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

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

kEUR	12/31/2015			
	Level 1	Level 2	Level 3	Total
Bonds	200,707	–	–	**200,707**
Promissory note loan	–	198,970	–	**198,970**
Interest bearing loans and borrowings	–	13,627	–	**13,627**
Derivative financial assets	–	1,113	–	**1,113**
Derivative financial liabilities	–	885	–	**885**

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

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

The fair value of other financial assets and liabilities is calculated based on interest rates with matching maturities. In the balance sheet of December 31, 2016, only derivatives of kEUR –604 (previous year: kEUR 228) as well as other financial liabilities resulting from the valuation of the put option for the remaining 42.5 % of the shares in KLL Equipamentos para Transporte Ltda. of kEUR 18,238 were measured at fair value.

The fair value of the other financial liability resulting from the valuation of the put option for the acquisition of the remaining shares of KLL Equipamentos para Transporte Ltda. is based on the projection of certain earnings figures. As the information is not based on oberservable market data, the put option is allocated to Level 3.

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

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

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

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

The net result by valuation category is as follows:

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

kEUR						12/31/2015
			From subsequent measurement			
	From interest	From remuneration	At fair value	Currency translation	Impairment	Net result
Loans and receivables	15	–		–	–2,240	**–2,225**
Financial assets held for trading	–	–	655	–	–	**655**
Financial liabilities measured at amortized cost	–9,541	–468	–	7,520	–	**–2,489**
Financial liabilities held for trading	–	–	–238	–	–	**–238**
Total	**–9,526**	**–468**	**417**	**7,520**	**–2,240**	**–4,297**

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

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

Financial risk

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

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

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

Liquidity risk

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

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

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

kEUR	12/31/2015			
	Total	Remaining term of up to 1 year	Remaining term of more than 1 year and up to 5 years	Remaining term of more than 5 years
Interest bearing loans and bonds	**383,193**	3,917	319,776	59,500
Finance lease liabilities	**1,974**	465	1,509	–
Trade payables	**89,940**	89,940	–	–
Other financial liabilities				
Derivates without a hedging relationship	**885**	885	–	–
Financial liabilities	**475,992**	**95,207**	**321,285**	**59,500**

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

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

kEUR	12/31/2015								
	Cash Flows 2016			Cash Flows 2017			Cash Flows 2018–2025		
	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
Interest bearing loans and bonds	–6,992	–2,513	–248	–6,842	–2,513	–151	–9,528	–14,533	–309,355
Finance lease liabilities	–90	–	–465	–63	–	–431	–26	–	–1,078
Other financial liabilities									
Derivates without a hedging relationship	–885	–	–	–	–	–	–	–	–

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

Credit risk

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

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

Interest rate risk

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

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

As a result of the promissory note issued in November 2015, interest rate hedges were put in placed with a nominal volume of EUR 72.0 million. In line with the Group's risk strategy, the variable interest bearing tranches of the promissory note are hedged.

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

If market interest rates on December 31, 2016 had been 100 base points lower (higher), the result would have been kEUR 401 (previous year: kEUR 388) higher (lower). All other variables are assumed to be constant.

Foreign currency risk

The international nature of the Group's investing, financing and operating activities exposes the Group to foreign currency risk. The individual subsidiaries predominantly conduct their operating activities and investments in their respective local currency. Financing the Group's companies is conducted primarily by SAF-HOLLAND S.A. and SAF-HOLLAND GmbH. Loans granted to international Group companies are generally denominated in euros. The translation of intercompany loans as of the reporting date may result in unrealized foreign exchange gains and losses. Unrealized foreign exchange gains as of the balance sheet date amounted to kEUR 1,571. Of this amount, kEUR 992 was reclassified to other comprehensive income (OCI) as translation effects from the valuation of intercompany foreign currency loans, which are accounted for as part of a net investment in a foreign operation and are therefore recognized directly in equity.

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

	Change in exchange rate USD/EUR	Effect on earnings before taxes	Effect on equity after taxes
2016	5%	2,840	3,488
	–5%	–2,840	–3,488
2015	5%	2,545	2,746
	–5%	–2,545	–2,746

7.2 EARNINGS PER SHARE

		2016	2015
Result for the period	kEUR	**44,234**	**51,627**
Weighted average number of shares outstanding	thousands	45,361	45,361
Basic earnings per share	EUR	**0.98**	**1.14**
Diluted earnings per share	EUR	**0.85**	**0.99**

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

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

The issue of the convertible bond resulted in a dilutive effect of EUR 0.13 (previous year: EUR 0.15) per share.

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

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

kEUR	Overall potentially dilutive financial instruments 2015	Dilutive financial instruments used for the calculation 2015
Result for the period		
Numerator for basic earnings per share (attributable to the shareholders of the parent company)	51,627	51,627
Increase in profit equivalent to effect of convertible bond recognised in profit and loss	1,190	1,190
Numerator for diluted earnings	**52,817**	**52,817**
Number of shares		
Denominator for basic earnings per share (weighted average number of shares)	45,361	45,361
Convertible bond	8,108	8,108
Denominator for potentially diluted earnings per share	**53,469**	
thereof to be included for dilution (adjusted weighted average)		**53,469**
Basic earnings per share (EUR)		**1.14**
Diluted earnings per share (EUR)		**0.99**

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

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

	Par value (EUR)	Number	Days	Weighted number
01/01/2015–03/23/2015	0.01	8,099,849	83	672,287,467
03/24/2015–12/31/2015	0.01	8,110,892	277	2,246,717,084
Total			**360**	**2,919,004,551**
Average		**8,108,346**		

7.3 STATEMENT OF CASH FLOWS

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

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

7.4 OTHER FINANCIAL OBLIGATIONS

Operating lease obligations

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

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

kEUR	12/31/2016	12/31/2015
Remaining term of up to 1 year	4,175	4,747
Remaining term of more than 1 year and up to 5 years	7,989	11,028
Remaining term of more than 5 years	2,907	6,347
Total	**15,071**	**22,122**
Operate lease payments for the reporting period	8,315	8,415

Finance lease obligations

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

kEUR	12/31/2016		12/31/2015	
	Lease payments	Present value including residual value and initial payments	Lease payments	Present value including residual value and initial payments
Remaining term of up to 1 year	1,605	1,587	555	465
Remaining term of more than 1 year and up to 5 years	–	–	1,598	1,509
Remaining term of more than 5 years	–	–	–	–
Total	**1,605**	**1,587**	**2,153**	**1,974**

7.5 CONTINGENT LIABILITIES

Legal disputes

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

7.6 RELATED PARTY DISCLOSURES

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

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

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

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

Management Board

Detlef Borghardt	Chief Executive Officer (CEO) & President Region APAC/China
Wilfried Trepels	Chief Financial Officer (CFO) (until December 31, 2016)
Mike Kamsickas	Chief Operating Officer (COO) (until May 03, 2016)
Arne Jörn	Chief Operating Officer (COO) (since October 17, 2016)
Steffen Schewerda	President Region Americas
Alexander Geis	President Region EMEA/India
Mao Guoxin	President Region China (since August 9, 2016)

Board of Directors

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
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

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

As of December 31, 2016, members of the Management Board directly or indirectly held ordinary shares amounting to kEUR 5 (previous year: kEUR 6) while members of the Board of Directors directly or indirectly held ordinary shares of kEUR 1 (previous year: kEUR 1).

As of the balance sheet date, appreciation rights in the amount of kEUR 2,827 have been accrued for members of the Management Board (previous year: kEUR 2,944); thereof kEUR 772 were recognized in profit and loss in 2016 (previous year: kEUR 1,482). Of the total accrual, an amount of kEUR 1,493 is classified as current provisions. The appreciation rights are a share-based payment. For further information, please refer to Note 6.12.

Total short-term remuneration for the Management Board members in the reporting year amounted to kEUR 2,944 (previous year: kEUR 2,561). These include severance and compensation payments to members of the management board, who have left the company during the financial year, of kEUR 298. Remuneration from the Performance Share Unit Plan are not included in the total remuneration.

Total remuneration for the Board of Directors was kEUR 280 (previous year: kEUR 312) and was recognized in profit and loss.

The following are transactions with joint ventures and associates:

kEUR	Sales to related party		Purchases from related party	
	2016	2015	2016	2015
Joint Ventures	1,389	1,376	–	–
Associates	–	–	27,135	37,767
Total	**1,389**	**1,376**	**27,135**	**37,767**

kEUR	Amounts owed by related party		Amounts owed to related party	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Joint Ventures	237	300	207	207
Associates	–	–	1,303	953
Total	**237**	**300**	**1,510**	**1,160**

Outstanding balances as of December 31, 2016 are unsecured, interest-free and paid on time. There have been no guarantees provided or received for any receivables or payables from related parties. As of December 31, 2016 and in the previous year, the Group did not record any impairment of receivables for amounts owed by related parties. An evaluation is carried out in each reporting period which examines the financial position of the related parties as well as the markets in which these parties operate.

7.7 CAPITAL MANAGEMENT

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

kEUR	12/31/2016	12/31/2015
Interest bearing loans and bonds	441,666	383,193
Other short-term investments	–	–115,000
Cash and cash equivalents	–344,568	–145,748
Net debt	**97,098**	**122,445**
Equity attributable to equity holders of the parent	**300,399**	**285,818**
Equity and net debt	**397,497**	**408,263**

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

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

7.8 AUDITORS' FEES

The following expenses were incurred in the 2016 financial year for services provided by the auditors and their related companies:

kEUR	2016	2015
Auditing of financial statements	491	563
Tax accountancy services	–	187
Other services	11	24
Total	**502**	**774**

7.9 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 USD 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 USD 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 USD 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.

Luxembourg, March 14, 2017

Bernhard Schneider
Chairman of the
Board of Directors

Detlef Borghardt
Chief Executive Officer of
SAF-HOLLAND GmbH

SAF-HOLLAND S.A. ANNUAL FINANCIAL STATEMENTS

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

kEUR	2016	2015
Income from financial fixed assets	29,278	26,888
Income from financial current assets	741	738
Total income	**30,019**	**27,626**
Other external charges	–2,959	–1,813
Staff costs	–36	–32
Other operating charges	–656	–568
Interest and other financial charges	–6,254	–6,253
Other taxes	–148	–183
Result before tax	**19,966**	**18,777**
Income tax	–7	–77
Result for the period	**19,959**	**18,700**

[1] Figures according to Luxembourg GAAP.

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

kEUR	12/31/2016	12/31/2015
Assets		
Non-current assets	**452,766**	**447,498**
Shares in affiliated undertakings	313,238	265,638
Amounts owed by affiliated undertakings	139,525	181,857
Other long-term assets	3	3
Current assets	**35,820**	**39,111**
Amounts owed by affiliated undertakings	34,480	36,863
Cash at bank, cash in postal cheque account, cheques and cash on hand	202	546
Prepayments	**1,138**	**1,702**
Total assets	**488,586**	**486,609**
Equity and liabilities		
Equity attributable to equity holders of the parent	**308,334**	**306,520**
Subscribed share capital	454	454
Share premium	276,455	276,455
Legal reserve	45	45
Other reserve	720	436
Profit brought forward	10,701	10,429
Profit for the financial year	19,959	18,701
Non-current liabilities	**175,200**	**175,200**
Bonds	175,200	175,200
Current liabilities	**5,052**	**4,889**
Bonds	3,903	3,901
Trade payables	180	213
Tax and social security debts	689	463
Other creditors	280	312
Total equity and liabilities	**488,586**	**486,609**

[1] Figures according to Luxembourg GAAP.

MANDATES OF THE BOARD OF DIRECTORS/ MANAGEMENT BOARDS

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

Martina Merz
- Member of the Board of Directors (Deputy Chairman), SAF-HOLLAND S.A. (First appointed on April 24, 2014 until April 2019, Deputy Chairman since April 29, 2016)
- Member of the Board of Directors, Deutsche Lufthansa AG
- Member of the Board of Directors, NV Bekaert SA
- Member of the Board of Directors, Volvo Group

Detlef Borghardt
- Member of the Board of Directors, SAF-HOLLAND S.A. (First appointed on October 1, 2011; extended until April 2017)
- Managing Director, SAF-HOLLAND GmbH, Chief Executive Officer (CEO), President Region APAC/China
- Managing Director, debo invest GmbH

Jack Gisinger
- Associated Member of the Board of Directors, SAF-HOLLAND S.A. (Proposed to be appointed as member of the Board of Directors at the Annual General Meeting on April 27, 2017)

Dr Martin Kleinschmitt
- Member of the Board of Directors, SAF-HOLLAND S.A. (First appointed on April 25, 2013; extended until April 2019)
- Chairman of the Supervisory Board, SAF-HOLLAND GmbH, Interim Chief Financial Officer (CFO) (since January 1, 2017 till February 28, 2017)
- Member of the Management Board, Noerr Consulting AG

Anja Kleyboldt
- Member of the Board of Directors, SAF-HOLLAND S.A. (First appointed on April 26, 2012; extended until April 2019)
- Head of Object/Project, Arnold AG Friedrichsdorf

Sam Martin
- Member of the Board of Directors, SAF-HOLLAND S.A. (First appointed on April 28, 2011; extended until April 2017)
- Member of the Board, Metal Flow Corporation

Wilfried Trepels
- Managing Director, SAF-HOLLAND GmbH, Chief Financial Officer (CFO) (until December 31, 2016)
- Managing Director Via Montana GmbH

Arne Jörn
- Managing Director, SAF-HOLLAND GmbH, Chief Operating Officer (since October 2016)

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

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

Guoxin Mao
- President Region China (since August 2016)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
SAF-HOLLAND S.A.
Société Anonyme
68–20, Boulevard de la Petrusse
L-2320 Luxembourg

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Following our appointment by the General Meeting of the Shareholders dated 28 April 2016, we have audited the accompanying consolidated financial statements of SAF-HOLLAND S.A., which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated cash-flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé" including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of SAF-HOLLAND S.A. as of 31 December 2016, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report, including the corporate governance statement, but does not include the consolidated financial statements and our audit report thereon.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The consolidated management report, including the corporate governance statement, is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

Luxembourg, March 14, 2017
PricewaterhouseCoopers, Société coopérative
Represented by

Patrick Schon

RESPONSIBILITY STATEMENT

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

Luxembourg, March 14, 2017
SAF-HOLLAND S.A.

Bernhard Schneider
Chairman of the Board of Directors