

# KTM INDUSTRIES AG SUSTAINABILITY REPORT 2018

(CONSOLIDATED NON-FINANCIAL REPORT)

## CONTENTS

<b>ABOUT THIS REPORT</b> .....	3
<b>OVERVIEW OF KTM INDUSTRIES</b> .....	4
<b>OUR VALUE CHAIN</b> .....	6
<b>Our Stakeholders and Key Sustainability Topics</b> .....	6
<b>Materiality analysis</b> .....	9
<b>Our Values &amp; Understanding of Business (Business Compliance)</b> .....	9
Anti-Corruption and Fair Competition .....	9
Observance of Human Rights .....	10
Cooperation partners .....	11
Our contribution to the SDGs.....	11
<b>OUR EMPLOYEES</b> .....	13
<b>Occupational Safety and Employee Health</b> .....	15
<b>(Further) Training</b> .....	16
<b>Diversity &amp; Equal Treatment</b> .....	19
<b>RESEARCH &amp; DEVELOPMENT</b> .....	20
Responsible procurement .....	21
<b>ENVIRONMENTAL ASPECTS ALONG THE PRODUCT LIFE CYCLE</b> .....	22
Environmental aspects in development and production ...	22
<b>PRODUCT QUALITY AND SAFETY</b> .....	23
Logistics & distribution .....	25
Product use and recycling .....	26
Reuse and recycling of lithium-ion batteries .....	27





## ABOUT THIS REPORT

The present sustainability report contains the declaration for the KTM Industries-Group in accordance with the Sustainability and Diversity Improvement Act (Section 267a of the Austrian Companies Code (UGB)). According to Section 267a UGB must be reported, disclosures that are relevant to an understanding of the material effects of the business activities and relating to environmental, social and employee interests, observance of human rights and tackling of corruption and bribery. This second sustainability report has been drawn up taking account of the principles and criteria of the Global Reporting Initiative's "GRI Standards", the internationally recognized framework for sustainability reporting. Compliance with the requirements placed on the "Core" reporting option is the aspiration and this will be optimized further in 2019.

This consolidated non-financial report, as it is known, essentially covers all fully consolidated subsidiaries of KTM Industries. The Pankl Group has no longer been part of the KTM Industries-Group since June 30, 2018. The Pankl Group is therefore no longer included in key figures on the reporting date of December 31, 2018.

# OVERVIEW OF KTM INDUSTRIES

The **KTM Industries-Group** is a leading European vehicle group with a strategic focus on the global racing motorcycle segment and on high-tech automotive components. There is a high degree of technological integration within the Group, which in this form is unique in Europe. Strategic partnerships at operating level strengthen our competitiveness in the relevant markets. All these factors are the foundation for the high level of innovation within the KTM Industries Group and secure our organic growth course over the long term.

The operative **KTM Group**, with registered office in Mattighofen, Austria, engages in the development, production, and sale of motorized vehicles for recreational purposes (power sports), in particular under the “KTM” and “Husqvarna” brands. KTM has been working in cooperation with the Indian Bajaj Group since 2007.

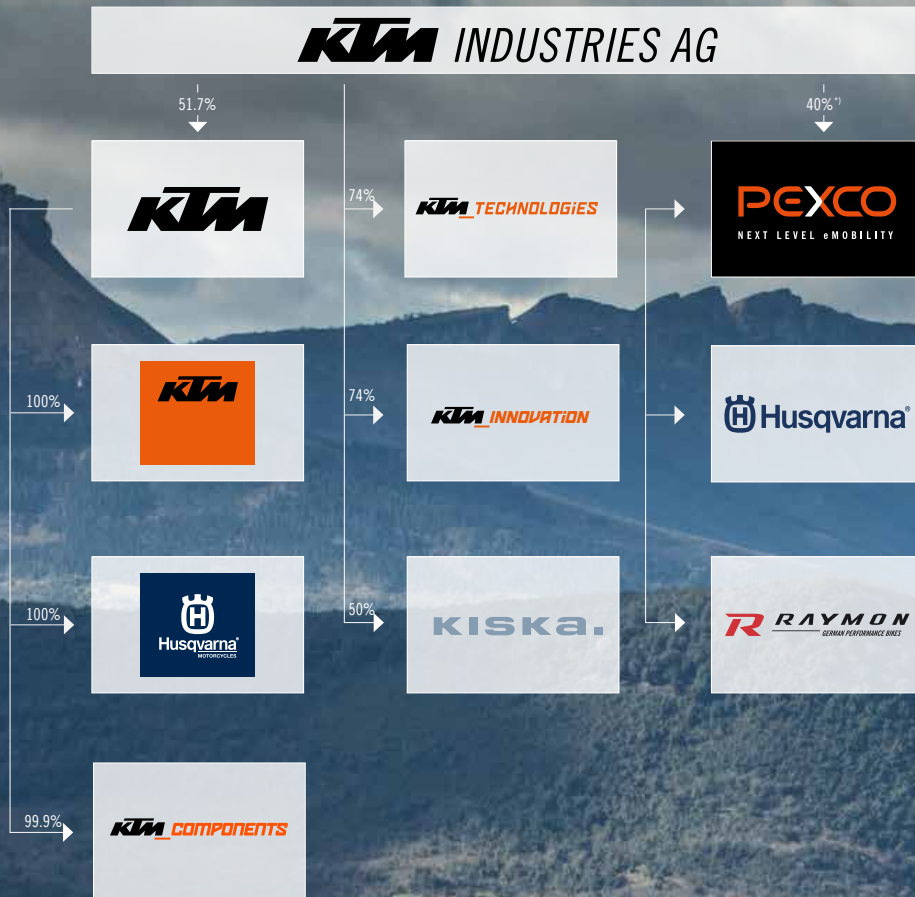
**KTM Components** (previously WP Group) operates in the motorcycle supplier segment. KTM Components develops, produces and sells suspension elements, frames, radiators and exhaust systems at its headquarters in Munderfing, Austria. In order to secure the continued growth of the KTM Industries Group and to realize synergy potential, **KTM Components** was fully integrated into KTM AG in January 2018 in its position as the most important supplier to motorcycle production in Mattighofen.

The focus at **KTM Technologies** is on the development of innovative product concepts and new technologies for sports motorcycles and future-oriented mobility solutions. The development competencies of the company are broadly diversified and designed to develop, in addition to overall vehicle competence, holistic vehicle and product concepts with groundbreaking technology. In addition, KTM Technologies has specialized in the concept development of electrically powered vehicles and platforms in a wide variety of product groups with two and four wheels.

The **Pankl Group** is an international leader in the production of mechanical systems in the high-tech sector for dynamic components in the global niche markets of the racing, luxury car and aerospace industries. The Pankl Group was only part of the KTM Industries AG Group until June 30, 2018 and will therefore no longer be covered in any more detail in this sustainability report.

# GROUP STRUCTURE

simplified presentation as of 12/31/2018



**PTW**  
Powered two wheelers

Design, concept  
development  
& digitalization

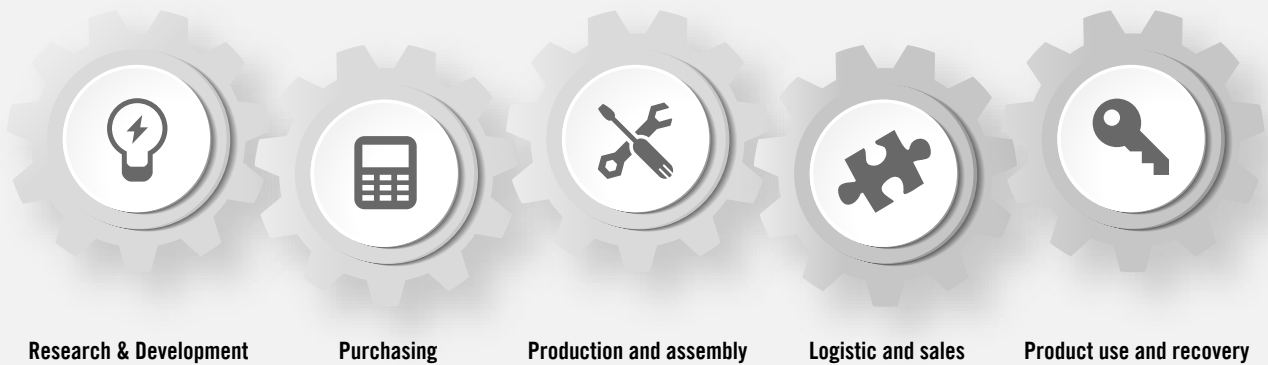
**eMobility**

**Other shareholdings:**  
 PF Beteiligungsverwaltungs GmbH 100%  
 ACStyria Mobilitätscluster GmbH 12.3%

¹ PEXCO GmbH „at equity“: 40% are held by Platin 1483 GmbH (family Puelfo), 20% are held by Prerer Industrie AG

## OUR VALUE CHAIN

As a motorcycle manufacturer for the offroad and street sector, KTM has a far-reaching added value. This begins in research and development with product development and ranges from purchasing, production (partly also in our company) and sales to product use through motorbike rides for work, leisure or racing.



## OUR STAKEHOLDERS AND KEY SUSTAINABILITY TOPICS

Thanks to the growing presence of the KTM brand, we are confronted with various stakeholder groups in the global market. Their individual interests and attitudes are reflected as fairly as possible. We endeavor to engage in continuous and intense dialog at all times. It is also crucial to us to appreciate the perspectives and experiences of others so that we can address and discuss topics that are relevant but also controversial issues. This is the only way that we can meet the expectations of both parties and come up with sustainable solutions.

There are established communication channels and forms of dialog that enable a continuous exchange with key stakeholder groups. Communicating proactively and integrating relevant stakeholders are crucial for KTM Industries in allowing us to maintain our leading position in the market but also respond as promptly as possible to a rapidly changing world. Treating each other with respect and the transparent flow of information help to build up mutual trust and prevent misunderstandings – this is the only way to reduce any tension that may exist and avoid new conflicts.

Our dialog with stakeholders focuses on personal meetings and joint product development with various specialist groups as well as strong regional cooperation around our sites. We are aware of our social responsibility and this is why we constantly strive to provide futureproof jobs and also create new ones. To discuss local challenges, we work with neighbors, communities and associations, etc. to raise awareness in a well-balanced way. Regular engagement with the capital market, for example at roadshows, is very important for KTM Industries. In addition, our stakeholder management also involves themed workshops, training courses, surveys, web platforms, media contacts and interviews as well as trade fairs and career days.

The stakeholder groups were identified in 2018 by the management as part of an internal analysis of the most important stakeholder groups that regularly make contact with us or with which there is already an intense exchange of information. An overview of our **stakeholder groups** and the **forms of dialog** can be found below.



KTM 1290 SUPER ADVENTURE S MY 2017, Photo: R.Schedl

- **Employees:** Annual employee appraisal, intranet, specialist workshops, training courses, ideas workshop, employee survey, information events and staff meetings, guided tours of production areas, welcome days for new employees and apprentices.
- **Shareholders & investors:** Bilateral exchange on environmental, social and governance (ESG) issues with investors.
- **Academia and experts:** Round table in small groups on technology issues of the future, joint R&D projects, visits to educational institutions (universities of applied sciences, universities), preparing studies, collaboration with technical universities as part of funding projects.
- **Suppliers and dealers:** Trade fairs, product presentations and test rides, joint events, training courses, talks, regular exchange on supply and quality assurance agreements.
- **Business partners:** Knowledge sharing at specialist conferences and expert workshops.
- **Racers & factory riders, rider teams:** Test rides, face-to-face feedback discussions and exchange of experiences in relation to safety.
- **Media:** Interviews, press releases, close contact with business journalists, test rides, trade fairs, product presentations.
- **Politicians, networks & associations:** Presidency (Stefan Pierer) at ACEM, the European Association of Motorcycle Manufacturers; (provision of company data, annual report and sustainability report, at the locations of the KTM Industries Group the management is in regular contact with relevant local/regional government officials and authorities).

### About ACEM

The European Association of Motorcycle Manufacturers (ACEM) represents manufacturers of mopeds, motorcycles, three-wheelers and quadricycles (L-category vehicles) in Europe. ACEM members include 17 manufacturing companies and 17 national industry associations from 14 countries. Around 300,000 jobs depend on the motorcycle, moped, tricycle and quadricycle industry in Europe. This is why the association works closely with the EU institutions, as well as with a wide range of stakeholders, in different policy areas – these include the European approval of L-category vehicles in relation to, environmental legislation, road safety and transport policies, through to international trade negotiations, etc.

As well as road safety and mobility, ACEM also very much addresses the environmental friendliness of vehicles and focuses on the role of the motorcycle industry in promoting the sustainability of transport in Europe as well. For this reason, it makes a vital contribution to promoting regulatory activities to advocate the introduction of new environmental standards, for example the implementation of Euro 5 last year.



ACEM President Stefan Pierer with Vice-President Michele Colaninno at the **presentation of the prototype of RESOLVE** in April 2018 in Brussels (Photo©BenjaminBrolet)

During the presidency of KTM CEO Stefan Pierer, **activities** that have been promoted have included the following:

#### **Electromobility**

Through its activities in ACEM, KTM participates in the efforts made by the industry and the national public sectors to harmonise the technical characteristics of the charging infrastructure and the deployment of electric vehicles. Industry experts working together with policy-makers and national standardisation bodies at CEN-CENELEC level have notably contributed to the definition of harmonised charging infrastructure for electric L-category vehicles (type 3a plugs) in the CEN/CENELEC eMobility group and the design and deployment of harmonised labels on vehicle charging in the CEN TC301 Technical Committee.

#### **Research & Development policy**

At European level, KTM also played a leading role at the RESOLVE consortium which brought together 14 European companies including Piaggio, Bosch and Marelli, to develop affordable, energy efficient and comfortable electric vehicles for urban commuters. The prototypes developed by RESOLVE were presented in Brussels in April 2018.

#### **Connected vehicles and automation of transport**

KTM is also one of the members of the Connected Motorcycle Consortium (CMC), a strategic Research & Development platform that fosters cooperation in industry innovation in the field of C-ITS (Cooperative Intelligent Transport Systems). The key objective of the CMC is to bring together the leading companies operating in the motorcycle sector to promote timely and comprehensive use of cooperative ITS systems offering the potential to improve safety for motorcyclists.

#### **European Motorcycle Training Quality Label**

In 2018, two of KTM's Riders Academy training programs were awarded the European Motorcycle Training Quality Label. The label is a joint initiative of ACEM and German Road Safety Council (DVR), an independent NGO active in the field of road safety. The International Motorcycling Federation (FIM) joined also this partnership. The KTM's Rider Academy provides courses that build on the latest empirical research on rider behavior and training, as well as the experience of Klaus Schwabe, one of the leading world experts in motorcycle safety.

In December 2018, the new KTM Industries AG website went online. The complete visual and technical overhaul was an important step in making the company's website clearer and more user-friendly. A state-of-the-art internet presence is an essential instrument in our stakeholder communication, enabling us to comply with legal obligations in a transparent and timely manner.



## MATERIALITY ANALYSIS

Our understanding of sustainability is based on the materiality analysis carried out in the 2017 business year, which was prepared with the assistance of selected employees of the subsidiaries. As part of this, we identified those topics relating to environmental, social and employee interests, observance of human rights and tackling of corruption that demonstrate the effects of our activities and are of relevance for our long-term business success. In business year 2018, the topics were reviewed again with the following result:

- Research & Development
- Business compliance and fairness in dealing with business partners (incl. suppliers)
- Product quality and safety
- Environmental Aspects Along the Product Life Cycle
- Occupational Safety and Employee Health
- (Further) Training of employees

These topics will be described in the chapters that follow, using the concepts, risks\*, due diligence processes and measures, and results and performance indicators.

\* Identification and Assessment Process: Significant risks arising from business activities and our business relationships that have an impact on the issues in focus are identified in the respective departments and avoided as far as possible by means of the measures described. A systematisation of the process for assessing material risks in the context of Section 267a of the Austrian Companies Code (UGB) will be sought in the 2019 business year together with risk management.

## OUR VALUES & UNDERSTANDING OF BUSINESS (BUSINESS COMPLIANCE)

A code of conduct was rolled out within the KTM Industries-Group in the 2017 financial year, which applies to all board members, managers and employees of the KTM Industries Group. This mandatory set of rules lays down ethical objectives and principles and serves as a benchmark for the conduct of all board members, managers and employees.

The code of conduct addresses various compliance risks and defines the expectations for dealing with the topic areas which are covered below.

- Corruption and bribery
- Conflicts of interest
- Secondary jobs and shareholdings
- Handling assets
- Data privacy and data security
- Fair competition
- Prohibition of insider trading
- Cooperation with business partners
- Export checks and money laundering
- Confidentiality
- Human rights, respect, and integrity
- Occupational health and safety
- Environmental protection
- Political activities
- Personal responsibility of managers and employees

## ANTI-CORRUPTION AND FAIR COMPETITION

In principle, collaboration with partners along the value creation chain involves risks of unfair competition, including (unfair) influencing of suppliers, customers or decision makers. Corruption also involves financial risks for companies in connection with the threat of financial penalties, loss of orders or customers, or damage to reputation. There is currently no increased risk of corruption at KTM Industries.

The KTM Industries-Group complies fully and uncompromisingly with the respective national anti-corruption provisions as well as the international directives or recommendations (e.g., UN Convention against Corruption, OECD Guidelines for Multinational Enterprises). It does not tolerate any practices in which business transactions are concluded by unfair means.

The code of conduct lays down comprehensive conduct guidelines in relation to awarding of undue advantages, corruption and bribery. The mandatory principles defined therein in relation to awarding and acceptance of undue advantages provide a regulatory framework that board members, managers

and employees must regard as a guide for their conduct when dealing with suppliers and customers. Board members, managers and employees are encouraged to speak to their managers or the competent office for general compliance issues in the event of any doubts as to the permissibility of an award or acceptance of a benefit. In the assessment, special attention is paid to the existence of customary nature and appropriateness.

The code of conduct can be viewed on the intranet site of the KTM AG Group at any time by all board members, managers, and employees. The code of conduct is also highlighted on the homepage of the intranet of the KTM AG Group at regular intervals. The code of conduct is handed out along with the welcome pack to new employees.

Furthermore, extensive training is provided on the content of the code of conduct and to raise awareness of compliance issues. The focus is on the issue of anti-corruption. It is primarily managers and employees from areas where there is a particular risk, such as human resources, PG&A, purchasing, sales, research & development, marketing, quality management, board members and managing directors that receive classroom training. By the end of the year, the training initiative which was launched in 2018 had provided training to 85 of employees or 79% of the relevant employee groups (total: 108) mentioned above. During the Supervisory Board meetings of KTM AG and KTM Components GmbH on December 12, 2018, the entire Executive Board, management and the respective Supervisory Board also received training. The proportion of managers that have been trained is 30%. Further training measures are planned, including in particular an E-learning tool, to make a large number of employees aware of this issue and allow regular training.”

The KTM AG Group also endeavors to send all business partners a letter once a year to facilitate compliance with the regulations on avoidance of accepting gifts that apply to board members, managers and employees. This letter contains a request to business partners to refrain from giving gifts or personal presents to board members, managers and employees of the KTM AG Group. The KTM AG Group also continuously implements improvement measures in its anti-corruption system.

There were no known cases or proceedings relating to corruption within the KTM Industry Group during the 2018 financial year.

Extensive training was also delivered on the General Data Protection Regulation, as part of which during classroom training the employees of subsidiaries were also trained alongside the employees at the sites in Mattighofen and Munderfing. In addition, an E-learning training tool with a mandatory test in relation to the issue of data protection was made available for the employees on the intranet.

## OBSERVANCE OF HUMAN RIGHTS

All persons who work directly or indirectly for the KTM Industries Group are entitled to have their human rights in the sense of the UN Universal Declaration of Human Rights observed, and to be treated with fairness and respect. The KTM Industries Group expects its board members, managers and employees to respect human rights and to protect them in their everyday activities. Equally, the Group expects its key business partners to observe the human rights set out in the code of conduct which is referred to in the purchase conditions of KTM AG.

The KTM Industries-Group regards it as particularly important for all employees to be treated with fairness and respect. The aim is to create a working environment characterized by mutual trust, in which each individual is treated with dignity and respect, and in which people from diverse cultures and with different personal backgrounds are held in esteem. As an international Group, we value the diversity that is reflected in the origin, culture, language, and ideas of our employees.

The KTM Industries-Group prohibits sexual harassment in any form.

Board members, managers and employees are able at any time to contact the competent office for general compliance issues if they have questions regarding observance of human rights, and to report indications of possible human rights violations within the company to this office. These indications are investigated, and measures are taken to resolve possible grievances, if required.

No evidence indications were reported and followed up in the reporting period. There were no cases or proceedings relating to human rights abuses within the KTM Industry-Group during the 2018 financial year. In addition, there are currently no increased risks of negative impacts arising from operating activities in relation to observing human rights.



Photo: Schedl F.

## COOPERATION PARTNERS

In the course of collaboration with international business partners, the general risk exists that the countries concerned may not apply statutory laws that are as stringent as those in Austria. Our long-term partners set their own high standards in order to meet our demands for workplace standards.

Bajaj Auto Ltd., the strategic Indian partner of KTM, undertakes to continuously improve occupational safety, employee health, and environmental impact, and it also fulfills the applicable safety regulations, statutory health and environmental provisions and other regulations.

## OUR CONTRIBUTION TO THE SDGS

In 2015 as part of the 2030 Agenda for Sustainable Development, the United Nations set 17 Sustainable Development Goals. Broad cooperation between politicians, civil society, science and business will be needed to achieve these goals. KTM Industries wants to help to achieve the global Sustainable Development Goals with its operating activities and ensure that its operating activities do not have any detrimental effects on the issues and objectives in question.





### SDG 3 – Good health and well-being

As a manufacturing company, the KTM Industries Group has a special responsibility to ensure the health and safety of its employees. By making continuous improvements in the area of occupational safety and adopting measures to promote good health, the KTM Industries Group contributes to SDG 3.

Specific examples of our activities:

The measures for boosting mental health in the KTM Industries-Group, derived from the survey on the psychological stress of the employees which was carried out in 2017, correspond to Goal 3.4 for promoting mental health and well-being.

The offer of training on the theme of “addiction and alcohol” as part of the package of measures designed to improve employee health supports Goal 3.5 for strengthening the prevention and treatment of abuse of harmful substances.

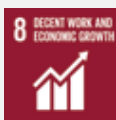


### SDG 4 - Quality education

With its initiatives focusing on the (further) training of potential and existing employees, the KTM Industries Group makes a valuable contribution to SDG 4, which aims to provide quality education and permanent learning opportunities.

As the largest apprentice trainer in the region and through its collaboration with universities and universities of applied sciences, young people in particular are given opportunities to embark on high-quality professional and technical training and education (Goal 4.3). Comprehensive further training opportunities to boost the employees' individual qualifications are also offered for existing employees (Goal 4.4).

In addition, to eliminate gender-specific disparities in education and training (see Goal 4.5), measures are put in place to ensure that there are more female apprentices.



### SDG 8 – Decent work and economic growth

The KTM Industries Group as a technological pioneer in the motorcycle segment and one of the biggest employers in Upper Austria thus helps to deliver sustained economic growth and takes it for granted that it will support decent work.

The desire to make technological progress and promote innovation are cornerstones of the business model of KTM Industries and implicitly support Goal 8.2 (contribution to boosting economic productivity).

KTM Industries endeavors to increase resource efficiency in production and in its products and thus help to fundamentally decouple economic growth from the exploitation of resources (Goal 8.4).

To promote decent work, KTM Industries builds on a positive working environment and expects its managers, employees, and business partners to respect human rights. Internal contact points are provided within the company to report any possible grievances. These are all fundamental measures which support Goal 8.7 (contribution to eradicating forced labor, modern slavery and human trafficking).



### SDG 13 – Climate action

The KTM Industries Group is conscious of the contribution that its operating activities make to climate change and supports SDG 13 with measures to combat climate change.

An important aspect in the development of (road-approved = homologated) vehicles is the reduction of emissions such as exhaust and noise emissions from the combustion process and evaporation emissions from hydrocarbons (= fuel).

In the development and production of its products, the KTM Industries-Group attaches great importance to the efficient and resource-saving use of materials and a sustainable approach to the environment. For this reason, the issue of increasing efficiency as well as the most complete possible use of raw materials, including their return to the recycling cycle (currently in the form of recycling aluminium waste), is of particular importance.

# OUR EMPLOYEES



Photo: Markus Berger

Finding qualified employees and retaining them in the company in the long term poses a significant challenge for the rural sites. Every employee in the KTM Industries-Group forms part of the large team that drives the success of the company with dedication and enthusiasm. Attractive jobs with exciting duties and excellent training and career progression opportunities give employees the chance to demonstrate and expand on their skills, as responsibility is assigned a great deal of importance from the outset. Employer branding is an important cornerstone of conveying the spirit of the KTM Industries Group to potential new employees. In addition to careers fairs, our presence on social media channels was expanded further in 2018 in order to boost the employer brand, and particularly to appeal to young potential employees.

The number of people employed in the KTM Industries-Group as of 31 December, 2018 was worldwide 4,303 (previous year: 4,194), with 3,625 of them in Austria (approx. 84%). Around 16% of the entire workforce worked in Research & Development. In 2018, the proportion of female employees was 23%. Due to the sale of the Pankl Group on 30 June, 2018, the 1,800 employees are no longer included in the financial statements of the KTM Industries-Group. KTM has built a total of more than 2,200 employees since 2011, more than doubling the number of employees in Austria.

The staff turnover rate at KTM Industries was less than 10% in the Austrian companies in 2018. This figure includes all non-retirement departures in proportion to the overall number of employees excluding temporary staff.

With its Mattighofen, Munderfing, Thalheim and Schalchen sites, KTM is one of the largest employers in Upper Austria.

Key employee figures as at 31/12/2018	2017	2018
<b>Number of employees</b>	<b>4,194</b>	<b>4,303</b>
<b>full-time</b>	<b>3,977</b>	<b>4,042</b>
thereof male	3,161	3,234
thereof female	816	808
<b>part-time</b>	<b>217</b>	<b>261</b>
thereof male	66	81
thereof female	151	180

All data excl. board members, incl. temporary workers. Excl. Pankl Racing Systems AG, as no longer part of KTM Industries AG as of 31/12/2018.

	2017	2018
<b>Number of employees</b>	<b>4,194</b>	<b>4,303</b>
<b>executives</b>	<b>1%</b>	<b>1%</b>
thereof male	<b>89%</b>	<b>89%</b>
thereof female	<b>11%</b>	<b>11%</b>
thereof <30 years	4%	0%
thereof 30-50 years	76%	76%
thereof > 50 years	20%	24%
<b>salaried employees</b>	<b>54%</b>	<b>54%</b>
thereof male	<b>72%</b>	<b>73%</b>
thereof female	<b>28%</b>	<b>27%</b>
thereof <30 years	39%	32%
thereof 30-50 years	51%	57%
thereof > 50 years	10%	12%
<b>workers</b>	<b>45%</b>	<b>45%</b>
thereof male	<b>82%</b>	<b>82%</b>
thereof female	<b>18%</b>	<b>18%</b>
thereof <30 years	34%	35%
thereof 30-50 years	52%	50%
thereof > 50 years	14%	15%

All figures rounded. Presentation excl. board members, incl. temporary workers. Executives include managing directors, division managers and subdivision managers. Only around 1% of the employees have a temporary contract, which is why there is no separate subdivision into permanent and fixed-term employment contracts in this list.

	2017	2018
<b>Management Board and Supervisory Board</b>	<b>8</b>	<b>8</b>
thereof male	100%	100%
thereof > 50 years	100%	100%
<b>Management Board</b>	<b>4</b>	<b>4</b>
thereof male	100%	100%
thereof > 50 years	100%	100%
<b>Supervisory Board</b>	<b>4</b>	<b>4</b>
thereof male	100%	100%
thereof > 50 years	100%	100%

Gerald Kiska resigned from the Supervisory Board at the end of the Annual General Meeting on 26 April, 2018. Wolfgang Plasser resigned from the Management Board with effect from 28 June, 2018.

## OCCUPATIONAL SAFETY AND EMPLOYEE HEALTH

The KTM Industries Group is concerned with guaranteeing the safety of its employees at all times. Unfortunately, occupational accidents cannot be prevented entirely. Statistics are collected on accidents in relation to the type, quantity, place/department and days on which the employee concerned was absent for the purpose of taking appropriate improvement measures.

To achieve continuous improvement in the area of health and safety, a range of preventative measures are taken regarding general workplace safety, fire prevention, safety of machinery, promotion of occupational health and measures for ensuring suitable workplaces (including lighting, height requirements, positioning of work equipment, use of tools or aids), to name a few.

In 2018, at the KTM sites in Mattighofen, Munderfing, Schalchen and Thalheim there were 46 occupational accidents which needed to be reported to the AUVA accident insurance institution (previous year: 39), of which 8 accidents were attributable to accidents on the way to work (previous year: 20).

The following measures were taken as measures to prevent occupational accidents:

- compulsory safety briefings were comprehensively reviewed, updated, and repeated if necessary
- introduction of a KTM Operations System (KOS) for production: efficiency is increased with KPIs and methods as well as an improved understanding of roles and increased qualification of the employees, standardized working and the design of the workplace are optimized; there is close cooperation in this area with Gemba-Austria (among other things, implementing lean management projects)
- the level of protective equipment has been expanded for accident-critical jobs, e.g. cut-resistant gloves to prevent cut injuries
- material improvement specifications have been passed on to suppliers and implemented to prevent accidents and injuries involving equipment and materials
- expansion of the Austrian Automobile, Motorcycle and Touring Club (ÖAMTC) riding safety training for test riders.

One further way to promote good health that we offer is vaccination programs which are taken up by many employees. In 2018, a special focus was placed in occupational medicine on the results from the evaluation of psychological stress which was carried out in 2017, and the following action was taken:

- improvements to the organization of work, for example encouraging more flexible working hours
- implementation of new group and meeting structures
- design of a new comprehensive management training concept as part of the “KTM Academy”
- implementation of a new KTM employee appraisal in relation to the presentation, process and follow-up of the results, the new “KTM Performance Talk”
- offer of training on the theme of “addiction and alcohol”
- needs-based retrofitting of ergonomic equipment, lighting, interior climate etc

	2017	2018
<b>total accidents at work</b> (excluding commuting accidents)	<b>19</b>	<b>38</b>
<b>injury rate</b> (rounded)	3.9 hours	7.5 hours
<b>accidents days lost rate</b>	0.12%	0.09%
<b>absence rate</b>	3.92%	3.90%

Injury rate based on reportable accidents at work (excluding commuting accidents) per 1 million hours worked.

According to GRI standards, the injury rate is calculated on the basis of productive working time and the accident absence rate and absence rate are calculated on the basis of planned working time. There were no work-related fatalities in business years 2017 and 2018. There are no accident figures for employees of external companies.

## (FURTHER) TRAINING



Due to the high technical requirements, highly trained employees are especially important. Especially with regard to the growth course, risks may arise if key staff leave the company.

Efficient personnel management as well as the constant pursuit of personnel development programs are designed to counteract the undesired departure of employees. The risk of a shortage of skilled staff at KTM is also minimized by a comprehensive apprentice training program in our own apprentice workshop. The aim is to recruit employees from the region and to retain them in the long term.

The onboarding process was optimized further in 2018 in order to enable a swift start and effective integration of new employees in the company. Each year, approximately 10 welcome days are offered for new employees in German and English and, in addition to a presentation about the company, they also include guided tours of key production areas and a shared lunch to allow people to get to know each other. Each fall, apprentice welcome days that are geared to providing information for apprentices are arranged. In this context, the cooperation with Hotspot Innviertel should also be mentioned; this involves providing events and information specifically for foreign employees to help them to integrate in the region and Austria in general.

Employee appraisals form an important success factor for the KTM Industries-Group. We are convinced that this encourages a performance-based working relationship and helps to motivate the employees. Regular dialogue between supervisors and employees is encouraged at all levels. Formal staff appraisals are planned for the entire employee area.

During the appraisal, the manager and the employee reflect on the past year, while feedback is provided on the basis of observable competencies and the achievement of targets is discussed. Current topics and projects, and those anticipated in the coming year, are agreed on. Targets tailored to the individual employee are jointly agreed on the basis of his/her personal results in the past year and the Group targets for the next year. Further to this, the employee and the manager may jointly define the development steps for the coming year and agree an individually tailored way of advancing the employee's skills.

Agreed development steps could be training sessions or seminars, but also e.g. acceptance of new duties, involvement in or management of projects, induction of new employees, media-based learning, training of apprentices, or gathering information from specialist literature.



In the operating companies of the KTM Industries-Group, (further) training is ensured by attending external and in-house training sessions that are specially tailored to the needs of the KTM Group. In-house training sessions are division- or department-specific on the one hand and are designed and organized with the whole company in mind on the other. Emphasis is placed on employee networking and mutual exchange in addition to the content. Training sessions are currently conducted in the following categories and in various learning formats: specialist training, IT training, languages, personal development and management training.

Emphasis is also placed on lean management in further training for production employees. Team development activities support teams in the growth course and promote long-term cooperation. In 2018, approximately 43,000 further training hours were invested in the Austrian KTM companies (previous year: 33,000). This is equivalent to around 749 different training events in which there were 4,218 training participants.

Hours of (further) training per employee in Austria	2017	2018
	Ø 12 hours	Ø 14 hours
by sex		
employees male	Ø 12 hours	Ø 14 hours
employees female	Ø 12 hours	Ø 12 hours
by employee category		
executives <sup>1)</sup>	Ø 38 hours	Ø 8 hours
salaried employees	Ø 17 hours	Ø 23 hours
workers	Ø 5 hours	Ø 5 hours
apprentices <sup>2)</sup>	Ø 1 hour	Ø 5 hours

1) In the area of management training, an expanded management initiative was launched in 2017, which means that the number of hours in 2017 is significantly higher than in 2018. In 2018, the focus in management training was on individual areas.

2) In the area of apprenticeship training, the focus in 2018 was increasingly on further training in specific subjects and personalities.

Executives incl. managing directors, division heads and subdivision heads. Presentation excl. temporary workers and external employees. Are not included in the evaluation: 2017 KTM Components and KTM Innovation. 2017 + 2018 KTM Technologies. KTM Industries AG had in 2017 twenty training hours and in 2018 eight with a total of 16 employees. In 2018, KTM Innovation had two hundred training hours with a total of 16 employees.

Effective management is an important factor for success in achieving the corporate objectives. Experienced managers have the opportunity to refine or expand their scope of action and develop additional skills during manager training. New managers are provided with support to help them assume their role successfully. Various management training sessions were developed specifically for KTM and have a high degree of practical relevance. In addition, participants networking with each other makes a significant contribution to strengthening everyday teamwork.

### Cooperation with universities and universities of applied sciences

KTM promotes joint activities with universities and universities of applied sciences. A project with LIMAK is the first to be launched as part of a "KTM Academy".

The intention is to embark on joint projects to give more focus to the issue of sustainability and promote a long-term working relationship with universities and universities of applied sciences, essentially in order to combat the lack of skilled staff. The aim is to establish an open network to exchange information and experiences and get to know potential future skilled workers and employees. At the same time, this makes it possible to establish the areas in which action needs to be taken and how measures can be drawn up by working together. Specific projects in this context include cooperations with universities and technical colleges for participating in jobs fairs and also orders for technical assignments and of course the awarding of internships and degree theses. Furthermore, KTM also maintains various cooperations with Formula Student teams in the form of technical support and/or sponsorship in order to recruit the skilled workers of the future. A good example is our rookies event with Formula Student at which students had to solve technical tasks.

The primary focus for the regional support of sustainability is on working with the (surrounding) communities of Mattighofen, Munderfing, and Schalchen, for example in the form of utilizing regional facilities for training courses and sessions or also our company's own toddler groups in Mattighofen and Munderfing.

As the ultimate combination of theory and practice, we offer a dual **master's program in Automotive Mechatronics & Management** in cooperation with the University of Applied Sciences Upper Austria in Wels (FH Wels). The participants in this program work for us on a part-time basis during their degree. Top-class lecturers from the automotive industry, top laboratory equipment at the University of Applied Sciences, and the fixed degree duration of four semesters, as well as producing your master's thesis in cooperation with us are all attractive features of this program. The dual master's program has been offered since September 2016, with two to four students starting this dual training each year.

KTM recruits many new employees with high school leaving qualifications. If employees demonstrate special performance and a high level of self-motivation, KTM helps them to complete a degree alongside their job. The prerequisite for this is that the chosen subject is related to their current position or possible positions at KTM. KTM provides financial support by paying costs, but also by granting special leave, free time to prepare for examinations, or traditional part-time education.

### Apprentice training

Apprentice training forms an important aspect of HR strategy, as the employees make a significant contribution to the company's success. KTM AG now has more vocational training places than any other employer in the region. As at the reporting date of December 31, 2018, 139 apprentices (previous year: 124) were employed and received training in 12 vocational training programs (previous year: 9) such as:

- CAD design
- Process engineering
- Automotive engineering (motorcycle engineering)
- Metal engineering (with a focus on mechanical engineering)
- Industrial purchasers
- Mechatronics (production engineering)
- Operational logistics administrators
- E-commerce administrators
- Application development
- Information technology (specializing in systems engineering)
- Information technology (specializing in production engineering)
- Office administrators

It is a central aim of the company to continue to employ apprentices when they have completed their training. In 2018, all employees who had completed training were integrated into various specialized areas in KTM AG. This satisfies the company's requirement for well-trained specialist staff and at the same time helps enable young people to have a good start to their professional life. The cornerstone of apprentice training is our own apprentice workshop. This is where the basic training in all technical apprenticeship trades and special training programs is delivered, and it enables our future technicians to familiarize themselves with the company as much as possible. Apprentices rotate through the various specialist departments in which they are trained. Great store is placed by the technical and teaching qualifications of those training the apprentices along with their social skills. Social and methodological skills are also promoted at KTM AG, in addition to specialist skills. Each year, all apprentices participate in a teambuilding exercise together. Apprentices work on projects together and present the results, and teamwork and mutual trust are strengthened in a trip to a high-rope center.

Since 2017, KTM AG has been able to give up to ten apprentices the opportunity to spend a period abroad in the UK each year through the IFA (Internationaler Fachkräfte Austausch – International Young Workers Exchange). Commercial and technical apprentices provide support to small businesses with their specialist knowledge on site, and were able to improve their language skills. In addition to language skills, the exchange fundamentally boost their awareness of other cultures but in particular their self-confidence.

### Duale Academy

Since September 2018, KTM has been training general high school graduates who are interested in starting their professional lives and earning their own money straight away and turning them into highly skilled employees as part of the Dual Academy. The Dual Academy is a new trainee program that was developed under the initiative of the Upper Austrian Chamber of Commerce and is unique within Austria. The focus is on modern professions where there is great demand and a gap in the labor market.

This has created another training path for the highly skilled employees of the future at KTM. KTM is currently focusing its training on mechatronics/automation technology. This form of training lasts 2.5 years, covers three areas and ends with a completed apprenticeship certificate:

- operational trainee program at KTM directly,
- delivering the specialist theory through competence centers in the vocational colleges,
- delivering social, digital, and international future competences.

## DIVERSITY & EQUAL TREATMENT

The KTM Industries Group regards it as particularly important for all employees to be treated with fairness and respect. In order to counteract the risk of unequal treatment, we endeavor to create a working environment characterized by mutual trust, in which each individual is treated with dignity and respect, and in which people from diverse cultures and with different personal backgrounds are held in esteem. As an international Group, we value the diversity that is reflected in the origin, culture, language, and ideas of our employees.

We endeavor to actively take measures to ensure integration at all levels. To this end, a number of jobs, such as in the company canteens, are given to individuals with physical and / or mental disabilities.

As of December 31, 2018, a total of 37 people with a disability (measured by existence of a certificate showing at least 50% level of disability) were employed in the KTM Group.

To support **women in STEM professions**, the KTM Group currently offers the measures which are described below and are set to be expanded further in the future.

Increasingly **flexible ways of working** (part-time positions, home office and flexible working hours) should also make it possible in the future to achieve a good work/life balance and thus return to work and stay with the company over the long term. In the reporting period, a total of 45 employees returned to work at KTM after their parental leave. The rate of return was approximately 90 percent in the last year. We are continuing to work to make it possible to configure working hours to suit people's own individual lives and combine working with family requirements.



To support working parents, a further **toddler group** for children of KTM employees aged from one to three is being opened in Mattighofen alongside the toddler group that has been running successfully in Munderfing since 2012. This means that, since January 2019, a further ten childcare places have been available for KTM children in the premises of the Mattighofen community toddler group. The two in-house toddler groups in Munderfing and Mattighofen give KTM employees the opportunity to have their children cared for by a qualified team of educators during working hours from Monday to Friday in exchange for a small contribution to costs.

In addition, KTM hosts a **Girl's Day** every year. This allows girls who are interested to spend a day gaining an insight into the technical training on offer at the company. In addition to receiving a guided tour of production, they can get involved themselves by machining key chains, stripping down engines, carrying out measurements on electric panels or removing entire wheels at various stations. The stations are expertly supervised by KTM's trainers. Roughly three to five girls complete a technical apprenticeship in each training year – and this figure is rising.

Employee rights are safeguarded within the company by the works council. The works council with 13 members in Mattighofen represents the interests of the workforce. The works council, a member of the Supervisory Board, is actively informed about ongoing developments in the company and involved in decisions. It thus makes a vital contribution to the success of the company.



Furthermore, the works council organizes and arranges numerous events for the employees each year. Besides the traditional summer fête and the Christmas party at the end of the year, the numerous benefits that the works council delivers for the employees should also be mentioned.

# RESEARCH & DEVELOPMENT



For the KTM Group, as a technology-driven premium manufacturer in the sports motorcycle segment, research and development is an area of particular focus. Consistent technological development creates innovative products that meet the high expectations of our customers and can thus open up new markets in the long term.

In the R&D area of KTM AG, we traditionally attach great importance to the early identification of trends in the motorcycle segment, to the further development of our products in respect of technical and functional aspects, as well as to the tracking and implementation of customer requirements in our products in order to be able to guarantee innovative and market-oriented development. In this context, KTM AG not only operates in its original core markets but is also developing new products in previously unexplored segments and niches of the market as soon as it identifies them and they become usable for the KTM, HUSQVARNA Motorcycles and WP brands.

The software tools used in the areas of design, calculation and simulation are subject to constant further development – as is the in-house machinery and equipment used for the production and assembly as well as the measurement and testing of newly developed prototypes. In addition to primary product and technology development, a cross-divisional project was launched last year to evaluate and further develop the development process landscape.

Alongside the development of new models and technical accessories, the expansion of the R&D infrastructure at the Mattighofen site was also intensified. The expansion of the research and development center of the KTM Group at the headquarters in Mattighofen marks a milestone in the corporate history: the office and workshop areas covering a total area of around 3,900 m<sup>2</sup> were occupied back in the first quarter of 2018. At the beginning of the third quarter of 2018, the first three engine test benches were also put into operation, as were an acoustic roller testing facility and a significantly enlarged operational strength test field over a total area of around 5000 m<sup>2</sup> in the fourth quarter. LED lights were used for the lighting in the entire new building.

In the 2018 financial year, the KTM Industries-Group employed an average of 678 employees (in the previous year: 607) in the areas of research and development, which is equivalent to 16% of the entire workforce. In operating terms, excluding the ancillary effect of capitalizing and amortizing development expenses, around € 106 million. Investments in plant and infrastructure focused, among other things, on the expansion of the research and development center at the headquarters in Mattighofen. The products of all group companies are associated with a very high performance level; customers therefore have expectations of continuous (further) development. The product life cycle is very different for each customer.

Research & Development	2017	2018
employees R&D (on the reporting day)	607	678
employees R&D in % of total employees	14.5%	15.8%
investments R&D in m€	84	106
investments R&D in % of revenue	6.2%	7.2%



Müller-BBM VibroAcoustic Systeme, Daniel Schäfer

## RESPONSIBLE PROCUREMENT

As the quality of the products is strongly determined by the quality and characteristics of the subcomponents to be sourced, particular attention is paid to the creditworthiness, operating facilities, and production processes of suppliers. The continuous availability of parts is ensured by appropriate monitoring. In addition, the code of conduct, which is referred to in the purchase conditions of KTM AG, stipulates the general conditions in relation to business compliance for important business partners.

The production companies in Mattighofen and Munderfing largely source their requirements from the local procurement market: about 29% within a radius of 100 km, about 35% within a radius of 200 km, about 44% within a radius of 300 km, and about 51% within a radius of 400 km. KTM therefore plays an active role in adding and maintaining value at the regional level. (In 2017, about 45% of the purchasing volume was awarded to Austrian suppliers.)

Strategic leadership, focusing on the development of key competencies, continuously improving work processes, working in partnership with employees and suppliers and maintaining a process-oriented quality management system allow KTM to create added value both for the company and for the shareholders.

KTM Components responds to the aforementioned risks by auditing existing and potential suppliers on an ongoing basis and by entering into long-term supply contracts. The quality of the materials provided is continuously monitored. The aim is to achieve an effective supply chain with short lines, in which the know-how, quality and reliability of the regional supplier sector make a major contribution towards the company's success. Thirty-two percent of materials for series production components is sourced from Austria.

The company's home region is strengthened economically by local suppliers, who make it possible to save on costs and protect the environment as a result of shorter transport routes. Furthermore, it is quicker and easier to settle agreements relating to general collaboration or as issues arise.

# ENVIRONMENTAL ASPECTS ALONG THE PRODUCT LIFE CYCLE

The KTM Group is aware of the environmental impacts associated with the production and in particular use of its products and adopts a responsible approach to natural resources. Doing business in a sustainable and environmentally friendly way is an ultimate principle.

## ENVIRONMENTAL ASPECTS IN DEVELOPMENT AND PRODUCTION

As far as the development and production of our products are concerned, KTM Industries AG attaches great importance to the efficient use of raw materials in a manner that conserves resources, as well as to environmentally sustainable operations.

Special attention is paid to careful use of resources. This is why the issue of increasing efficiency and utilizing raw materials to the fullest possible extent, including recycling them, is so important.

The plant buildings and administrative buildings at KTM AG have been constructed in a resource-conserving and energy-efficient manner, the cooling of test chambers and the toolshop is controlled using groundwater, and various materials used in the manufacturing of precursor and finished products are sorted by type and shipped in reusable containers.

The preparation of oil can also contribute toward protecting the environment. Following an engine test bench run, the oil is emptied into a reprocessing plant, filtered and then returned to the oil tank. It is no longer necessary to change the oil in this case, the environmental impact in this respect for the disposal after one use is reduced.

As a mainly assembling company, KTM AG is not part of the energy-intensive industry. In 2018, electricity consumption (incl. Pankl-Group for the first half of the year) amounted to 30,847,769 kWh (previous year: 34,269,172 kWh) and gas consumption (incl. Pankl-Group for the first half of the year) to 20,750,274 kWh (previous year: 24,509,314 kWh). At KTM, around 432,000 litres of fuel were used for the test benches during the last business year (previous year: 390,000 litres). In addition to gas and electricity consumption, Pankl Racing Systems AG also charges annual compressed air costs. Until 30 June 2018, compressed air costs amounted to around EUR 95 thousand (previous year for the whole year: EUR 225 thousand). Water consumption from production amounted to (incl. Pankl-Group for the first half of the year) 7,333 m<sup>3</sup> for 2018 (previous year: 8,470 m<sup>3</sup>). Work is currently being done to determine the relevant greenhouse gas emissions along the value chain (Scope 1-3 as per Greenhouse Gas Protocol). Reporting is planned from the report detailing the 2019 financial year.

The most important aim for KTM AG when it comes to the development of new engines and vehicles in the high-performance segment is to use raw materials according to requirements, such as by using high-strength steels and composite materials in chassis. By using state-of-the-art construction and simulation software, it has been possible to establish a reliable strength design that significantly reduces the number of prototype parts required, as well as further reducing the specific component weight. For example, the weight of the frame of one of our road models in the premium segment was reduced by 1.9 kg – equivalent to approx. 20% of the component weight – and at the same time the performance of the component was improved considerably in respect of its strength and flexibility. Another example is the further development of the 450 cm<sup>3</sup> offroad engine, whose overall weight of 27 kg is not less than around 1.6 kg under that of its nearest rival – while at the same time delivering higher performance figures.

In KTM AG, the test bench infrastructure and also other installations within the research and development departments are subject to a detailed capacity utilization plan, which ensures efficient use of infrastructure, and enables any maintenance and repair work that may be necessary to be scheduled at specific times and reduced. Furthermore, recyclable fractions generated in the development process are carefully separated in all sites of KTM AG. For example, in 2018 a total quantity of 19,6 tonnes of aluminum (previous year: 18,5 tonnes) and 20,2 tonnes of scrap steel (previous year: 19,5 tonnes) were returned to the recycling chain.

For the purpose of continuing to increase efficiency and permanently reducing the use of resources in the research and development department, continuous stock analyses and a targeted purchasing strategy for consumables were introduced. The number of prototype components required for the development of new engines and vehicles is to be reduced further in the future by means of foresightful test planning and simultaneous multiple use.



Furthermore, activities relating to raw materials development and the resulting weight optimization of new components continue to be promoted. The Pankl Group also attaches the highest priority to environmentally friendly actions and sustainable management. Energy costs as a percentage of sales amounted to 1.6% and were thus at the same level as in the previous year (previous year: 1.6%). The Pankl Group had no expenses in connection with the acquisition of CO2 certificates in the past financial year and is not covered by the National Allocation Plan (NAP). In the 2014 financial year, the Pankl Group's environmental management system was expanded in line with the ISO 14001 standard and has been continuously expanded ever since.

There are currently no increased risks arising from operating activities that extend beyond the impacts described in this chapter.

## PRODUCT QUALITY AND SAFETY

As a manufacturer of premium products, we at KTM AG have set ourselves the goal of manufacturing products that are innovative, in line with market requirements, safe, and, most importantly, of high quality. The entire process of producing a vehicle – from product idea to market analysis to design studies, design and development, cooperation with suppliers, the procurement of components for series production, parts production, the assembly of engine and vehicle, right to packing and dispatch – is mapped by a process-oriented quality management system according to ISO 9001:2015 and controlled using the KTM process management system.

We achieve high product quality due to production-oriented design, the use of analytical and statistical methods of calculation, comprehensive checking and testing, compliance with relevant homologation rules, a focus on process quality and by using targeted communications, as well as by implementing training measures at KTM AG and at the suppliers.

The assembly locations outside of Europe are professionally served by a team of highly qualified QM employees. They make sure that the know-how for manufacturing in these locations is passed on and ensure the quality of the vehicles produced there by implementing a KTM-compliant quality management system. As key components of the motorcycles, the engines are developed and manufactured by KTM AG and guarantee the identity of motorcycles with the KTM and Husqvarna Motorcycles brands. The impressive track record in racing is the best evidence of the high product quality and high level of technical competence of KTM and Husqvarna Motorcycles.

KTM Components GmbH develops and produces components that are tailored in close collaboration with its customers, using the agreed quality, cost and scheduling objectives. Continuous development of products and processes forms one of the core competencies, and is firmly embedded in everyday work. Ongoing expansion of our know-how and the zero-error principle aim to secure and expand our product and customer portfolio, while profitable growth forms the foundation of the long-term security of the concern. The WP Group views itself as a long-term partner for its suppliers, with the aim of developing and producing innovative and high-grade products together.



In order to counteract the risk of a faulty product as much as possible, which would have potential adverse effects for our customers, we perform intensive audits on engines and vehicles while production is under way. As KTM vehicles are designed and homologated for use on public roads, we attach the greatest value to compliance with the statutory requirements of the relevant markets.

In order to examine the effect of products on health and safety in greater detail, we set up our own laboratory within the research and development department for the purpose of analyzing the chemical properties of the raw materials used and their interactions.

On average, 776 motorcycles are assembled in Mattighofen every day. Each and every vehicle component is checked by experienced KTM employees according to an inspection plan. In addition, every KTM motorcycle undergoes a complete functional check on the test bench after assembly. Only then are the products ready to be shipped all over the world.

The development work performed by our KTM employees is put to the test on the racetrack by our factory teams as early as during the prototype phase. Additionally, a testing and endurance testing program spanning all phases of prototype and series production ensures that the series-manufactured product meets the highest standards of quality and safety. Only innovative and tested designs make the transition to series production, and they deservedly bear the motto: 'READY TO RACE'.

The products of KTM AG give it a reputation in many fields as a technology leader in the motorcycles segment. When it comes to safety, particular emphasis should be made of the world's first leaning-angle-dependent **ABS "motorcycle stability control" system** – used on a KTM motorcycle for the first time – and the semi-active chassis which was fully developed within the KTM Group. The demonstrator prototypes, which were unveiled in 2018, of a radar-based, adaptively controlled cruise control system that can also be used as a **distance radar** and **emergency brake assistant** as well as a blind spot detector for motorcycles are also examples showing the Group's innovative capacity when it comes to **safety systems**. A further expansion of the testing facilities and the extension of competencies in these areas is planned for the future. In the past year, the development of the KTM connectivity infrastructure was also advanced. In addition to a system that is able to automatically make an emergency call in the event of an accident, this also includes networking between vehicles of all manufacturers and the corresponding infrastructure to further reduce the risk of accidents. KTM AG is also involved in various interdisciplinary research projects concerned with similar questions.

In order to support the ever-increasing complexity of vehicles in retail, dealers were equipped with a groundbreaking diagnostic system that also supports 3D applications such as Virtual Reality (VR) and Augmented Reality (AR).

The increasing integration of complex electronic control systems may pose significant safety risks in the event of malfunctions, which is why they are subject to stringent development and quality assurance processes. The entire electrical/electronic system of a motorcycle is therefore subjected to continuous audits in accordance with ISO 26262 for 'functional safety'. Special attention is paid here to the safety-relevant components and assembly groups, in particular (e.g. 'ride by wire' electronic throttle). Detailed risk analyses on design failure, possibility and effect analysis (FMEA) are also performed for newly developed assembly groups. For the purpose of a specific strength design, newly developed components are subjected to extensive calculations and simulations, structural strength tests and prolonged load tests according to our own operational strength process.

Future areas of priority include the further intensification of the testing process and the development of new testing methods on hardware and software. In parallel to the expansion of the testing and measuring capacities with regard to emissions development, a further area of priority is the expansion of test bench capacities in the field of strength design and ensuring operational strength.



## LOGISTICS & DISTRIBUTION

As an international company that exports a great deal and at the same time places high quality demands on the speed and reliability of the transport service provided to our customers and a globally diverse supply chain, we are conscious of the environmental impacts. Working together and in partnership with the entire logistics industry, we must accept the increasing challenge to use resource-conserving technologies and processes to develop concepts for ever more complex operations. We pursue different approaches here.

In the supply chain for our production sites, we source a large share of the deliveries from suppliers in the local geographical area, which reduces the need for goods to be transported long distances. In addition, in a well-developed process and in coordination with our production planning systems in our main supplier countries of Austria, Germany, and Italy, we have installed milk-run systems which ensure that cargo capacity can be utilized with the space being optimized and empty runs can thus be avoided. KTM also applies this logic globally wherever optimization makes sense and can be implemented, in particular in supply chains from Japan, China, and India. The import of accessories and apparel from Asia is also being optimized, with consignments being consolidated at defined collection points and transported in full containers. Air freight is only used in very exceptional circumstances.

In the delivery of spare parts, garments, and accessories (PG&A), we are working to optimize our packaging strategy, which also involves the upstream supply chain. Based on an agreement with our suppliers to avoid waste packaging and unnecessary repacking, where it is expedient and possible to do so, reusable systems are used (in particular for European suppliers with a high purchasing volume – see further details below). Or the goods are provided to us in packaging so they are already ready for dispatch. In addition, where it is feasible to do so, we refrain from using environmentally harmful materials in the packaging and endeavor to use primarily renewable raw materials to protect our precious goods. The only exceptions to this are goods which for legal reasons require special protection (e.g. liquids such as oils or paints).

### Innovative reusable metal racks

The motorcycle logistics system developed in-house by KTM based on **reusable metal racks** which will last for 10+ years is regarded as an innovative example for the whole industry. Each rack is used 11.5 times on average per year. A project to optimize the racks and reduce the weight and level of metal consumption is currently underway and the results are expected in 2019. We hope that this will reduce fuel consumption for the trucks transporting them, and the amount of material that is required to produce them in the first place. The products are transported mainly by truck and ship. Air freight is avoided whenever possible.

We have made a voluntary pledge to award at least 95% of all consignments which are transported predominantly to companies that are also pursuing similar initiatives to create traceable and effective measures to reduce the impact on the environment. Our objective is to achieve a figure of 100% in the medium term. The traceability is verified among other ways in the quality audits which are conducted annually with the companies providing transport services.

KTM focuses here in particular among others on the following points and aspects in which of course the contribution that we need to make as an employer in optimizing the scheduling of consignments also needs to be considered:

- Modern fleet of trucks, ideally consisting exclusively of low-emission trucks that meet the Euro 6 emissions standard.
- Truck driver training sessions which lead to optimized driving and braking. Approx. 40% of the fuel consumption of a truck is influenced by the factors of weather, topography, traffic and speed – these are parameters that the driver can respond to.
- Observance of the behaviors that have been learned during the training is monitored by telematics so that if necessary there can be a focus on even better implementation of the optimization measures which have been developed in follow-up training sessions.
- Transport planning which makes it possible to use shipping companies with a longer travel time. This so-called slow steaming, whereby the speed of the cargo ship is reduced by 50%, ensures that just 10% of the fuel is consumed.
- If air freight should be required from time to time, preference is given to using carriers that operate mainly fuel-efficient fleets of aircraft. This results in a kerosene saving of 16% - 25%.
- Installation of completely paper-free systems in consignment scheduling and handling.

## PRODUCT USE AND RECYCLING

As an assembling company, KTM AG is not part of the energy-intensive industry. However, we are conscious that the use of our products is associated with significant environmental impacts (including air emissions).

KTM AG endeavors to further develop its role as a technological leader in the motorcycles segment in these respects too. Vehicles that have been designed and homologated for use on public roads fulfill or fall short of the statutory homologation requirements of those distribution markets. Pollutant emissions (including NO<sub>x</sub> and SO<sub>x</sub>) are determined and recorded by KTM AG in the course of the homologation process using in-house, certified exhaust-gas test benches under strict supervision and regulation by the competent authorities. Detailed information on the emissions values of individual vehicles is recorded in the respective model approval documents and is available upon request. Reducing exhaust emissions makes a substantial contribution toward protecting the world's climate, and therefore forms a key area of priority in current and future development projects. In the 2018 financial year, the development and advance development of new technologies for reducing emissions was advanced further. For example, testing of new strategies to reduce raw emissions and for exhaust gas aftertreatment of the KTM and HUSQVARNA engine platforms to ensure that the model range continues to comply with future homologation regulations and emission standards.

The OBD (onboard diagnostics) systems used in our motorcycle models monitor emission-relevant components during riding and notify the customer (rider) of malfunctions of the monitored components. This avoids a situation in which vehicles with possibly increased levels of pollutant emissions are ridden for a longer period of time without this being noticed. The range of functions of the OBD systems in use extends beyond the range of functions required for vehicle model approval since 2016 (when the EURO 4 emissions standards were introduced). Even models intended for markets in which the OBD system is not prescribed are equipped with the OBD system. Our research and development department is currently already working on the development and further development of the engine control units and the OBD system so that levels of exhaust emissions and fuel consumption can be reduced further in a sustainable way. An important aspect in the development of (road-approved = homologated) vehicles is the reduction of emissions such as exhaust and noise emissions from the combustion process and evaporation emissions from hydrocarbons (= fuel). The homologation-relevant vehicles that are currently being developed will be produced to meet the **EURO 5 emission** standard valid from 2020 have up to 40% lower exhaust emissions than vehicles according to the currently binding EURO 4 standard in Europe. (EURO 5 emission standard: reduction CO by 12%, reduction HC by 41%, reduction NO<sub>x</sub> by 24%).

To take account of the increasing requirements to reduce pollutant emissions and fuel consumption, work began in 2016 to expand the testing center at the R&D site in Mattighofen. The first engine test benches, which in terms of their energy efficiency and measuring precision are among the most modern in their category, were successfully put into operation back in the third quarter of 2018. As part of the expansion of the test equipment capacities, consistent modernization and expansion of the exhaust emissions infrastructure was also pursued.

A further priority lies in the development of **CO<sub>2</sub> emission-neutral electric vehicles** for various areas of application. KTM AG has had such a product in its portfolio for many years in the form of the purely electrically powered "KTM FREERIDE E" models. Intensive development work on the electric energy accumulator at cell level and refinement of the battery management system has made it possible to increase the range of the purely electrically powered KTM FREERIDE E-XC model which is currently on sale by approximately 50%. The business segment of emission-free mobility will be expanded further in the future – for example, two further series production models of electric vehicles in the entry-level offroad segment were presented in November 2018 as part of Europe's most important trade fair for the motorcycle sector, EICMA in Milan. (KTM SX-E 5 and HUSQVARNA EE-5). The series production of both models will start in the 2019 financial year.

In the course of the EU-funded RESOLVE research project (H2020 program, grant agreement no. 653511, <http://www.resolve-project.eu>), at the same time as our developments, various solutions were developed for affordable and effective e-mobility of the future. The project started in May 2015 and lasted until April 2018. KTM AG worked in collaboration with 13 project partners from 7 European countries to develop workable solutions for cost-effective e-drives, energy-efficient full vehicles, as well as for an improved driving experience with the increased appeal of e-mobility with L-category vehicles. The results of the development were tested and demonstrated using two demo vehicles.



## REUSE AND RECYCLING OF LITHIUM-ION BATTERIES

KTM gives particular attention to the category of industrial batteries. What are known as KTM PowerPacks fall into this category. These are the batteries for powering the KTM FREERIDE E models which have been on the market since 2014. These batteries come under what is known as high-voltage technology due to their high energy content of 3.9 kWh and an operating voltage of 180 – 302.4 volts. They contain 360 individual lithium-ion cells and thus a large quantity of valuable raw materials whose recovery for further use is extremely important in relation to increasing E-mobility in the future. In order to handle this precious resource with care, KTM has set up on its communication platform with the markets a “Battery history” via which the authorized KTM dealer is obliged to register every single PowerPack that is placed on the market. This is done in the form of a delivery certificate which is to be registered in the system both for PowerPacks in the motorcycle and for spare PowerPacks.

This measure ensures that there is an overview from production through to recycling and should enable batteries which are no longer able to store sufficient energy for use in a motorcycle to continue to be used in a different area of application. For this purpose, KTM has joined a Smart Power project group which, in addition to the overarching issue of electric mobility, also focuses on the usefulness of used PowerPacks for energy storage in combination with photovoltaic panels.

Wels, March 2019

Executive Board

Handwritten signature of Stefan Pferrer, CEO.

Stefan Pferrer, CEO

Handwritten signature of Friedrich Roithner, CFO.

Friedrich Roithner, CFO

Handwritten signature of Hubert Trunkenpolz, CSO.

Hubert Trunkenpolz, CSO

## GRI CONTENT INDEX

The Report has been prepared taking into account the principles and criteria of the internationally recognized framework for sustainability reporting „GRI Standards“ of the Global Reporting Initiative. Compliance with the requirements for the reporting option „Core“ is aimed for and further optimized in 2019.

GRI Standard	Disclosure	Page(s) and / or URL(s)	Comments & Omissions
<b>GRI 101: Foundation 2016</b>			
<b>GRI 102: General Disclosures 2016</b>			
<b>Organizational profile</b>			
102-1	Name of the organization	p. 3	
102-2	Activities, brands, products, and services	p. 4	
102-3	Location of headquarters	p. 4	
102-4	Location of operations	p. 4	
102-5	Ownership and legal form	p. 4	
102-6	Markets served	p. 4	
102-7	Scale of the organization	Management Report p. 72 -73	
102-8	Information on employees and other workers	p. 14	Only 1% of employees have a temporary contract, therefore no separate subdivision into permanent / temporary employment has been conducted.
102-9	Supply chain	p. 6	
102-10	Significant changes to the organization and its supply chain	p. 4	
102-11	Precautionary Principle or approach	p. 9, 15, 23	
102-12	External initiatives	p. 9, 10	
102-13	Membership of associations	p. 7	
<b>Strategy</b>			
102-14	Statement from senior decision-maker	p. 27	
<b>Ethics and integrity</b>			
102-16	Values, principles, standards, and norms of behavior	p. 9	
<b>Governance</b>			
102-18	Governance structure	Corporate Governance Report p. 55, 60	
<b>Stakeholder engagement</b>			
102-40	List of stakeholder groups	p. 7	
102-41	Collective bargaining agreements		Around 98% of KTM AG employees are subject to collective agreements.
102-42	Identifying and selecting stakeholders	p. 9	
102-43	Approach to stakeholder engagement	p. 9	
102-44	Key topics and concerns raised	p. 9	
<b>Reporting practice</b>			
102-45	Entities included in the consolidated financial statements	Consolidated financial Statement p. 152- 154	

GRI Standard	Disclosure	Page(s) and / or URL(s)	Comments & Omissions
<b>102-46</b>	Defining report content and topic Boundaries	p. 9	
<b>102-47</b>	List of material topics	p. 9	No restatements have been necessary.
<b>102-48</b>	Restatements of information		No restatements have been necessary.
<b>102-49</b>	Changes in reporting	p. 9	01/01/2018 – 31/12/2018
<b>102-50</b>	Reporting period		01/01/2018 – 31/12/2018
<b>102-51</b>	Date of most recent report		Report about FY 2017
<b>102-52</b>	Reporting cycle		yearly
<b>102-53</b>	Contact point for questions regarding the report	p. 31	
<b>102-54</b>	Claims of reporting in accordance with the GRI Standards		No compliance with GRI Standards „core option“; reporting fully in accordance with „core option“ is aimed for in 2019.
<b>102-55</b>	GRI content index	p. 28-31	
<b>102-56</b>	External assurance		Currently no external assurance.
<b>Topic: Research and Development</b>			
<b>GRI 103:</b> Management Approach 2016	<b>103-1</b> Explanation of the material topic and its Boundary	p. 20	
	<b>103-2</b> The management approach and its components	p. 20	
	<b>103-3</b> Evaluation of the management approach	p. 20	
<b>Material Topic: Research and development</b>			
<b>Own indicator</b>	R&D-employees in the reporting period (average)	p. 20	
<b>Own indicator</b>	R&D-quota in percent from revenues	p. 20	
<b>Topic: Our Values &amp; Understanding of Business (Business Compliance)</b>			
<b>GRI 103:</b> Management Approach 2016	<b>103-1</b> Explanation of the material topic and its Boundary	p. 9, 10	
	<b>103-2</b> The management approach and its components	p. 9, 10	
	<b>103-3</b> Evaluation of the management approach	p. 9, 10	
<b>Material Topic: Anti-Corruption</b>			
<b>GRI 205:</b> Anti-corruption 2016	<b>205-2</b> Communication and training about anti-corruption policies and procedures	p. 10	
	<b>205-3</b> Confirmed incidents of corruption and actions taken	p. 10	
<b>Material Topic: Local employment / regionality</b>			
<b>GRI 204:</b> Procurement Practices 2016	<b>204-1</b> Proportion of spending on local suppliers	p. 21	
<b>Material Topic: Fair wages &amp; work standards (Focus: supply chain &amp; joint-venture)</b>			
<b>GRI 412:</b> Human Rights Assessment 2016	<b>412-3</b> Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	p. 10, 21	A qualitative description of the effects & measures is provided.

GRI Standard	Disclosure	Page(s) and / or URL(s)	Comments & Omissions
<b>Topic: Environmental aspects along the product life cycle</b>			
<b>GRI 103:</b> Management Approach 2016	<b>103-1</b> Explanation of the material topic and its Boundary	p. 22, 25-27	
	<b>103-2</b> The management approach and its components	p. 22, 25-27	
	<b>103-3</b> Evaluation of the management approach	p. 22, 25-27	
<b>Material Topic: Energy efficiency</b>			
<b>GRI 302:</b> Energy 2016	<b>302-1</b> Energy consumption within the organisation	p. 22	
	<b>302-4</b> Reduction of energy consumption		Qualitative description; reporting process currently gets established.
	<b>302-5</b> Reductions in energy requirements of products and services	p. 26	
<b>Material Topic: CO2-Emissions during production</b>			
<b>GRI 305:</b> Emissions 2016	<b>305-1</b> Direct (Scope 1) GHG emissions		Data for the relevant greenhouse gas emissions along the value chain (Scope 1-3 according to the Greenhouse Gas Protocol) is currently collected. Reporting is planned for 2019.
	<b>305-2</b> Energy indirect (Scope 2) GHG emissions		
<b>Material Topic: Efficient material usage</b>			
<b>GRI 301:</b> Materials 2016	<b>301-1</b> Materials used by weight or volume	p. 22-23	Qualitative description of the effects & measures; reporting process currently gets established.
<b>Material Topic: Pollutant emissions and CO2 emissions of vehicles (use phase)</b>			
<b>GRI 305:</b> Emissions 2016	<b>305-3</b> Other indirect (Scope 3) GHG emissions		Data for the relevant greenhouse gas emissions along the value chain (Scope 1-3 according to the Greenhouse Gas Protocol) is currently collected. Reporting is planned for 2019.
	<b>305-7</b> Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions		Reporting process currently gets established.
<b>Topic: Product quality and safety</b>			
<b>GRI 103:</b> Management Approach 2016	<b>103-1</b> Explanation of the material topic and its Boundary	p. 23	
	<b>103-2</b> The management approach and its components	p. 23	
	<b>103-3</b> Evaluation of the management approach	p. 23	
<b>Material Topic: Product quality and safety</b>			
<b>GRI 416:</b> Customer Health and Safety 2016	<b>416-2</b> Incidents of non-compliance concerning the health and safety impacts of products and services		No incidents known to us in the reporting period.
<b>Topic: Occupational safety and employee health</b>			
<b>GRI 103:</b> Management Approach 2016	<b>103-1</b> Explanation of the material topic and its Boundary	p. 15	
	<b>103-2</b> The management approach and its components	p. 15	
	<b>103-3</b> Evaluation of the management approach	p. 15	

GRI Standard	Disclosure	Page(s) and / or URL(s)	Comments & Omissions
<b>Material Topic: Occupational safety and employee health</b>			
<b>GRI 403:</b> Occupational Health and Safety 2016	<b>403-2</b> Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	p. 15	No work-related fatalities in the reporting periods 2017 and 2018.  Data for workers of external firms are not available.  No officially recognized occupational diseases.
<b>Topic: (Further) training of employees</b>			
<b>GRI 103:</b> Management Approach 2016	<b>103-1</b> Explanation of the material topic and its Boundary	p. 16	
	<b>103-2</b> The management approach and its components	p. 16, 17	
	<b>103-3</b> Evaluation of the management approach	p. 16, 17	
<b>Material Topic: (Further) Training</b>			
<b>GRI 404:</b> Training and Education 2016	<b>404-1</b> Average hours of training per year per employee	p. 17	
<b>Material Topic: Diversity &amp; Equal Treatment</b>			
<b>GRI 405:</b> Diversity and Equal Opportunity 2016	<b>405-1</b> Diversity of governance bodies and employees	p. 19	

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The present sustainability report has been prepared with the utmost care and the correctness of the data was checked. Nevertheless, slight differences in the calculations may arise as result of the summation of rounded amounts and percentages, and typographical and printing errors cannot be ruled out.

References to persons such as "employees" or "staff members" are intended to be gender-neutral and insofar as the contrary appears this is solely for purposes of legibility.

This report and the forward-looking statements it contains were prepared on the basis of all the data and information available at the time of going to press. However, we must point out that various factors may cause the actual results to deviate from the forward-looking statements given in the report.

This annual report is published in German and English. In the event of ambiguity, the German version shall take precedence.

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