2020 Half-Year Financial Report

SAF-HOLLAND

KEY FIGURES

Results of operations

in EUR thousands

	Q1–Q2/2020	Q1–Q2/2019
Sales	476,253	695,466
Adjusted gross profit	84,227	123,612
Adjusted gross profit margin in %	17.7	17.8
Adjusted EBITDA	41,795	66,110
Adjusted EBITDA margin in %	8.8	9.5
Adjusted EBIT	23,655	49,943
Adjusted EBIT margin in %	5.0	7.2
Adjusted result for the period	12,681	33,030
Adjusted undiluted earnings per share in EUR	0.28	0.73
Diluted adjusted earnings per share in EUR	0.25	0.61

Net assets

in EUR thousands

	06/30/2020	12/31/2019
Balance sheet total	1,018,360	979,244
Equity	310,343	318,007
Equity ratio in %	30.5	32.5
Net working capital	176,100	183,763
Net working capital in % of sales (LTM)	16.5	14.3

Financial position

in EUR thousands

	Q1–Q2/2020	Q1–Q2/2019
Cash flow from operating activities	22,527	27,605
Cash flow from investing activities (property, plant and equipment/ intangible assets)	–11,353	–22,780
Operating free cash flow	11,174	4,825
Total free cash flow	–10,019	–7,600
Cash and cash equivalents	209,362	119,475
Net debt	278,851	282,762

Employees

	Q1–Q2/2020	Q1–Q2/2019
Employees at the reporting date	3,042	3,925
Employees (on average)	3,393	3,912

Yield

in %

	Q1–Q2/2020	Q1–Q2/2019
Return on capital employed (ROCE)	8.6	14.6

NOTE:

All figures shown are rounded, minor discrepancies may arise from additions of these amounts.

Net working capital ratio = Ratio of inventories and trade receivables less trade payables to sales of last twelve months. Net working capital ratio for Q1-Q2 2019 retrospectively adjusted according to the new definition.

Operating Free Cash Flow = Net cash flow from operating activities less net cash flow from investing activities (purchase of PP&E and intangible assets less proceeds from sales of PP&E). Operating free cash flow for Q1-Q2 2019 retrospectively adjusted according to the new definition.

ROCE = Adjusted EBIT / (total equity + financial liabilities (excl. refinancing costs, incl. lease liabilities) + pension and other similar benefits - cash and cash equivalents). ROCE for Q1-Q2 2019 retrospectively adjusted according to the new definition.

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KEY EVENTS IN THE FIRST SIX MONTHS OF THE YEAR 2020

NEW SEGMENTATION IN CORPORATE MANAGEMENT

The regions of APAC and China were combined into one region effective January 1, 2020 which was named APAC. Commencing January 1, 2020, the geographic segmentation of SAF-HOLLAND therefore consists of EMEA, the Americas and APAC.

ACQUISITION OF THE REMAINING SHARES IN V.ORLANDI S.P.A.

In January 2020, SAF-HOLLAND acquired the remaining 30 per cent of the shares in the coupling specialist, V.Orlandi S.p.A. for a purchase price of EUR 21.2 million. As a result, SAF-HOLLAND now holds all the shares, after already acquiring a stake of 70 per cent in the first quarter of 2018.

EXTRAORDINARY GENERAL MEETING APPROVES RESOLUTION TO CHANGE LEGAL FORM INTO A EUROPEAN COMPANY (SE)

The extraordinary general meeting of SAF-HOLLAND S.A. held on February 14, 2020 in Luxembourg, passed a resolution to convert the legal form into a European Company (Societas Europaea, SE) under the name of SAF-HOLLAND SE.

CONVERSION INTO A EUROPEAN COMPANY COMPLETED

SAF-HOLLAND S.A. completed its conversion into a European Company (Societas Europaea, SE) upon being entered into the Luxembourg business register on February 24, 2020 under the name of SAF-HOLLAND SE.

PROMISSORY NOTE LOAN SUCCESSFULLY PLACED - ORIGINAL TARGETED VOLUME OF AT LEAST EUR 100 MILLION OVERSUBSCRIBED MULTIPLE TIMES, STEPPED UP TO EUR 250 MILLION

On March 9, 2020 SAF-HOLLAND SE successfully placed a promissory note transaction with a volume of EUR 250 million via its subsidiary, SAF-HOLLAND GmbH. Because of the high demand and the resulting over-subscription, the final amount exceeded the target volume of EUR 100 million by EUR 150 million.

The tranches of the promissory note feature fixed as well as variable rates and maturities of three, three and a half, five, seven and ten years. All tranches were allocated at the lowest end of the respectively offered price range. The loan will be paid out to the company at the end of March and at the end of September 2020.

The proceeds will be used to finance the company generally and, in particular, to refinance the convertible bond that falls due on September 12, 2020 (volume: EUR 94.8million) and the 5-year tranches of the promissory note issued in November 2015 that falls due on November 27, 2020 (volume: EUR 52.0 million).

The issue will contribute to smoothing out the maturity profile and will widen the investor base of the SAF-HOLLAND Group.

SITE-SPECIFIC ADJUSTMENT OF PRODUCTION TAKING INTO ACCOUNT THE RESPECTIVE REQUIREMENTS

On March 30, 2020, SAF-HOLLAND announced that it is adjusting the production in its global production network site specific, taking into account the respective requirements. This affects the two German plants in Bessenbach and Singen as well as the production and assembly plants in Turkey, Italy, Brazil, India and South Africa as well as some sales companies. The measures range from introduction of partial short time work in Germany to temporary site closures - largely by official order. The duration and extent of the production cut-backs will be adjusted flexibly.

INKA KOLJONEN BECOMES THE NEW CHIEF FINANCIAL OFFICER (CFO) EFFECTIVE SEPTEMBER 1, 2020

On 5 May 2020, SAF-HOLLAND announced that Inka Koljonen would join SAF-HOLLAND Group as the Chief Financial Officer effective 1 September 2020 and be responsible for Finance, Accounting and Controlling, IT, Legal and Compliance, Internal Audit as well as Investor Relations and Corporate Communications.

Inka Koljonen succeeds Dr. Matthias Heiden at SAF-HOLLAND, who left the company on June 30, 2020.

During the transition period, CEO Alexander Geis will provisionally assume the CFO's responsibilities. He will be supported by the financial experts on the Supervisory Board, Ingrid Jägering and Dr. Martin Kleinschmitt.

EULER HERMES RATING CONFIRMS INVESTMENT GRADE RATING

On June 4, 2020 SAF-HOLLAND published the combined rating report from Euler Hermes Rating GmbH. The report confirms the investment grade rating.

In its rating, Euler Hermes Rating particularly emphasizes the sustainable growth prospects from the increasing global transport volumes and the Group's leading market positions in the markets for axle and suspension systems for trailers in the EMEA region and India as well as fifth wheels in the Americas region and the structurally-growing, less cyclical, high-margin spare parts business. It also positively assesses the high barriers to market entry.

At the same time, the assessment of the slightly increased market risk reflects the high dependency on the cyclical commercial vehicle sector and the intense competition, which currently is being exacerbated by the COVID-19 pandemic.

Euler Hermes Rating rates the financial risk of SAF-HOLLAND as low to moderate, with reference to its stable earnings power, high internal financing potential and solid financing base.

INDUSTRY ENVIRONMENT

SECTOR DEVELOPMENT: MUCH WEAKER TRUCK AND TRAILER MARKETS

Activity on the global commercial vehicle market dropped sharply in the first half of 2020 on account of the dimming prospects for the economy, which were massively accentuated by the global spread of the COVID-19 pandemic in the second quarter. As a consequence, far fewer units were manufactured in the regions of North and South America, Europe, China and India.

EUROPEAN TRUCK REGISTRATIONS BELOW THE LEVEL OF THE PREVIOUS YEAR

According to the European Automobile Manufacturers Association, ACEA, the number of new registrations for heavy-duty trucks (over 16 tons) in the European Union in the first half of 2020 is significantly down on the level of the previous year (–44 per cent).

Some of the high-volume markets recorded sharp falls with Germany contracting 41 per cent, France 41 per cent and Italy 34 per cent.

PRODUCTION ON THE NORTH AMERICAN TRUCK MARKET AT A LOW LEVEL

After a significant decline in the production of Class 8 trucks in the fourth quarter of 2019 (–20 per cent), production in the first six months of 2020 lay 50 per cent below the comparative figure of the previous year. After a cyclical downturn in the first quarter, the second quarter saw massive production cuts on account of the coronavirus.

FALLING PRODUCTION IN THE SOUTH AMERICAN TRUCK AND TRAILER MARKET

The South American market for trailers and heavy-duty trucks was not able to shield itself from the general market trend and also posted a decline in production of trailers (–15 per cent) and heavy-duty trucks (–20 per cent).

NEGATIVE TREND IN THE EUROPEAN TRAILER MARKET

In response to the coronavirus, numerous manufacturers of trailers temporarily shut down their production plants at the end of the first quarter of 2020 and only restarted production successively over the course of the second quarter. As a result, trailer production volume declined by 35 to 40 per cent over the reporting period.

TRAILER MARKET IN NORTH AMERICA CONTRACTS SHARPLY

In this region, production also fell by roughly 40 per cent in the first half year on account of the COVID-19 pandemic.

DECLINING DEMAND FOR TRAILERS IN CHINA

Trailer production declined by roughly 30 per cent in the first half of 2020, largely on account of the coronavirus. The premium segment, which is most relevant for the business development of SAF-HOLLAND (consisting of disc brake technology and air suspension systems in response to more stringent legal requirements), was unable to shield itself from the negative market trend and also recorded a significant drop in demand.

MASSIVE SLUMP IN PRODUCTION IN INDIA

The weak truck and trailer market seen in the previous year continued through into the first half of 2020 without change. As a result, approximately 45 per cent fewer trailers were manufactured from January to June 2020 than in the comparable period of the previous year and 45 per cent fewer trucks.

NET ASSETS, FINANCIAL POSITION AND FINANCIAL PERFORMANCE

kEUR	Q1–Q2/2020	Total Adjustments	Q1-Q2/2020 adjusted	in % of sales	Q1–Q2/2019	Total Adjustments	Q1-Q2/2019 adjusted	in % of sales
Sales	476,253	–	476,253	100.0%	695,466	–	695,466	100.0%
Cost of sales	–398,550	6,524	–392,026	–82.3%	–576,741	4,887	–571,854	–82.2%
Gross profit	**77,703**	**6,524**	**84,227**	**17.7%**	**118,725**	**4,887**	**123,612**	**17.8%**
Other income	803	–18	785	0.2%	715	–	715	0.1%
Selling expenses	–28,758	4,040	–24,718	–5.2%	–36,787	3,684	–33,103	–4.8%
Administrative expenses	–32,914	3,501	–29,413	–6.2%	–36,132	4,456	–31,676	–4.6%
Research and development costs	–8,157	177	–7,980	–1.7%	–10,728	172	–10,556	–1.5%
Operating profit	**8,677**	**14,224**	**22,901**	**4.8%**	**35,793**	**13,199**	**48,992**	**7.0%**
Share of net profit of investments accounted for using the equity method	754	–	754	0.2%	951	–	951	0.1%
EBIT	**9,431**	**14,224**	**23,655**	**5.0%**	**36,744**	**13,199**	**49,943**	**7.2%**
Finance income	1,403	–	1,403	0.3%	701	–	701	0.1%
Finance expenses	–7,516	–	–7,516	–1.6%	–5,826	–	–5,826	–0.8%
Finance result	**–6,113**	**–**	**–6,113**	**–1.3%**	**–5,125**	**–**	**–5,125**	**–0.7%**
Result before taxes	**3,318**	**14,224**	**17,542**	**3.7%**	**31,619**	**13,199**	**44,817**	**6.4%**
Income taxes	–1,640	–3,221	–4,861	–1.0%	–10,851	–936	–11,787	–1.7%
Income taxes in %	49.4%		27.7%		34.3%		26.3%	
Result for the period	**1,678**	**11,003**	**12,681**	**2.7%**	**20,768**	**12,263**	**33,030**	**4.7%**

EXTRAORDINARY ITEMS

SAF-HOLLAND eliminates certain income and expense items to facilitate its operational management (see the notes on Alternative Performance Measures on page 19). The adjusted earnings presented below correspond to the management perspective.

In the first half-year of 2020 net expenses totalling EUR 14.2 million (previous year: EUR 13.2 million) were eliminated from earnings before interest and taxes (EBIT). These consist of restructuring expenses of EUR 9.4 million (previous year: EUR 8.5 million) and depreciation and amortisation of EUR 4.9 million (previous year: EUR 4.7 million) arising from purchase price allocations. The restructuring expenses primarily consist of severance payments, costs for the conversion of the parent company into a European Company and the transfer of the registered office to Germany, costs for the restructuring programme FORWARD 2.0 and costs for site closures (see segment reporting, page 10).

Net expenses totalling EUR 6.5 million were eliminated from the cost of sales in the first half of 2020 (previous year: EUR 4.9 million). These consist of restructuring expenses of EUR 5.4 million (previous year: EUR 3.8 million) and depreciation and amortisation of EUR 1.1 million (previous year: EUR 1.1 million) arising from purchase price allocations.

Net expenses totalling EUR 4.0 million were eliminated from selling expenses in the first half of 2020 (previous year: EUR 3.7 million). These consist of restructuring expenses of EUR 0.5 million (previous year: EUR 0.3 million) and depreciation and amortisation of EUR 3.5 million (previous year: EUR 3.4 million) arising from purchase price allocations.

Moreover, expenses of EUR 3.5 million (previous year EUR 4.5) were eliminated from general administrative expenses, almost all of which relate to restructuring expenses.

With regard to research and development costs, an amount of EUR 0.2 million (previous year EUR 0.2 million) was eliminated, consisting almost solely of depreciation and amortisation arising from purchase price allocations.

The weighted average Group tax rate used to calculate the net result for the period increased slightly to 27.7 per cent (previous year: 26.3 per cent).

FINANCIAL PERFORMANCE

The development described below describes the changes in the most significant line items of the income statement in the reporting period after eliminating the extraordinary items discussed above.

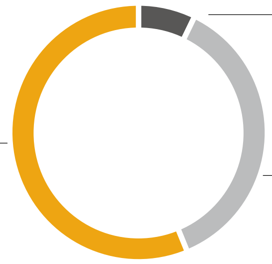
GROUP SALES SIGNIFICANTLY DOWN ON THE PREVIOUS YEAR DUE TO MARKET CONDITIONS AND CORONA

Due to market conditions and corona Group sales in the first half of 2020 came to EUR 476.3 million, 31.5 per cent below the previous year's level of EUR 695.5 million. The additional sales contributed by the entities acquired since January 2019 amount to EUR 1.6 million.

Currency effects amounted to EUR –0.8 million and resulted primarily from currency changes of the US dollar against the Euro as well as of the Brazilian real against the Euro. Consequently, after eliminating the effects of exchange rates and acquisitions, sales decreased by 31.6 per cent to EUR 475.5 million.

Group sales by segment H1 2020

in %



SHARE OF SPARE PARTS BUSINESS INCREASES SIGNIFICANTLY

Sales in the OE business decreased by 36.3 per cent or EUR 191.6 million to EUR 336.4 million in the reporting period from January to June 2020. The sales share of the OE business decreased from 75.9 per cent to 70.6 per cent.

in EUR thousands	Q1–Q2/2020	Q1–Q2/2019	Change absolute	Change in %
Original equipment business	336,374	527,930	–191,556	–36.3%
Spare parts business	139,879	167,536	–27,657	–16.5%
Group sales	**476,253**	**695,466**	**–219,213**	**–31.5%**
Original equipment business in % of Group sales	70.6%	75.9%		
Spare parts business in % of Group sales	29.4%	24.1%		

By contrast, sales of the spare parts business decreased by just EUR – 27.7 million or 16.5 per cent to EUR 139.9 million. Consequently, the sales share of the spare parts business increased from 24.1 per cent to 29.4 per cent.

ADJUSTED GROSS MARGIN MATCHES THE PREVIOUS YEAR'S LEVEL DESPITE IMPACT OF COVID-19

Adjusted gross profit decreased to EUR 84.2 million in the first half of 2020 (previous year: EUR 123.6 million) due to lower sales. Due to the significantly higher share of the high-margin spare parts business, the adjusted gross margin came to 17.7 per cent. However, this almost matches the gross margin achieved in the comparable period of the previous year of 17.8 per cent.

ADJUSTED EBIT MARGIN AT 5.0 PER CENT DESPITE IMPACT OF CORONA

Despite the sharp decrease in sales, SAF-HOLLAND generated an adjusted EBIT of EUR 23.7 in the first half of 2020 (previous year: EUR 49.9 million). This corresponds to an adjusted EBIT margin of 5.0 per cent (previous year: 7.2 per cent). The deterioration of the margin is attributable to the cost stickiness effect and impairment losses of EUR 5.6 million recorded on inventories. The cost-savings realised in selling and administrative expenses had a positive effect.

NUMBER OF EMPLOYEES ADJUSTED TO THE MARKET ENVIRONMENT

As of June 30, 2020 SAF-HOLLAND employed 3,042 people worldwide (previous year: 3,925 employees). Compared to the previous year, the number of employees has therefore decreased by 22.5 per cent. The reduction in the headcount was spread over all regions in order to address the changed market situation.

Number of employees by region

	06/30/2020	03/31/2019
EMEA	1,412	1,464
Americas	1,300	1,833
APAC	330	628
Total	3,042	3,925

FINANCIAL RESULT AFFECTED BY FOREIGN EXCHANGE EFFECTS

The financial result slightly decreased in the reporting period from January to June 2020 to EUR –6.1 million (previous year: EUR –5.1 million). Financial income improved by EUR 0.7 million to EUR 1.4 million mainly due to realised capital gains on foreign currency loans and dividends. Finance expenses increased by EUR 1.7 million to EUR 7.5 million, mainly due to unrealised capital losses on foreign currency loans and dividends and higher interest expenses related to interest bearing loans and bonds.

ADJUSTED NET PROFIT FOR THE PERIOD SIGNIFICANTLY BELOW LEVEL OF THE PREVIOUS YEAR

When calculating the adjusted net profit for the period, a Group's weighted average tax rate of 27.7 per cent (previous year: 26.3 per cent) was applied. The adjusted net profit for the first half of 2020 of EUR 12.7 million (previous year: EUR 33.0 million) lies 61.6 per cent below the previous year's level.

Based on unchanged approximately 45.4 million ordinary shares outstanding, adjusted basic earnings per share for the reporting period from January to June 2020 amounted to EUR 0.28 (previous year: EUR 0.73) and adjusted diluted earnings per share amounted to EUR 0.25 (previous year: EUR 0.61).

SEGMENT REPORTING

EMEA REGION: ADJUSTED EBIT MARGIN ROBUST DESPITE COVID-19

EMEA

in EUR thousands

	Q1–Q2/2020	Q1–Q2/2019	Change absolute	Change in %
Sales	**267,877**	**348,035**	**–80,158**	**–23.0%**
EBIT	**16,919**	**29,513**	**–12,594**	**–42.7%**
EBIT margin in %	6.3%	8.5%		
Additional depreciation and amortization of property, plant and equipment and intangible assets from PPA	2,321	2,147	174	8.1%
PPA step-up from inventory measuring of acquisition	–	2	–2	–
Restructuring and transaction costs	2,249	2,224	25	1.1%
Adjusted EBIT	**21,489**	**33,886**	**–12,397**	**–36.6%**
Adjusted EBIT margin in %	8.0%	9.7%		
Depreciation and amortization of property, plant and equipment and intangible assets (excluding PPA)	8,880	6,925	1,955	28.2%
in % of sales	3.3%	2.0%		
Adjusted EBITDA	**30,369**	**40,811**	**–10,442**	**–25.6%**
Adjusted EBITDA margin in %	11.3%	11.7%		

In the EMEA region, sales declined in the first half of 2020 by 23.0 per cent to EUR 267.9 million (previous year: EUR 348.0 million) due to market conditions and corona. The entities acquired since January 2019 contributed an additional EUR 1.6 million to sales. Organic sales fell by 22.9 per cent to EUR 268.2 million.

Despite the significant sales decline, the EMEA region generated an adjusted EBIT of EUR 21.5 million in the reporting period from January to June 2020 (previous year: EUR 33.9 million) and an adjusted EBIT margin of 8.0 per cent (previous year: 9.7 per cent). The spare parts business had a strongly positive impact on the gross margin whereas the OE business had a slightly negative impact. The deterioration of the margin is attributable to the cost stickiness effect and impairment losses of EUR 2.5 million recorded on inventories in response to the decrease in inventory turnover because of the COVID-19 pandemic. The cost-savings realised in selling and administrative expenses had a positive effect.

The restructuring expenses of EUR 2.2 million consist mainly severance payments and the costs of changing the legal form of the parent company to a European Company (Societas Europaea, SE) and transferring the registered office to Germany.

AMERICAS REGION: EBIT MARGIN POSITIVE DESPITE MASSIVE SLUMP IN SALES

Americas

in EUR thousands

	Q1–Q2/2020	Q1–Q2/2019	Change absolute	Change in %
Sales	**174,146**	**272,577**	**–98,431**	**–36.1%**
EBIT	**745**	**14,387**	**–13,642**	**–94.8%**
EBIT margin in %	0.4%	5.3%		
Additional depreciation and amortization of property, plant and equipment and intangible assets from PPA	1,224	1,270	–46	–3.6%
Restructuring and transaction costs	2,552	2,569	–17	–0.7%
Adjusted EBIT	**4,521**	**18,226**	**–13,705**	**–75.2%**
Adjusted EBIT margin in %	2.6%	6.7%		
Depreciation and amortization of property, plant and equipment and intangible assets (excluding PPA)	7,700	5,774	1,926	33.4%
in % of sales	4.4%	2.1%		
Adjusted EBITDA	**12,221**	**24,000**	**–11,779**	**–49.1%**
Adjusted EBITDA margin in %	7.0%	8.8%		

In the Americas region, sales declined in the first half of 2020 by 36.1 per cent to EUR 174.1 million (previous year: EUR 272.6 million) due to market conditions and corona. After eliminating the effects of exchange rates, sales decreased by 36.8 per cent to EUR 172.3 million.

Despite the significant fall in sales, the Americas region generated a positive adjusted EBIT of EUR 4.5 million in the first half of 2020 (previous year: EUR 18.2 million) and an adjusted EBIT margin of 2.6 per cent (previous year: 6.7 per cent). The spare parts business had a positive impact on the gross margin whereas the OEM business had a significantly negative impact.

The deterioration of the margin is attributable to the cost stickiness effect and impairment losses of EUR 3.3 million recorded on inventories due to streamlining the product portfolio as well as the decrease in inventory turnover because of the COVID-19 pandemic. The cost-savings realised in selling and administrative expenses had a positive effect.

In addition it should be noted that the figure in the previous year of EUR 18.2 million significantly benefited from the contractually agreed passing on of the rise in the price of steel in 2018 coupled with lower purchase prices for steel.

The restructuring expenses of EUR 2.6 million mainly consist of severance payments related to the extensive lay-offs at US locations and the costs of the FORWARD 2.0 restructuring programme.

APAC REGION: LOCKDOWN REPRESENTS A GREAT BURDEN

APAC

in EUR thousands

	Q1–Q2/2020	Q1–Q2/2019	Change absolute	Change in %
Sales	**34,230**	**74,854**	**–40,624**	**–54.3%**
EBIT	**–8,233**	**–7,156**	**–1,077**	**15.0%**
EBIT margin in %	–24.1%	–9.6%		
Additional depreciation and amortization of property, plant and equipment and intangible assets from PPA	1,311	1,278	33	2.6%
PPA step-up from inventory measuring of acquisition	–	39	–39	–
Restructuring and transaction costs	4,567	3,670	897	24.4%
Adjusted EBIT	**–2,355**	**–2,169**	**–186**	**8.6%**
Adjusted EBIT margin in %	–6.9%	–2.9%		
Depreciation and amortization of property, plant and equipment and intangible assets (excluding PPA)	1,560	3,468	–1,908	–55.0%
in % of sales	4.6%	4.6%		
Adjusted EBITDA	**–795**	**1,299**	**–2,094**	**–161.2%**
Adjusted EBITDA margin in %	–2.3%	1.7%		

The APAC region generated sales of EUR 34.2 million in the first half of 2020 (previous year: EUR 74.9 million) due to market conditions and corona. After eliminating the effects of exchange rates, sales decreased by 53.3 per cent to EUR 35.0 million in a year-on-year comparison. The reason for this sharp contraction in sales was mainly the lockdown in India and Singapore, which lasted a number of weeks, the ceased export business as a result of the trade dispute between China and the USA and the delay in ramping-up the new Chinese plant in Yangzhou due to COVID-19.

Adjusted EBIT of EUR –2.4 million is down slightly on the result of the previous year of EUR –2.2 million. The adjusted EBIT margin amounted to –6.9 per cent (previous year: –2.9 per cent). The spare parts business had a positive impact on the gross margin whereas the OEM business had a significantly negative impact. The cost-savings realised in selling and administrative expenses had a positive effect.

The restructuring expenses of EUR 4.6 million mainly consist of the costs in connection with the liquidation of the Chinese subsidiary, Corpco Beijing Technology and Development Co., and the closures of the Xiamen plant and a number of subsidiaries of the York Group in the course of the post-merger integration measures.

NET ASSETS

in EUR thousands

	06/30/2020	12/31/2019	Change absolute	Change in %
Non-current assets	**513,298**	**520,805**	**–7,507**	**–1.4%**
of which intangible assets	255,455	257,926	–2,471	–1.0%
of which property, plant and equipment	212,041	216,736	–4,695	–2.2%
of which other (financial) assets	45,802	46,143	–341	–0.7%
Current assets	**505,062**	**458,439**	**46,623**	**10.2%**
of which inventories	153,607	168,129	–14,522	–8.6%
of which trade receivables	103,398	126,000	–22,602	–17.9%
of which liquid assets	209,362	131,166	78,196	59.6%
of which other (financial) assets	38,695	33,144	5,551	16.7%
Balance sheet total	**1,018,360**	**979,244**	**39,116**	**4.0%**

BALANCE SHEET TOTAL TEMPORARILY INCREASED DUE TO PROMISSORY NOTE LOAN

Total assets have increased EUR 39.1 million or 4.0 per cent compared to the end of the 2019 financial year and amount to EUR 1,018.4 million as of June 30, 2020. This was due in particular to the temporary increase in cash and cash equivalents of EUR 78.2 million to EUR 209.4 million because of the very successful promissory note transaction in March 2020. The cash position will decrease again after it is used to repay the convertible bond that falls due September 12, 2020 (volume: EUR 94.8 million) and the 5-year tranche of a promissory note loan issued in November 2015 that falls due on November 27, 2020 (volume: EUR 52.0 million)

EQUITY RATIO TEMPORARILY REDUCED DUE TO PROMISSORY NOTE LOAN

in EUR thousands

	06/30/2020	12/31/2019	Change absolute	Change in %
Equity	**310,343**	**318,007**	**–7,664**	**–2.4%**
Non-current liabilities	**424,885**	**326,081**	**98,804**	**30.3%**
of which interest-bearing loans and bonds	300,674	195,793	104,881	53.6%
Finance lease liabilities	30,768	25,521	5,247	20.6%
of which other non-current liabilities	93,443	104,767	–11,324	–10.8%
Current liabilities	**283,132**	**335,156**	**–52,024**	**–15.5%**
of which interest-bearing loans and bonds	148,549	153,393	–4,844	–3.2%
Finance lease liabilities	8,222	8,126	96	1.2%
of which trade payables	80,905	110,366	–29,461	–26.7%
of which other current liabilities	45,456	63,271	–17,815	–28.2%
Balance sheet total	**1,018,360**	**979,244**	**39,116**	**4.0%**

In comparison to December 31, 2019, equity has remained nearly unchanged at EUR 310.3 million. The net profit for the period of EUR 1.7 million increased equity accordingly. Exchange differences arising from the translation of foreign operations of EUR –9.3 million had the contrary effect. Coupled with the significant increase in the balance sheet total, this leads to a temporary decrease in the equity ratio to 30.5 per cent (December 31, 2019: 32.5 per cent)

Non-current liabilities increased by EUR 98.8 million in comparison to December 31, 2019 to EUR 424.9 million. The main factor was the issue of the promissory note loan in March 2020.

The decrease in current liabilities is mainly due to the significant decrease in trade payables and other current liabilities.

With the repayment of the convertible bond on September 12, 2020 and the repayment of the 5-year tranche of the promissory note loan issued in November 2015, which falls due on November 27, 2020, the liabilities side of the balance sheet will shorten in line with the asset side.

NET WORKING CAPITAL RATIO SLIGHTLY UP ON THE PREVIOUS YEAR

Net working capital

in EUR thousands

	06/30/2020	06/30/2019	Change 06/30/2019 to 06/30/2020	Change in %
Inventories	153,607	194,852	–41,245	–21.2%
Trade receivables	103,398	171,394	–67,996	–39.7%
Trade payables	–80,905	–150,799	69,894	–46.3%
Net working capital	176,100	215,447	–39,347	–18.3%
Sales (LTM)	1,064,942	1,355,713	–290,771	–21.4%
Net working capital ratio	16.5%	15.9%		

The net working capital ratio, measured as the ratio of net working capital to Group sales over the last 12 months, increased slightly in comparison to the same period of the previous year from 15.9 per cent to 16.5 per cent. A sharp decrease in inventories and trade receivables was countered by lower trade payables. The reason for the increase in the working capital ratio lies in the above-average deterioration in 12-month sales due to market conditions and corona.

FINANCIAL POSITION

Financial position

in EUR thousands

	Q1–Q2/2020	Q1–Q2/2019
Cash flow from operating activities	22,527	27,605
Cash flow from investing activities (property, plant and equipment/ intangible assets)	–11,353	–22,780
Operating free cash flow	**11,174**	**4,825**
Cash flow from investing activities (acquisition of subsidiaries)	–21,193	–12,425
Total free cash flow	**–10,019**	**–7,600**
Other	–17,165	–61,547
Change in net financial liabilities	**–27,184**	**–69,147**

POSITIVE OPERATING FREE CASH FLOW

The net cash flow from operating activities in the first half of 2020 came to EUR 22.5 million, falling below the level of the comparable period of the previous year of EUR 27.6 million. The decrease is mainly due to the sharp deterioration in earnings before tax. The positive contribution from working capital management of EUR 13.0 million could only compensate this effect to some extent. It should be noted that the volume of factoring decreased from EUR 39.3 million in the previous year to EUR 26.9 million in the reporting period from January to June 2020.

The net cash flow from investing activities in property, plant and equipment and intangible assets of EUR –11.4 million lay EUR 11.4 million, or 50.2 per cent, below the comparable figure for the previous year. The focus of investing activities was on the further automation of production processes at various locations in the Americas region and Germany.

The operating free cash flow improved from EUR 4.8 million to EUR 11.2 million. The total free cash flow of EUR –10.0 million (previous year: EUR – 7.6 million) was affected by the cash outflow associated with the purchase of the remaining shares in V.Orlandi of EUR 21.2 million.

NET FINANCIAL DEBT UP SLIGHTLY

Net financial debt (including lease liabilities) increased by EUR 27.2 million to EUR 278.9 million as of June 30, 2020 compared to the reporting date of December 31, 2019. As of June 30, 2020 SAF-HOLLAND carries cash and cash equivalents of EUR 209.4 million (December 31, 2019: EUR 131.2 million).

OPPORTUNITIES AND RISK REPORT

With regard to an assessment of the opportunities and risks for the SAF-HOLLAND Group, there have not been any significant changes to the statements made on risks and opportunities in the Annual Report 2019 (pages 74 to 83), with the following exception:

The extent of impairment risks presented under operative risks has increased in light of the spread of COVID-19 from “low” to “medium”.

OUTLOOK

SECTOR-SPECIFIC DEVELOPMENT: CORONAVIRUS DAMPENING GLOBAL COMMERCIAL VEHICLE MARKETS

The prospects for 2020 remain challenging in the commercial vehicle markets that are relevant for SAF-HOLLAND. Due to declining incoming orders and lower stocks of Class 8 trucks and trailers in North America, a significant downturn in production is expected for the full year 2020. In China, the premium segment that is of relevance to SAF-HOLLAND will not be able to fully shield itself from the sustained market downturn. It is assumed that there will also be a significant fall in the production figures for trailers on the vital core market of Europe.

RELEVANCE OF THE MARKETS FOR SAF-HOLLAND

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

While the EMEA region (approximately 3 per cent of Group sales) and the Americas region (approximately 8 per cent of Group sales) are the most relevant for the truck segment, in the OE trailer and aftermarket segments SAF-HOLLAND serves all markets worldwide.

EUROPEAN TRUCK MARKET DOWN ON THE PREVIOUS YEAR

European truck production will decline sharply in 2020. Leading manufacturers of commercial vehicles expect a decline in production of 35 to 40 per cent. It should be noted, however, that the European truck market is only of minor importance for SAF-HOLLAND.

DECLINING DEMAND FOR TRAILERS IN EUROPE IN 2020

Industry experts anticipate a decline in production of 20 per cent for the full year. Aside from the dampening effect of the coronavirus, this is based on the fact that many European fleet operators have modernized and expanded their vehicle fleets in recent years.

TRUCK MARKET IN NORTH AMERICA CONTRACTS SHARPLY

After record levels of production and new registrations of heavy-duty trucks were set in 2019, market analysts project a contraction of 40 to 50 per cent in the production of Class 8 trucks in North America compared to 2019.

NORTH AMERICAN TRAILER MARKET AT A LOWER LEVEL

In spite of the sustained trend towards disc brakes, a sharp downturn is expected on the North American trailer market. It is expected that 40 to 50 per cent fewer trailers will roll off the production belts in 2020 than in the strong previous year.

DECLINING SALES IN SOUTH AMERICA FOR TRUCKS AND TRAILERS

After projecting rising production for heavy-duty trucks and trailers at the beginning of the year, market researchers now project a sharp fall of 35 per cent in the production of heavy-duty trucks and 15 per cent in trailers.

DECLINING DEMAND FOR TRAILERS IN CHINA

After high growth rates in recent years, a contraction of truck and trailer demand in China, which was expected by many market observers, will continue in 2020. Due to the potential impact of the coronavirus and the uncertainties relating to the outcome of the trade war between China and the USA, a 20 per cent fall in the production of heavy-duty trucks is projected for the current year. Still, it is important to keep in mind that the Chinese truck market has no significance for SAF-HOLLAND. According to industry experts, the production of trailers will fall by 25 per cent on the previous year due to the adverse market environment. It is expected that the premium segment, which is relevant to SAF-HOLLAND, will not be able to fully shield itself from the market downturn, despite the new loading limits and safety requirements for trailers.

With regard to the truck and trailer market in India, a further decline in production of 40 per cent is anticipated in each of the two segments.

BUSINESS OUTLOOK

In light of the macroeconomic environment and the sector-specific framework conditions and after weighing up the risk and opportunity potentials (including the currently foreseeable impact on business from the corona pandemic) the Management Board of SAF-HOLLAND continues to expect a decrease in Group sales on 2019 of 20 to 30 per cent for the 2020 financial year compared to 2019.

Under this assumption, SAF-HOLLAND is still expecting an adjusted EBIT margin of between 3 per cent and 5 per cent for the 2020 financial year. The higher shares of sales of the spare parts business is helping to stabilize the margin. On the other hand, factors burdening the margin are the OE business and the below-average decline in selling and administrative expenses as the savings measures that have been initiated will be fully effective in the further course of the year.

In order to support the strategic objectives, SAF-HOLLAND is planning investments of around 2.5 per cent of Group sales in the 2020 financial year (previously around 3 per cent). These will focus primarily on continuing the introduction of a Global Manufacturing Platform, further automation and program FORWARD 2.0.

The exact commercial impact of the current COVID-19 pandemic on SAF-HOLLAND however can still not be precisely identified or reliably quantified.

EVENTS AFTER THE BALANCE SHEET DATE

SAF-HOLLAND SE COMPLETES TRANSFER OF ITS REGISTERED OFFICE TO GERMANY

Upon entry into the commercial register of the local court of Aschaffenburg SAF-HOLLAND SE completed the transfer of its registered office from Luxembourg to Bessenbach effective July 1, 2020.

As a result, the revised version of the articles of association passed by resolution of the extraordinary general meeting of May 20, 2020 also come into force. The organizational structure of the Company is based on the dualistic board system comprising the Management Board as the management body and the Supervisory Board as the supervisory authority, along with the Annual General Meeting. In addition, due to the revised version of the articles of association, the shares of SAF-HOLLAND SE were converted from nominal value shares to no-par value shares.

The Management Board of SAF-HOLLAND SE will initially consist of Alexander Geis (Chairman of the Management Board and provisional CFO) and Dr. André Philipp (Member of the Management Board and Chief Operating Officer). Inka Koljonen will take over the position of CFO on September1, 2020. The Supervisory Board of SAF-HOLLAND SE comprises the former members of the Board of Directors, Ingrid Jägering, Dr. Martin Kleinschmitt, Martina Merz and Carsten Reinhardt. The Deputy Chairman of the Management Board of Webasto SE, Matthias Arleth, has been appointed to the Supervisory Board as a new appointee. The members of the Supervisory Board are elected for four years.

NEW ISIN DE000SAFH001 WITH HIGH RECOGNITION

Subsequent to the transfer of the registered offices, the shares of SAF-HOLLAND SE will continue to be traded solely on the Frankfurt Stock Exchange. Since June 15, 2020, these have been listed under ISIN DE000SAFH001 and WKN SAFH00.

ALTERNATIVE PERFORMANCE MEASURES

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

kEUR	Notes	Q1-Q2/2020	Q1-Q2/2019	Q2/2020	Q2/2019
Sales	(5)	476,253	695,466	192,842	349,498
Cost of sales		–398,550	–576,741	–166,096	–291,025
Gross profit		**77,703**	**118,725**	**26,746**	**58,473**
Other income		803	715	309	350
Selling expenses		–28,758	–36,787	–12,509	–18,570
Administrative expenses		–32,914	–36,132	–16,275	–17,772
Research and development expenses		–8,157	–10,728	–3,590	–5,138
Operating result		**8,677**	**35,793**	**–5,319**	**17,343**
Share of net profit of investments accounted for using the equity method		754	951	377	465
Earnings before interest and taxes		**9,431**	**36,744**	**–4,942**	**17,808**
Finance income	(6)	1,403	701	181	342
Finance expenses	(6)	–7,516	–5,826	–3,468	–3,061
Finance result	**(6)**	**–6,113**	**–5,125**	**–3,287**	**–2,719**
Result before income tax		**3,318**	**31,619**	**–8,229**	**15,089**
Income tax	(7)	–1,640	–10,851	1,250	–5,759
Result for the period		**1,678**	**20,768**	**–6,979**	**9,330**
Net result for the period					
Attributable to:					
Equity holders of the parent		1,752	20,335	–7,105	9,028
Shares of non-controlling interests		–74	433	126	302
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	(12)	–9,342	3,964	–1,232	–4,466
Other comprehensive income		**–9,342**	**3,964**	**–1,232**	**–4,466**
Comprehensive income for the period		**–7,664**	**24,732**	**–8,211**	**4,864**
Attributable to:					
Equity holders of the parent		–6,849	24,280	–8,129	4,982
Shares of non-controlling interests		–815	452	–82	–118
Basic earnings per share in EUR		**0.04**	**0.45**	**–0.16**	**0.20**
Diluted earnings per share in EUR		**0.04**	**0.39**	**–0.12**	**0.17**

CONSOLIDATED BALANCE SHEET

kEUR	Notes	06/30/2020	12/31/2019
Assets			
Non-current assets		**513,298**	**520,805**
Goodwill	(9)	78,730	78,826
Other intangible assets		176,725	179,100
Property, plant and equipment		212,041	216,736
Investments accounted for using the equity method		17,169	16,522
Financial assets		746	1,147
Other non-current assets		2,555	2,868
Deferred tax assets		25,332	25,606
Current assets		**505,062**	**458,439**
Inventories	(10)	153,607	168,129
Trade receivables		103,398	126,000
Income tax receivables		5,695	4,066
Other current assets		29,439	25,741
Financial assets		3,561	3,337
Cash and cash equivalents	(11)	209,362	131,166
Balance sheet total		**1,018,360**	**979,244**

kEUR	Notes	06/30/2020	12/31/2019
Equity and liabilities			
Total equity	**(12)**	**310,343**	**318,007**
Equity attributable to equity holders of the parent		**306,925**	**304,981**
Subscribed share capital		45,395	454
Share premium		224,103	269,044
Legal reserve		45	45
Other reserve		720	720
Retained earnings		70,542	59,903
Accumulated other comprehensive income		–33,880	–25,185
Shares of non-controlling interests		3,418	13,026
Non-current liabilities		**424,885**	**326,081**
Pensions and other similar benefits		31,248	30,894
Other provisions		7,582	7,637
Interest bearing loans and bonds	(13)	300,674	195,793
Lease liabilities		30,768	25,521
Other financial liabilities		2,672	13,031
Other liabilities		726	691
Deferred tax liabilities		51,215	52,514
Current liabilities		**283,132**	**335,156**
Other provisions		13,536	12,552
Interest bearing loans and bonds	(13)	148,549	153,393
Lease liabilities		8,222	8,126
Trade payables		80,905	110,366
Income tax liabilities		75	244
Other financial liabilities		7,967	21,719
Other liabilities		23,878	28,756
Balance sheet total		**1,018,360**	**979,244**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

kEUR									Q1-Q2/2020
	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 12)
As of 01/01/2020	**454**	**269,044**	**45**	**720**	**59,903**	**–25,185**	**304,981**	**13,026**	**318,007**
Result for the period	–	–	–	–	1,752	–	1,752	–74	1,678
Other comprehensive income	–	–	–	–	–	–8,601	–8,601	–741	–9,342
Comprehensive income for the period	**–**	**–**	**–**	**–**	**1,752**	**–8,601**	**–6,849**	**–815**	**–7,664**
Reclassification	44,941	–44,941					–	–	–
Transactions with non-controlling interests	–	–	–	–	8,887	–94	8,793	–8,793	–
06/30/2020	**45,395**	**224,103**	**45**	**720**	**70,542**	**–33,880**	**306,925**	**3,418**	**310,343**

kEUR									Q1-Q2/2019
	Attributable to equity holders of the parent								
	Subscribed share capital	Share premium	Legal reserve	Other reserve	Retained earnings[1]	Accumulated other comprehensive income	Total amount	Shares of non-controlling interests	Total equity (Note 12)
As of 01/01/2019 (as previously reported)	**454**	**269,044**	**45**	**720**	**86,282**	**–35,065**	**321,480**	**11,070**	**332,550**
Effect of the retroactive adjustment due to IAS 8.42[1]	–	–	–	–	–14,478	–	–14,478	–	–14,478
As of 01/01/2019	**454**	**269,044**	**45**	**720**	**71,804**	**–35,065**	**307,002**	**11,070**	**318,072**
Result for the period	–	–	–	–	20,335	–	20,335	433	20,768
Other comprehensive income	–	–	–	–	–	3,945	3,945	19	3,964
Comprehensive income for the period	**–**	**–**	**–**	**–**	**20,335**	**3,945**	**24,280**	**452**	**24,732**
Dividend	–	–	–	–	–20,427	–	–20,427	–	–20,427
Put option for acquisition of remaining shares of Pressure Guard LLC	–	–	–	–	–453	–	–453	–	–453
Transactions with non-controlling interests	–	–	–	–	–	–	–	214	214
Addition of shares of non-controlling interests from business combinations	–	–	–	–	–	–	–	747	747
06/30/2019	**454**	**269,044**	**45**	**720**	**71,259**	**–31,120**	**310,402**	**12,483**	**322,885**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

kEUR		Notes	Q1-Q2/2020	Q1-Q2/2019
Cash flow from operating activities				
Result before income tax			**3,318**	**31,619**
–	Finance income	(6)	–1,403	–701
+	Finance expenses	(6)	7,516	5,826
+/–	Share of net profit of investments accounted for using the equity method		–754	–951
+	Amortization and depreciation of intangible assets and property, plant and equipment		22,996	20,862
+	Allowance of current assets		7,410	4,892
+/–	Loss/Gain on disposal of property, plant and equipment		31	89
+	Dividends from investments accounted for using the equity method		21	20
Cash flow before change of net working capital			**39,135**	**61,656**
+/–	Change in other provisions and pensions		1,490	273
+/–	Change in inventories		3,384	–11,606
+/–	Change in trade receivables and other assets		14,824[1]	–36,006[1]
+/–	Change in trade payables and other liabilities		–31,889	22,180
Change of net working capital			**–12,191**	**–25,159**
Cash flow from operating activities before income tax paid			**26,944**	**36,497**
–	Income tax paid		–4,417	–8,892
Net cash flow from operating activities			**22,527**	**27,605**
Cash flow from investing activities				
–	Purchase of property, plant and equipment		–9,165	–21,076
–	Purchase of intangible assets		–2,669	–3,160
+	Proceeds from sales of property, plant and equipment		481	1,456
+	Payment for the acquisition of the outstanding shares in V.Orlandi S.p.A.	(4)	–21,193	–
–	Payments for acquisition of subsidiaries net of cash	(4)	–	–12,425
+	Proceeds from sales of financial assets		191	
+	Interest received		338	106
Net cash flow from investing activities			**–32,017**	**–35,099**
Cash flow from financing activities				
–	Dividend payments to shareholders of SAF-HOLLAND SE (previously S.A.)		–	–20,427
+	Proceeds from promissory note loan		230,000	–
–	Repayments of current and non-current financial liabilities	(13)	–37,339	–
–	paid transaction costs relating to the issuance of the promissory note loan		–3,019	–
–	Payments for lease liabilities		–4,649	–4,046
–	Interest paid		–2,713	–2,487
+/–	Change in drawings on the credit line and other financing activities	(13)	–91,522	–2,731
Net cash flow from financing activities			**90,758**	**–29,691**
Net increase/decrease in cash and cash equivalents			**81,268**	**–37,185**
+/–	Effect of changes in exchange rates on cash and cash equivalents		–3,072	1,651
Cash and cash equivalents at the beginning of the period		**(11)**	**131,166**	**155,009**
Cash and cash equivalents at the end of the period		**(11)**	**209,362**	**119,475**

[1] As of June 30, 2020, trade receivables in the amount of € 26.9 million (previous year: € 39.3 million) were sold in the context of a factoring contract. Assuming the legal validity of receivables, no further rights of recourse to SAF-HOLLAND exist from the receivables sold.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the period January 1 to June 30, 2020

1. CORPORATE INFORMATION

SAF-HOLLAND SE (previously SAF-HOLLAND S.A.; hereinafter referred to as the "Company") was founded on December 21, 2005 in the form of a stock corporation (Société Anonyme) under Luxembourg law. By resolution of an extraordinary general meeting on February 14, 2020 and the ensuing entry in the Luxembourg Trade and Companies Register on February 24, 2020 it was converted into a European Company (Societas Europaea). Until June 30, 2020, the Company's registered office was located at 68 – 70, Boulevard de la Pétrusse, Luxembourg and was entered in the Commercial Register of the District Court of Luxembourg under No. B 113.090. With registration in the Commercial Register at the District Court of Aschaffenburg under No. HRB 15646 on July 1, 2020, the registered office of the Company is located in Germany. The Company's shares are listed in the in the SDAX of the Frankfurt Stock Exchange.

2. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

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

The interim consolidated financial statements for the first half of 2020 were prepared in accordance with IAS 34 "Interim Financial Reporting." Generally, the same accounting and valuation principles and consolidation methods were applied as those applied to the consolidated financial statements for the 2019 financial year unless explicit reference is made to changes. The interim consolidated financial statements should therefore be read in conjunction with the consolidated financial statements as of December 31, 2019.

In preparing the interim consolidated financial statements, management is required to make 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.

Income and expenses that occur irregularly during the financial year are accrued or deferred when it is appropriate to recognise these expenses at the end of the financial year.

The most important functional currencies of foreign operations are listed in the following table:

	Closing rate		Average rate	
	06/30/2020	06/30/2019	2020	2019
USD	0.88911	0.87980	0.90814	0.88533
CAD	0.65053	0.67075	0.66620	0.66385
CNY	0.12563	0.12794	0.12916	0.13051
INR	0.01181	0.01273	0.01230	0.01266

The interim consolidated financial statements and the interim group management report have not been audited by an auditor.

3. SEASONAL EFFECTS

Seasonal effects during the year can result in variations in sales and the resulting earnings. For information on earnings development, please refer to the explanations contained in the interim group management report.

4. BASIS OF CONSOLIDATION

In January 2020, SAF-HOLLAND acquired the remaining 30 per cent of the shares in the coupling specialist, V.Orlandi S.p.A. for a purchase price of kEUR 21,193. As a result, SAF-HOLLAND now holds all the shares in V.Orlandi S.p.A. after already acquiring a stake of 70 per cent in the first quarter of 2018.

As SAF-HOLLAND GmbH had already obtained control prior to acquisition of the outstanding shares in V.Orlandi S.p.A., the acquisition of the additional shares did not have any impact on the consolidated group. This has not changed in comparison to the consolidated financial statements as of December 31, 2019.

5. SEGMENT REPORTING

Commencing January 1, 2020 a new segmentation was introduced for management and group reporting purposes, to reflect the relative importance of the individual regions. The regions “APAC” and “CHINA” have been merged into the “APAC” region. Since January 1, 2020 corporate management and group reporting have been segmented into the “EMEA”, “Americas”, and “APAC” segments. The three regions cover both the original equipment business as well as the spare parts business.

The management assesses the performance of the regional segments based on the adjusted EBIT. The reconciliation from the Group’s operating result to the adjusted EBIT is as follows:

kEUR	Q1-Q2/2020	Q1-Q2/2019
Operating result	8,677	35,793
Share of net profit of investments accounted for using the equity method	754	951
EBIT	**9,431**	**36,744**
Additional depreciation and amortization from PPA	4,856	4,695
PPA step-up from inventory measuring of acquisitions	–	41
Restructuring and transaction expenses	9,368	8,463
Adjusted EBIT	**23,655**	**49,943**

Information on segment sales and results for the period from January 1 to June 30, 2020:

	EMEA[1]		Amerika[2]		APAC[3]		Total	
kEUR	**Q1–Q2/2020**	**Q1–Q2/2019**	**Q1–Q2/2020**	**Q1–Q2/2019**	**Q1–Q2/2020**	**Q1–Q2/2019**	**Q1–Q2/2020**	**Q1–Q2/2019**
Sales	267,877	348,035	174,146	272,577	34,230	74,854	476,253	695,466
Adjusted EBIT	21,489	33,886	4,521	18,226	–2,355	–2,169	23,655	49,943
Adjusted EBIT margin in %	8.0	9.7	2.6	6.7	–6.9	–2.9	5.0	7.2
Amortization and depreciation of intangible assets and property, plant and equipment (without PPA)	8,880	6,925	7,700	5,774	1,560	3,468	18,140	16,167
in % of sales	3.3	2.0	4.4	2.1	4.6	4.6	3.8	2.3
Adjusted EBITDA	30,369	40,811	12,221	24,000	–795	1,299	41,795	66,110
Adjusted EBITDA margin in %	11.3	11.7	7.0	8.8	–2.3	1.7	8.8	9.5

[1] Includes Europe, Middle East and Africa.
[2] Includes Canada, the USA as well as Central and South America.
[3] Includes Asia/Pacific, India and China.

For information on the earnings development of the individual segments, please refer to the related explanations contained in the interim group management report.

6. FINANCE RESULT

Finance revenue breaks down as follows:

kEUR	**Q1-Q2/2020**	**Q1-Q2/2019**
Unrealized foreign exchange gains on foreign currency loans and dividends	38	157
Realized foreign exchange gains on foreign currency loans and dividends	582	–
Finance income due to derivatives	285	298
Interest income	338	106
Other	160	140
Total	**1,403**	**701**

Finance costs break down as follows:

kEUR	**Q1-Q2/2020**	**Q1-Q2/2019**
Interest expenses due to interest bearing loans and bonds	–4,627[1]	–4,237[1]
Amortization of transaction costs	–424	–206
Finance expenses due to pensions and other similar benefits	–290	–439
Finance expenses due to derivatives	–237	–260
Realized foreign exchange losses on foreign currency loans and dividends	–183	–
Unrealized foreign exchange losses on foreign currency loans and dividends	–681	–
Finance expenses due to leasing	–635	–341
Other	–439	–343
Total	**–7,516**	**–5,826**

[1] Includes the non-cash interest expenses of kEUR 343 (previous year: kEUR 333) for the convertible bond.

7. INCOME TAXES

The Group's average tax rate as a guide for expected taxes amounted to 27.7 per cent as of the reporting date (previous year: 26.3 per cent).

The Group's effective tax rate based on the actual tax expense for the reporting period relative to the result before tax increased by 15.1 percentage points over the previous year to 49.4 per cent (previous year: 34.3 per cent). This rise in the Group's effective tax rate resulted primarily from higher tax losses for which no tax income from the capitalisation of deferred taxes was recognised for reasons of prudence.

The difference between the Group's effective tax rate and the Group's average tax rate, which amounts to 21.7 per cent (previous year: 8.0 per cent), is primarily a result of unrecognised deferred tax assets on tax loss carryforwards as well as tax rate differences between local tax rates applicable to individual entities and the average weighted group tax rate and non-deductible operating expenses.

8. GOVERNMENT GRANTS

In response to the spread of the coronavirus SARS-CoV-2 and the associated impact on the economy and the labour market, the Federal Government of Germany passed a regulation on facilitating short work on March 25, 2020 which contained a number of limited term simplifications for obtaining access to funding for short work ("Kurzarbeit") and applying for reimbursement of the employers' contributions to social security from the Federal Employment Agency.

SAF-HOLLAND has availed of the short-work instrument to avoid the need to lay-off staff during the economic downturn.

As the right to receive short-work funding is held by the employee, the flow of cash to the employee merely constitutes a flow-through item in the accounts. Consequently, neither the income nor the expense are presented in the statement of comprehensive income.

The situation is different for reimbursement of the employer's contribution to social security from the Federal Employment Agency. While the social security contributions borne by the employer are recorded as personnel expenses, the reimbursements from the Federal Employment Agency qualify as grants related to income pursuant to IAS 20.

The social security contributions reimbursed by the Federal Employment Agency amounted to kEUR 948 as of June 30, 2020.

9. GOODWILL AND INTANGIBLE ASSETS

The Group usually carries out its annual impairment tests of recognised goodwill and intangible assets with indefinite useful lives as of October 1. In response to the massive slump in sales in all regions in the second quarter as a result of the COVID-19 pandemic, a separate impairment test was conducted as of June 30.

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 2026 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 per cent 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 rate before tax

	2020	2019
Americas	11.12%	9.49%
EMEA	9.08%	8.28%
APAC	13.90%	13.14%

In addition, specific peer group information was considered in the form of beta-factors and debt ratios.

In the course of introducing the new segmentation effective January 1, 2020, the “China” and “APAC” regions were combined to create the “APAC” region, which, along with the existing “EMEA” and “Americas” regions, is defined as a cash-generating unit. The allocation of the carrying amounts of goodwill to the cash-generating units was based on the relative fair values for the regions. The allocation of the brands “SAF”, “Holland”, ”York” and “V.ORLANDI” to the cash-generating units was done on the basis of the primary geographical use of these brands. The impairment test of the SAF and V.ORLANDI brand was performed on the basis of the EMEA cash-generating unit. The impairment test of the Holland brand was performed on the basis of the Americas cash-generating unit. The impairment test of the York brand was performed on the basis of the APAC cash-generating unit. The carrying amounts are as follows:

	Americas		EMEA		APAC		Total	
kEUR	06/30/2020	12/31/2019	06/30/2020	12/31/2019	06/30/2020	12/31/2019	06/30/2020	12/31/2019
Goodwill	26,289	26,385	45,336	45,336	7,105	7,105	78,730	78,826
Brand	12,709	12,959	24,601	24,671	2,966	2,979	40,276	40,609

Within the scope of a sensitivity analysis either an increase in the average cost of capital (after taxes) of 100 basis points, a decline of future cash flows (after taxes) of 10 per cent or a one-percent reduction in the long-term growth rate was assumed for the cash-generating units to which material goodwill and intangible assets with indefinite useful lives were allocated. Based on this method SAF-HOLLAND determined that there was no need for impairment at the cash-generating units “Americas” and “EMEA”. By contrast, with regard to the “APAC” cash-generating unit there would be a need to record an impairment loss of kEUR 1,709 if the weighted average cost of capital (after tax) rose by 100 base points. If the future cash flows (after tax) decreased by 10 per cent the impairment loss would amount to kEUR 4,688.

10. INVENTORIES

In comparison to December 31, 2019, inventories have decreased by kEUR 14,522 and amount to kEUR 153,607 as of the reporting date (previous year: kEUR 168,129).

The impairment losses recorded on inventories amount to kEUR 6,938 as of June 30, 2020 (previous year: kEUR 4,633). The increase in the impairment recorded on inventories results primarily from the closure of Corpco Beijing Technology and Development Co., Ltd. as well as from the streamlining of the product portfolio in the course of the new restructuring program FORWARD 2.0 in the USA. In addition, higher impairment losses were required to account for slow-moving stocks arising from the fall in inventory turnover as a result of the COVID-19 pandemic.

11. CASH AND CASH EQUIVALENTS

kEUR	06/30/2020	12/31/2019
Cash on hand, cash at banks and checks	208,792	131,064
Short-term deposits	570	102
Total	**209,362**	**131,166**

The increase in cash and cash equivalents can be attributed to the promissory note loan issued on March 9, 2020. For further information on the development of cash and cash equivalents, please refer to the statement of cash flows.

12. EQUITY

By resolution of the Annual General Meeting on May 20, 2020, the nominal value per share was increased from EUR 0.01 to EUR 1.00 which led to an increase in the subscribed share capital of the Company from EUR 453,943.02 to EUR 45,394,302.00. The increase in the subscribed share capital was financed from company funds by drawing on the capital reserve. Subscribed share capital is fully paid-in and consists of 45,394,302 (previous year: 45,394,302) ordinary shares.

The changes in accumulated other comprehensive income as of the balance sheet date is as follows:

kEUR	Before tax amount		Tax (income) / expense		Net of tax amount	
	Q1-Q2/2020	Q1-Q2/2019	Q1-Q2/2020	Q1-Q2/2019	Q1-Q2/2020	Q1-Q2/2019
Exchange differences on translation of foreign operations	–9,342	3,964	–	–	–9,342	3,964
Total	**–9,342**	**3,964**	**–**	**–**	**–9,342**	**3,964**

In the course of the Annual General Meeting on May 20, 2020, a resolution was passed to refrain from paying out a dividend from the net profit of the year to the shareholders. In the prior year a dividend of EUR 0.45 per share was distributed from the net profit of the year to the shareholders. The distribution amount totalled kEUR 20,427.

13. INTEREST BEARING LOANS AND BONDS

Interest bearing loans and bonds consisted of the following:

kEUR	Non-current		Current		Total	
	06/30/2020	12/31/2019	06/30/2020	12/31/2019	06/30/2020	12/31/2019
Interest bearing bank loans	2,390	95,395	–	–	2,390	95,395
Convertible bond	–	–	94,840	99,326	94,840	99,326
Promissory note loan	244,000	46,500	52,000	52,000	296,000	98,500
Financing costs	–2,485	–707	–1,086	–277	–3,571	–984
Accrued interests	–	–	2,505	931	2,505	931
Other loans	56,769	54,605	290	1,413	57,059	56,018
Total	**300,674**	**195,793**	**148,549**	**153,393**	**449,223**	**349,186**

On March 9, 2020 SAF-HOLLAND SE issued a promissory note loan with a volume of EUR 250 million via its subsidiary, SAF-HOLLAND GmbH. The tranches of the promissory note loan feature fixed as well as variable interest rates and maturities of three, three and a half, five, seven and ten years.

An overview of the tranches is presented in the following table:

Overview of promissory note loans

Tranche	Volume	Interest rate	Expiry date
3 years var.	EUR 61 Mio.	6M-Euribor + 145bps	03/27/2023
3 years fix	EUR 80 Mio.	1.45%	03/27/2023
3.5 years fix	EUR 20 Mio.	1.50%	09/23/2023
5 years var.	EUR 49 Mio.	6M-Euribor + 160bps	09/23/2025
5 years fix	EUR 20 Mio.	1.50%	09/23/2025
7 years fix	EUR 15 Mio.	6M-Euribor + 180bps	03/29/2027
10 years fix	EUR 5 Mio.	2.75%	03/27/2030

The three, five, seven and ten-year tranches were paid out at the end of March. Pay-out for the three and a half year tranche is foreseen for the end of September 2020.

In addition to providing general financing for the organisation, the proceeds will be mainly used to refinance the convertible bond of EUR 94.8 million that falls due on September 12, 2020 and the five-year tranche of EUR 52 million of the promissory note loan issued in November 2015, which falls due on November 27, 2020.

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

kEUR				06/30/2020
	Amount drawn valued as at the period-end exchange rate	**Agreed credit lines valued as at the period-end exchange rate**	**Cash and cash equivalents**	**Total liquidity**
Revolving credit line	2,390	200,000	–	197,610
Other facilities	–	5,025	209,362	214,387
Total	**2,390**	**205,025**	**209,362**	**411,997**

				12/31/2019
	Amount drawn valued as at the period-end exchange rate	Agreed credit lines valued as at the period-end exchange rate	Cash and cash equivalents	Total liquidity
Revolving credit line	88,454	200,000	–	111,546
Other facilities	6,941	6,941	131,166	131,166
Total	**95,395**	**206,941**	**131,166**	**242,712**

14. LEASE LIABILITIES

The increase in lease liabilities is primarily due to the conclusion of a long-term lease for the plant in Yangzhou, China.

15. OTHER FINANCIAL LIABILITIES

Apart from measurement effects, the decrease in other financial liabilities can mainly be attributed to the exercise of the put option for the outstanding shares in V.ORLANDI S.p.A. by the former shareholders.

Furthermore, the term of the put option liability for the outstanding shares in KLL Equipamentos para Transporte Ltda. has been amended. The option is expected to be exercised at the beginning of the second quarter 2021. The put option liability was therefore reclassified to current other financial liabilities.

16. RELATED PARTY DISCLOSURES

The following tables show the composition of the Group Management Board, which is the managing body of the SAF-HOLLAND Group's operating business, as well as the composition of the Board of Directors of SAF-HOLLAND SE as of the reporting date:

Group Management Board

Alexander Geis	Chief Executive Officer (CEO)
Dr. Matthias Heiden	Chief Financial Officer (CFO) (until 06/30/2020)
Dr. André Philipp	Chief Operating Officer (COO)

Board of Directors

Dr. Martin Kleinschmitt	Chairman of the Board of Directors
Martina Merz	Deputy Chairman of the Board of Directors
Ingrid Jägering	Member of the Board of Directors
Jack Gisinger	Member of the Board of Directors (until 05/20/2020)
Anja Kleyboldt	Member of the Board of Directors (until 06/30/2020)
Carsten Reinhardt	Member of the Board of Directors

Dr. Matthias Heiden, Chief Financial Officer (CFO) of SAF-HOLLAND SE, left the Company on June 30. As successor to Dr. Matthias Heiden, Ms. Inka Koljonen will join the Company on September 1, 2020. As Chief Financial Officer, she will have responsibility for Finance, Accounting and Controlling, IT, Legal Affairs and Compliance, Internal Audit, Investor Relations and Corporate Communications. In the interim, the CEO, Alexander Geis, will take charge of all CFO matters on a provisional basis.

After the extraordinary general meeting of SAF-HOLLAND S.A. on February 14, 2020 passed a resolution to change the legal form to that of a European company (Societas Europaea, SE) and the subsequent entry into the Luxembourg Trade and Companies Register on February 24, 2020, a resolution was passed at another extraordinary general meeting on May 20, 2020 to increase the capital from company funds and transfer the registered office to Germany, creating new articles of association for SAF-HOLLAND SE in the process. The transfer of the registered office was filed with the commercial register in Germany on July 1, 2020.

17. EVENTS AFTER THE BALANCE SHEET DATE

With the entry into the commercial register of the local court of Aschaffenburg on July 1, 2020, SAF-HOLLAND SE completed the transfer of its registered office from Luxembourg to Bessenbach with legal effect.

As a result, the revised version of the articles of association passed by resolution of the extraordinary general meeting of May 20, 2020 also came into force. According to the revised version of the articles of association, the organisational structure of the Company is based on the dualistic board system comprising the Management Board as the management body and the Supervisory Board as the supervisory body, along with the Annual General Meeting. In addition, due to the revised version of the articles of association, the shares of SAF-HOLLAND SE were converted from nominal value shares to no-par value shares.

The Management Board of SAF-HOLLAND SE will initially consist of Alexander Geis (Chairman of the Management Board and provisional CFO) and Dr. André Philipp (Member of the Management Board and Chief Operating Officer). Inka Koljonen will take over the position of Chief Financial Officer on September 1, 2020. The Supervisory Board of SAF-HOLLAND SE comprises the former members of the Board of Directors, Ingrid Jägering, Dr. Martin Kleinschmitt, Martina Merz and Carsten Reinhardt. The Deputy Chairman of the Management Board of Webasto SE, Matthias Arleth, has been appointed to the Supervisory Board as a new appointee. The members of the Supervisory Board are elected for four years.

Subsequent to the transfer of the registered office, the shares of SAF-HOLLAND SE will continue to be traded solely on the Frankfurt Stock Exchange. Since July 15, 2020, these have been listed under ISIN DE000SAFH001 and WKN SAFH00.

Bessenbach, August 13, 2020

Alexander Geis	**Dr. André Philipp**
Chairman of the Management Board and Chief Executive Officer (CEO)	Member of the Management Board and Chief Operating Officer (COO)

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.

Bessenbach, August 13, 2020
SAF-HOLLAND SE

Alexander Geis
Chairman of the Management Board
and Chief Executive Officer (CEO)

Dr. André Philipp
Member of the Management Board
and Chief Operating Officer (COO)

FINANCIAL CALENDAR AND CONTACT INFORMATION

FINANCIAL CALENDAR

November 18, 2020
Quarterly Statement Q1–Q3 2020

November 25, 2020
Virtual Investor and Analyst Day 2020

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In cases of doubt, the German version shall prevail.

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