

**KTM INDUSTRIES AG
REPORT H1 2018**

KEY FIGURES

EARNINGS RATIOS		H1 2017	H1 2018	CHANGE IN %
Revenue	in € million	758.8	821.8	8
EBITDA	in € million	105.8	126.2	19
EBIT	in € million	65.8	78.4	19
Net result after tax	in € million	41.4	52.7	27
EBITDA margin	in %	13.9 %	15.4 %	
EBIT margin	in %	8.7 %	9.5 %	
STATEMENT OF FINANCIAL POSITION RATIOS		12/31/2017	06/30/2018	CHANGE IN %
Balance sheet total	in € million	1,465.2	1,425.6	-3
Equity	in € million	528.6	490.9	-7
Equity ratio	in %	36.1 %	34.4 %	
Working Capital Employed ¹⁾	in € million	238.4	241.6	1
Net financial debt ²⁾	in € million	375.0	382.9	2
Gearing ³⁾	in %	70.9 %	78.0 %	
CASH FLOW AND INVESTMENTS		H1 2017	H1 2018	CHANGE IN %
Cash flow from operations	in € million	-8.8	-49.6	<100
Cash flow from investing activity	in € million	-63.5	-38.6	39
Cash flow from financing activity	in € million	-94.0	62.8	>100
Investments ⁴⁾	in € million	87.6	96.2	10
EMPLOYEES		12/31/2017	06/30/2018	CHANGE IN %
Number of employees on reporting date ⁵⁾	Number	5,887	4,334	-26
VALUE CREATION		12/31/2017	06/30/2018	
ROCE (Return on Capital Employed) ⁶⁾	in %	13.9 %	15.1 %	
ROE (Return on Equity) ⁷⁾	in %	17.1 %	19.5 %	
STOCK MARKET FIGURES ⁸⁾		06/30/2017	06/30/2018	CHANGE IN %
Market price on June 30; SIX Swiss Exchange	in CHF	CHF 51.90	CHF 74.80	44
Number of shares ⁹⁾	in m	22.539	22.539	
Market capitalization	in CHF m	1,169.76	1,685.89	44
Earnings per share	in €	1.04	1.49	44
Carrying amount per share ¹⁰⁾	in €	23.45	21.78	-7

1) Working capital = inventory + trade receivables - trade liabilities

2) Net financial debt = financial liabilities (current, non-current) - cash

3) Gearing = net financial debt/equity

4) Additions from property, plant and equipment and intangible assets according to schedule of investments

5) Number of employees on the reporting date (including temporary staff)

6) ROCE: EBIT/average capital employed

Capital employed = property, plant and equipment + goodwill + intangible assets + working capital employed

7) ROE = net result after tax/average equity

8) Listed on the SIX Swiss Exchange since November 14, 2016

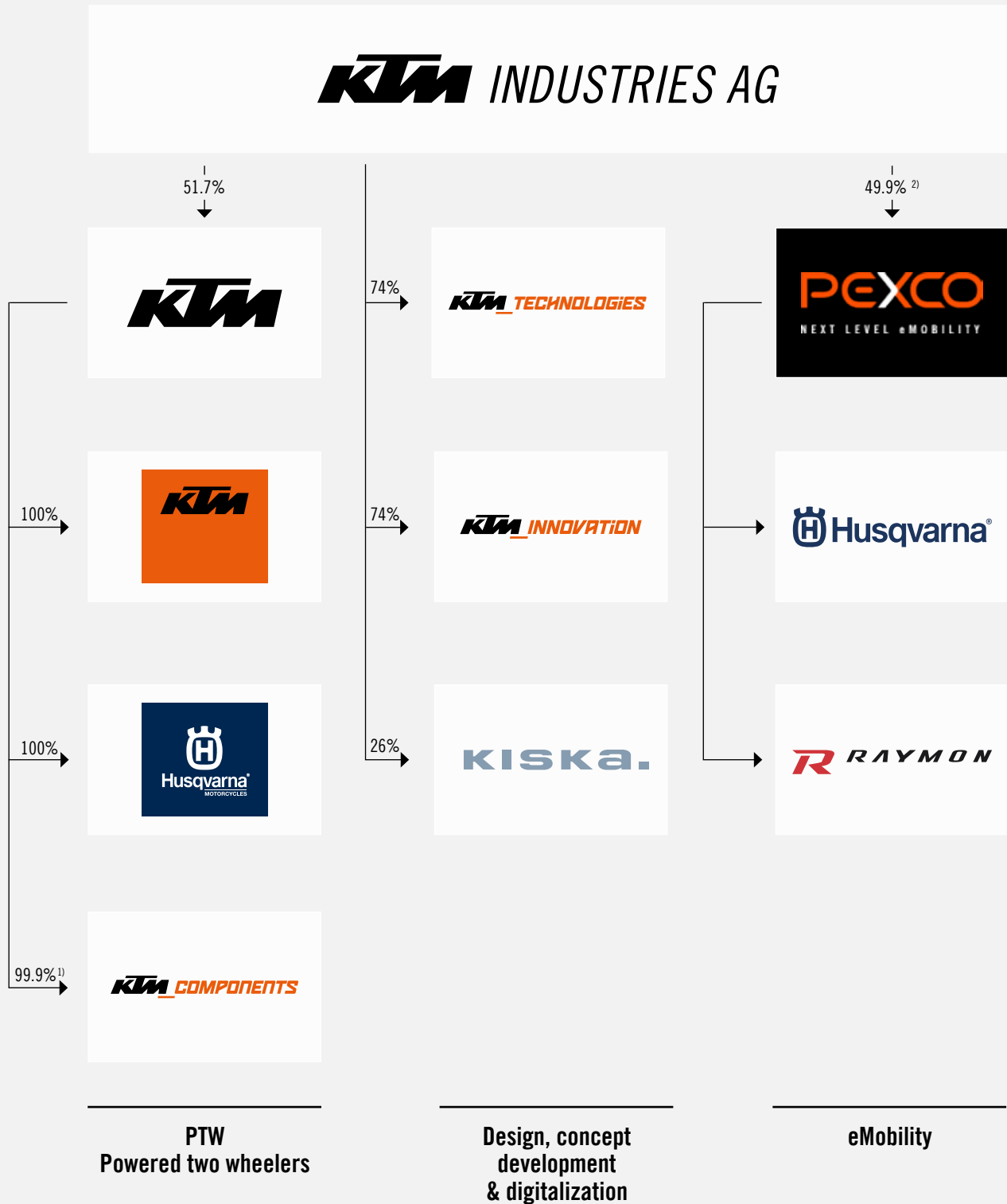
9) due to share consolidation the previous year figure was adjusted, see notes "Notes to the consolidated income statement"

10) Equity/number of shares



GROUP STRUCTURE

simplified presentation, 06/30/2018



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

¹⁾ Since January 2018 operating under the roof of KTM AG

²⁾ PEXCO GmbH „at equity“; 50.1% are held by family Puello

INTERIM CONSOLIDATED MANAGEMENT REPORT

FOR THE FIRST HALF-YEAR 2018

DEVELOPMENT OF THE KTM INDUSTRIES GROUP

The KTM Industries Group is the biggest European motorcycle producer and focuses on highly innovative sport motorcycles and electro mobility. 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 form the foundation for the high level of innovation within the KTM Industries Group and secure our organic growth course in the long term.

In the first half of 2018, the KTM Industries Group continued its **strong growth**, and achieved record sales of €821.8 m, equivalent to an increase of +8 % compared with the same period last year. With this growth, the KTM Industries Group was able to continue to build on its leading position as Europe's largest motorcycle manufacturer, having generated record sales of over 126,800 motorcycles. The members of the Executive Board of KTM AG, Hubert Trunkenpolz and Harald Plöckinger, were appointed to the Executive Board of KTM Industries AG in January 2018.

The **implementation of the global product strategy** and the expansion into other Asian and South American markets were consistently pursued in the first half of 2018. The strategic alliance with our Indian partner, Bajaj, was also deepened further. Extending the cooperation to the Husqvarna Motorcycles brand has raised the partnership between Bajaj and KTM to the next level. The KTM joint venture in China with its partner CF Moto was established in early 2018 under the name "Zhejiang CFMOTO-KTMR2R Motorcycles Co., Ltd". The production of mid-class motorcycles in the Chinese city of Hangzhou is planned from 2021 onwards.

KTM was once again the **number one in Europe** in terms of sales volume during the first half of 2018, a period which saw four series launches. The market launches of the first model in KTM's mid-class series (2-cylinder 800 cm³) – 790 DUKE – and the Husqvarna road models, took place successfully. KTM was also able to make significant gains in market share across all world regions during the first half of the year.

The greatly anticipated **KTM 790 DUKE**, which was unveiled in Spring 2018, and the Husqvarna VITPILEN 701 and 401 and SVARTPILEN 401 road motorcycle models for 2018, which had already been introduced last year, have already been distributed across the KTM network of dealers. Furthermore, the existing KTM RC 390 with sports features will be joined by a sport counterpart, the **KTM RC 390 R**. May saw the presentation of the new **KTM SX Generation** in Malagrotta, Italy. The reworked and improved **KTM-EXC series** of the 2019 model year were also presented. During the European Adventure rally held in Sardinia in June, the public enjoyed an exclusive preview of the **KTM 790 ADVENTURE R** of the 2019 model year. The completely new series 2 cylinder in this adventure bike was developed together with KTM's Dakar-winning bike, the KTM 450 RALLY, and it forms the link between the Enduros and KTM's 2019 street model series.

In January 2018, the **WP Group** (now: KTM Components-Group), the most important supplier for motorcycle production in Mattighofen, was fully integrated into KTM AG in order to secure the continued growth of the KTM Industries Group and achieve synergy potential. During the course of integration, the lead company, 'WP Performance Systems GmbH' changed its name to 'KTM Components GmbH', while keeping the WP brand name for products in the field of suspension.

Intensive work was already underway in 2017 to **expand** and build on the Group's own location for **radiator production** in Dalian, **China**. Series production was also initiated at the WP Cooling Systems (Dalian) Co., Ltd. Plant in the 2018 financial year. Plans are in place to complete most of the relocation of series production to China by the end of the 2018 financial year.

The decision was taken in June to sell the Pankl Group for €130.5 m. The **sale of Pankl** laid the strategic and financial basis for an even greater focus in the KTM Industries Group on the two-wheel industry, particularly the development of e-mobility, over the next few years. As a result of the cash inflow from the sale, it was possible to return perpetual bonds of €60 m and reduce other financial obligations. Furthermore, the Group's net financial debt relating to the financing of the Pankl Group of €100 m was reduced, which strengthened the balance sheet structure. The 1800 employees of the Pankl Group are no longer included in the financial statements of the KTM Industries Group from June 30, 2018. As a result of the sale of Pankl, the revenue of the KTM Industries Group will reduce by about €100 m, the amount of Pankl's revenue in the second half of the year. Wolfgang Plasser, CEO of Pankl Racing Systems AG and member of the Executive Board of KTM Industries AG, stepped down from the Executive Board of KTM Industries AG during the course of the sale.

KTM Innovation GmbH was established in March 2018 in order to underpin and strengthen the KTM Industries Group's competence in the area of **'Digitalization'**. This involves working in various technology fields, such as artificial intelligence, big data, blockchain and business modeling. The focus of these field is digital products and services for the core product.

ECONOMIC ENVIRONMENT AND MARKET DEVELOPMENT

According to the assessment by the International Monetary Fund (IMF) of April 2018, global economic output will grow by 3.9 % in 2018. It forecasts growth of 2.5 % for both this year and next year in industrialized nations. For the euro area, a development of 2.4 % is expected for 2018. For 2019, the IMF anticipates global economic growth of 3.9 %, with growth of 2.0 % for the euro area.

For emerging markets and developing economies, a growth in economic output of 4.9 % and 5.1 % is expected for 2018 and 2019 respectively. For China, a growth rate of 6.6 % for 2018 and 6.4 % for 2019 is forecast. The highest growth rate is expected for India, with a 7.4 % increase in economic output for the current year and 7.8 % for next year.

The **European motorcycles market**¹ grew by 9.3 % in the first six months of 2018 compared with the previous year, equivalent to around 358,000 registered vehicles, and this increase is predominantly attributed to the development in European markets such as Germany (+12.1 %), France (+11.2 %) and Italy (+10.1 %).

KTM and also Husqvarna were able to increase their market shares in the European market. The market share of KTM is now 9 % (previous year: 7.5 %), while that of Husqvarna is 2.3 % (previous year: 1.2 %).

The number of registrations in the **US motorcycle market**² fell during the first six months of 2017 by around 216,000 registered vehicles (-2.3 % compared with the previous year).

However, KTM was able to increase its market share in the US market from 5.8 % in the previous year to 6.3 %. Husqvarna likewise achieved an increase in its market share from 1.8 % in the previous year to 2.1 %.

¹ Motorcycles > 120 cm³ excluding Motocross, scooters and ATVs, including electric motorcycles

² Motorcycles > 120 cm³ including Motocross, excluding scooters and ATVs, including electric motorcycles

BUSINESS DEVELOPMENT AND ANALYSIS OF EARNINGS RATIOS

With record sales of over 126,808 motorcycles, the KTM Industries Group generated revenue of €821.8 m in the first half of 2018 (+8 %) following €758.8 m in the previous year. The earnings before interest and taxes (EBIT) in the first half of 2018 was €78.4 m, following €65.8 m in the previous year (+19 %), and without including the effect from the sale of the Pankl Group of €26.2 m, this figure was €52.2 m, and therefore over the budget. The EBIT margin of 6.4 % adjusted for the effect of the Pankl sale is in excess of planned targets, taking into consideration four series launches. The earnings before interest, taxes, depreciation and amortization (EBITDA) is €126.2 m, an increase compared with the previous year's figure of €105.8 m. The net result after tax for the first six months is €52.7 m (previous year: €41.4 m).

The earnings ratios are distributed across the operational core divisions as follows (excluding consolidation effects):

€ million	KTM AG		KTM COMPONENTS GMBH		PANKL RACING SYSTEMS AG	
	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017
Revenue	713.7	654.5	93.6	85.7	110.2	100.3
EBITDA	77.7	82.6	7.8	6.5	15.4	15.8
EBIT	41.8	52.4	5.0	3.9	6.8	9.1
Net result after tax	30.4	36.5	3.6	3.0	5.7	5.1

KTM AG

The company achieved revenue of €713.7 m in the first six months of 2018, corresponding to an increase of 9.0 % compared with the same period last year.

Taking into account the KTM 200 DUKE, the KTM 390 DUKE, KTM RC 200 and KTM RC 390 models sold in India by our partner Bajaj, sales increased in the first half of 2018 to **126,808 motorcycles** (+15 % on the previous year). KTM therefore achieved an EBITDA of €77.7 m (-6.1 % compared with the previous year) and an EBIT of €41.8 m (-20.2 % compared with the previous year) during the first six months of the current financial year. Taking account of the series launches during the first six months of 2018, the EBIT is below the previous year, but in excess of planned targets. The net result after tax decreased in the first six months from €36.5 m to €30.4 m.

KTM COMPONENTS GMBH

During the first half of 2018, the KTM Components Group succeeded in increasing its revenue to €93.6 m (previous year: €85.7). The rise in revenue could be seen in all product divisions and across a majority of customer segments. KTM Components grew faster than the market due to KTM's strong growth. The EBIT exceeded the previous year's result by €5 m (previous year: €3.9 m). The improved result was attributable mainly to the increase in revenue and the ongoing optimization of production processes. The increase in revenue helped to counteract higher costs resulting from new product launches, and costs and investments for the expansion and modernization of production and machinery to secure and expand production capacities.

PANKL RACING SYSTEMS AG

During the first six months of the 2018 financial year, the Pankl Group was able to continue growth in revenue, and achieved record sales of €110.2 m, which equates to growth of 9.8 % compared with the first six months of 2017 (H1 2017: €100.3 m). It achieved growth in the racing/high performance segment, while the aerospace segment declined slightly.

Due to very moderate development in Racing, especially in Q2, the EBIT fell from €9.1 m in the first six months of 2017 to €6.8 m after 6 months of the current financial year. This corresponds to an EBIT margin of 6.2 % (H1 2017: 9.1 %). Due to a more favorable development in currency compared with the previous year, and the continued low interest rate, the financial result improved from -€2.0 m in the first half of the 2017 financial year to -€1.3 m at present. It was possible to gain from investment-related tax relief in connection with a major investment project, which resulted in a positive income tax benefit in the first half of 2018. The net result after tax on June 30, 2018 was therefore €5.7 m (H1 2017: €5.1 m).

STATEMENT OF FINANCIAL POSITION ANALYSIS

The structure of the statement of financial position of the KTM Industries Group is as follows:

	06/30/2018		12/31/2017	
	€ million	in %	€ million	in %
Non-current assets	706.2	49.5 %	782.1	53.4 %
Current assets	719.4	50.5 %	683.0	46.6 %
Assets	1,425.6	100.0 %	1,465.2	100.0 %
Equity	490.9	34.4 %	528.6	36.1 %
Non-current liabilities	473.4	33.2 %	461.5	31.5 %
Current liabilities	461.3	32.4 %	475.1	32.4 %
Equity and liabilities	1,425.6	100.0 %	1,465.2	100.0 %

The sale of the Pankl Group was completed before the half-year reporting date, which meant that the consolidation effects had already been recorded in the half-year statement of financial position.

The balance sheet total of the KTM Industries Group decreased slightly from €1.4652 bn to €1.4256 bn compared to the consolidated financial statements as of December 31, 2017 (-2.7 %).

The non-current assets reduced during the first half of the year, essentially as a result of the disposal of Pankl (effect of around -17 %). When taking account of the level of investment in the remaining company divisions, which continues to exceed amortizations, the assets remain overall about 10 % below the previous year's value.

The current assets increased on the one hand due to the growth-related rise in inventory, trade receivables and the realized cash addition resulting from the sale of the Pankl Group. On the other hand, the disposal of Pankl reduced the current assets. Overall the current assets increased by around 5 %.

As a result of the promissory note loans, successfully placed by KTM AG in the first half of 2018, with an issuing volume of €135 m and a term of seven or ten years, the liabilities remained above the level of last year overall, despite the deconsolidation of the Pankl Group. The promissory note loan serves to finance the company's growth in the future.

The equity decreased during the first six months by €37.6 m from €528.6 m to €490.9 m. On the one hand, equity was boosted by the net result for the period of €52.7 m, while on the other hand, dividend payments of €18.6 m and the return of perpetual bonds of €60 m recognized in equity resulted in a reduction of equity. In addition, minority shares worth €2.2 m were disposed of as part of the deconsolidation of the Pankl Group.

LIQUIDITY ANALYSIS

The cash flow from operating activities was -€49.6 m in the first six months due to the seasonal factor, and was therefore below the previous year's value of -€8.8 m, for which the planned increase in working capital was primarily responsible.

The cash outflow due to investments was -€38.6 m. Payments received from the sale of the Pankl Group of €58.5 m (including disposed cash of the Pankl Group of €9.1 m) and the successful sale of the remaining shares in the Wethje Group worth €3.7 m had a positive effect on the investment cash flow.

After taking into account the cash flow from financing activities of €62.8 m, liquid funds decreased by €25.4 m compared with December 31, 2017 to €143.7 m. The financing cash flow was primarily characterized by the placement of a new promissory note loan of €135.0 m, and the early repayment of the promissory note loan issued in 2016 in KTM AG of €32.5 m.

INVESTMENTS

Investments in Research & Development in the first half of 2018 were €37.9 m (half-year 2017: €32.4 m), whereas investments in infrastructure decreased. Due to the intensive investment program over the last few years, investments in infrastructure will continue to decrease further. Overall, investments in the first half of 2018 were €96 m (previous year: €87.6 m).

The expansion of the research and development center at the Mattighofen site with an investment volume of approximately €30 m was completed for the most part in Q2 2018. The "House of Brands" for the sales and marketing of the KTM, Husqvarna Motorcycles and WP brands at the Munderfing site is scheduled for completion in the 2019 financial year. The new KTM Motohall, a digital experience exploring the history of the KTM brand in the center of Mattighofen, is expected to open its doors in Q1 2019.

The consistently high investments in series product development represent one of the key success factors of the KTM Industries Group.

EMPLOYEES

The KTM Industries Group lost 1,800 employees of the Pankl Group upon the sale of the Pankl Group to the Pierer Industrie Group. On June 30, 2018, KTM Industries employed 4,334 staff, 3,645 of whom in Austria (84 %). Around 15 % of the Group's entire workforce are employed in research & development.

RISK REPORT

For details of the risk report, please refer to the consolidated financial statements as at December 31, 2017. There have been no changes to the risk assessment since that time.

RELATED PARTY DISCLOSURES

Please refer to the notes of the interim financial statements for information.

EVENTS AFTER THE REPORTING DATE

Please refer to the notes of the interim financial statements for information.

OUTLOOK

The KTM Industries Group expects a further increase in both revenue and sales in the 2018 financial year, despite the missing revenue of the Pankl Group's second half of the year of €100 m.

From a regional point of view, we are expecting to see significant growth in absolute terms in the European and North American regions. We are expecting to see the greatest relative growth rates in the ASEAN region and in India. KTM plans to open a representative office in Colombia in order to boost its market presence in South America.

The planned growth is primarily expected from KTM and Husqvarna road bikes. At Husqvarna Motorcycles, the focus for the 2018 financial year is on its return to the road segment with the launch of the VITPILEN 401, SVARTPILEN 401 and VITPILEN 701. KTM is breaking into a new segment with the introduction of the new inline two-cylinder DUKE 790.

On the basis of the half year result 2018 and due to the sale of the Pankl-Group, the guidance was updated. For the 2018 financial year, the Executive Board expects a consolidated revenue of about € 1.570 billion and an operating EBIT of more than € 160 million. The Net Debt / EBITDA - ratio is expected to improve to a range between 1.0 - 1.2 x.

Wels, August 27, 2018

The Executive Board of KTM Industries AG



Stefan Pierer, CEO



Friedrich Roithner, CFO



Hubert Funkenpolz



Harald Plöckinger

CONSOLIDATED INCOME STATEMENT

FOR FIRST HALF-YEAR JANUARY 1, 2018 THROUGH JUNE 30, 2018

EURk	H1 2018			H1 2017		
	Continued operation	Discontinued operation	GROUP	Continued operation	Discontinued operation	GROUP
Revenue	724,490	97,342	821,832	665,889	92,923	758,812
Production costs of the services provided to generate the revenue	-525,032	-66,018	-591,050	-473,777	-62,729	-536,506
Gross profit from sales	199,458	31,324	230,782	192,112	30,194	222,306
Selling and racing expenses	-93,507	-6,335	-99,842	-82,716	-6,007	-88,723
Research and development expenses	-13,608	-8,067	-21,675	-12,738	-4,787	-17,525
Administration expenses	-31,572	-12,704	-44,276	-27,568	-11,920	-39,488
Other operating expenses	-14,802	-122	-14,924	-14,671	-43	-14,714
Other operating income	332	28,344 ¹⁾	28,676	2,802	1,109	3,911
Earnings from at-equity holdings	-346	0	-346	56	0	56
Result from operating activities	45,955	32,440	78,395	57,277	8,546	65,823
Interest income	1,213	32	1,245	820	37	857
Interest expenses	-6,319	-885	-7,204	-6,692	-998	-7,690
Other financial and investment income (expenses)	-789	-437	-1,226	-1,969	-1,034	-3,013
Result before taxes	40,060	31,150	71,210	49,436	6,551	55,987
Income taxes	-10,030	-8,448	-18,478	-12,661	-1,888	-14,549
Profit or loss for the period	30,031	22,702	52,733	36,775	4,663	41,438
thereof owners of the parent company	13,581	20,071	33,652	18,709	4,688	23,397
thereof non-controlling shareholders	16,450	2,631	19,081	18,066	-25	18,041
Undiluted (=diluted) earnings per share (EUR)²⁾	0.60	0.89	1.49	0.83	0.21	1.04

1) including deconsolidation effect from the sale of the Pankl-Group, see notes "Scope of consolidation" and "Notes to the consolidated income statement"

2) due to share consolidation the previous year figure was adjusted, see notes "Notes to the consolidated income statement"

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR FIRST HALF-YEAR JANUARY 1, 2018 THROUGH JUNE 30, 2018

EURk	H1 2018			H1 2017		
	Continued operation	Discontinued operation	GROUP	Continued operation	Discontinued operation	GROUP
Profit or loss for the period	30,031	22,702	52,733	36,775	4,663	41,438
Items reclassified to profit or loss or which can be subsequently reclassified						
Foreign currency translation	-130	-727	-857	-1,969	-1,145	-3,114
Valuation of cash flow hedges	-1,978	0	-1,978	12,677	0	12,677
Deferred tax on valuation of cash flow hedges	494	0	494	-3,169	0	-3,169
	-1,613	-727	-2,340	7,539	-1,145	6,394
Items not reclassified to profit or loss						
Revaluation of net debt from defined benefit plans	-12	0	-12	1,141	119	1,260
Tax effect	3	0	3	-285	-30	-315
	-9	0	-9	856	89	945
Other net result after tax	-1,622	-727	-2,349	8,395	-1,056	7,339
Total comprehensive income	28,408	21,975	50,383	45,170	3,607	48,777
thereof owners of the parent company	12,750	23,244	35,994	23,124	3,689	26,813
thereof non-controlling shareholders	15,658	-1,269	14,389	22,046	-82	21,964

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2018

EURk	06/30/2018	12/31/ 2017
Assets:		
Non-current assets:		
Property, plant, and equipment	276,220	357,324
Goodwill	96,626	117,125
Intangible assets	298,575	279,589
Investments accounted for using the equity method	14,496	15,050
Deferred tax assets	5,103	7,483
Other non-current assets	15,193	5,554
	706,213	782,125
Current assets:		
Inventories	295,502	296,950
Trade receivables	156,076	120,305
Receivables and other assets	123,282	95,255
Tax refund entitlements	836	1,450
Cash and cash equivalents	143,670	169,068
	719,366	683,028
	1,425,579	1,465,153

EURk	06/30/2018	12/31/2017
Equity and liabilities:		
Equity:		
Share capital	22,539	225,387
Capital reserves	9,949	9,949
Perpetual bond	0	69,453
Other reserves including retained earnings	231,619	13,176
Equity of the owners of the parent company	264,107	317,965
Non-controlling interests	226,835	210,614
	490,942	528,579
Non-current liabilities:		
Financial liabilities	388,841	372,541
Liabilities for employee benefits	22,623	24,001
Deferred tax liabilities	53,373	53,455
Other non-current liabilities	8,523	11,479
	473,360	461,476
Current liabilities:		
Financial liabilities	137,771	171,494
Trade payables	209,944	178,464
Provisions	11,677	11,996
Tax liabilities	4,462	14,153
Other current liabilities	97,423	98,991
	461,277	475,098
	1,425,579	1,465,153

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR FIRST HALF-YEAR JANUARY 1, 2018 THROUGH JUNE 30, 2018

EURk	H1 2018	H1 2017 ¹⁾
Operations		
Result for the period	52,733	41,438
+ (-) Interest expenses / interest income	5,959	6,833
+ Tax expenses	18,478	14,549
+ Depreciation/amortization of property, plant and equipment and intangible assets	47,819	40,016
+ (-) Other non-cash expenses (income)	-18,759	-5,062
+ Interest received	1,071	976
- Interest payments	-5,287	-7,049
- Tax payments	-7,618	-5,807
+ Dividends received	221	146
Gross cash flow	94,617	86,040
- (+) Increase (decrease) in the net current assets	-144,204	-94,825
Cash flow from operations	-49,588	-8,785
of which discontinued operation	1,469	5,685
Investing activity		
- Payments made for the acquisition of intangible assets and property, plant and equipment	-84,014	-88,106
+ Payments received from the sale of intangible assets and property, plant and equipment	489	1,626
+ Dividends received	0	183
+ Disposal of Pankl Racing Systems AG minus disposed-of liquid funds	58,498	0
- Other changes to scope of consolidation	-2,099	0
+ (-) Payments/receipts from other assets	-11,507	22,836
Cash flow from investing activity	-38,633	-63,461
of which discontinued operation	42,636	-18,264
Free cash flow	-88,221	-72,246

1) adjusted, see notes „principles of financial reporting - Correction previous year figure“

EURk	H1 2018	H1 2017 ¹⁾
Financing activity		
- Dividend payments to third parties	-18,588	-17,508
+ (-) Disposal/acquisition of non-controlling interests	-5,037	5
+ Taking out a promissory note loan	135,000	0
+ Taking out non-current interest-bearing liabilities	33,547	0
- Repayment of promissory note loan	-32,500	-32,000
- Repayment of non-current interest-bearing liabilities	-26,216	0
- Repayment of bonds	0	-85,000
+ Repurchase of own bonds	0	1,900
+ (-) Increase (decrease) from other financing activities	-23,377	6,576
Cash flow from financing activity	62,830	-126,027
of which discontinued operation	14,356	18,255
Total cash flow	-25,391	-198,273
of which discontinued operation	58,461	5,676
+ Opening balance of liquid funds within the Group	169,068	283,578
+ Effect of foreign currency fluctuations	-7	-1,465
Closing balance of liquid funds within the Group	143,670	83,840

1) adjusted, see notes „principles of financial reporting - Correction previous year figure“

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EURk	Equity		
	Share capital	Capital reserves	Perpetual bond
Balance as at January 1, 2018	225,387	9,949	69,453
Amendments ¹⁾	0	0	0
Balance as at January 1, 2018 after amendments	225,387	9,949	69,453
Profit or loss for the period	0	0	0
Other comprehensive income	0	0	0
Total comprehensive income	0	0	0
Transactions with shareholders			
Dividends to third parties	0	0	0
Perpetual bond	0	0	-60,000
Acquisition/sale of shares to subsidiaries	0	0	0
Capital measures ²⁾	-202,848	0	0
Deconsolidation of Pankl Racing Systems AG	0	0	-9,453
Other	0	0	0
Balance as at June 30, 2018	22,539	9,949	0

1) Due to the initial application of IFRS 9 + IFRS 15, the opening balance was adjusted, see note "newly applied standards and interpretations"

2) Due to share consolidation in the ratio 10:1 the number of shares issued reduced from 225,386,742 to 22,538,674, see notes "Notes to the consolidated income statement"

Balance as of January 1, 2017	225,387	9,949	60,000
Profit or loss for the period	0	0	0
Other comprehensive income	0	0	0
Total comprehensive income	0	0	0
Transactions with shareholders			
Dividends to third parties	0	0	0
Disposal of shares to subsidiaries	0	0	0
Other	0	0	0
Balance as at June 30, 2017	225,387	9,949	60,000

of the owners of the parent company				Non-controlling interests	Total consolidated equity
Reserves including retained earnings	Reserve in accordance with IAS 39	Adjustment items Currency translation	Total		
15,166	1,769	-3,759	317,965	210,614	528,579
654	0	0	654	37	691
15,820	1,769	-3,759	318,619	210,651	529,270
33,652	0	0	33,652	19,081	52,733
-14	-750	3,106	2,342	-4,692	-2,349
33,638	-750	3,106	35,994	14,389	50,383
-6,762	0	0	-6,762	-11,826	-18,588
-2,877	0	0	-62,877	0	-62,877
-21,012	0	0	-21,012	15,975	-5,037
202,848	0	0	0	0	0
9,453	0	0	0	-2,242	-2,242
146	0	0	146	-112	34
231,253	1,019	-653	264,107	226,835	490,942
-20,182	-1,588	720	274,286	180,651	454,937
23,397	0	0	23,397	18,041	41,438
572	4,940	-2,096	3,416	3,923	7,339
23,969	4,940	-2,096	26,813	21,964	48,777
-6,762	0	0	-6,762	-10,746	-17,508
3	0	0	3	2	5
348	0	0	348	-344	4
-2,624	3,352	-1,376	294,688	191,527	486,215

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FIRST HALF-YEAR 2018

COMPANY INFORMATION

KTM Industries AG has its headquarters at Edisonstrasse 1, 4600 Wels, and is registered with the commercial register at the Provincial Court Wels as Commercial Court, under the registration number FN 78112 x.

The KTM Industries-Group is the biggest European motorcycle producer and focuses on highly innovative sport motorcycles and electro mobility. Its globally recognized brands KTM, Husqvarna Motorcycles, and WP make it a technological and market leader in its respective segments.

The stocks of KTM Industries AG are listed on the "Swiss Performance Index (SPI)" of the SIX Swiss Exchange in Zurich and on the Vienna Stock Exchange in the "standard market auction" segment.

In order to boost efficiency increases within the Group and to realize synergy potential, the WP Group (now KTM Components Group) was fully integrated into KTM AG in January 2018 in its position as the most important supplier for the motorcycle production in Mattighofen. In the course of integration the name of the lead company 'WP Performance Systems GmbH' was changed to 'KTM Components GmbH'. On the reporting date June 30, 2018, KTM AG held 99.9 % of the KTM Components Group. KTM Industries AG continues to hold around 51.7 % of shares in KTM AG.

Upon its entry into the commercial register on March 23, 2018, KTM Innovation GmbH was established as the first port of call for digital transformation and innovation within the Group, focusing on digital products and services for the core product. KTM Industries AG holds 74.0 % of the company.

From January 3, 2018, KTM Industries AG announced it would make an offer to the shareholders of Pankl Racing Systems AG to terminate the admission for trading the Pankl shares (ISIN AT0000800800). Following the end of the acceptance period at the end of March 2018, shares of the Pankl Group rose from 94.5 % (December 31, 2017) to 98.2 %. In accordance with the resolution of the Vienna Stock Exchange of February 19, 2018, Pankl shares were traded on the Vienna Stock Exchange for the last time on May 30, 2018.

The decision was taken in June 2018 to sell the entire Pankl Group to the Pierer Industrie Group for €130.5 m. The purchase price therefore corresponds to the price that the shareholders of Pankl Racing Systems AG were offered as part of the public takeover bid up to March 2018. The sale of the Pankl Group laid the strategic and financial basis for an even greater focus in the KTM Industries Group on the two-wheel industry, particularly the development of e-mobility, over the next few years. Wolfgang Plasser, CEO of Pankl Racing Systems AG and member of the Executive Board of KTM Industries AG, stepped down from the Executive Board of KTM Industries AG during the course of the sale.

The remaining share relationships remained unchanged compared to December 31, 2017.

PRINCIPLES OF FINANCIAL REPORTING

The condensed interim consolidated financial statements for the reporting period from January 1 to June 30, 2018 of KTM Industries AG were prepared in accordance with the International Financial Reporting Standards (IFRS), as applied in the EU, applying IAS 34 (interim reporting).

These condensed interim consolidated financial statements for the first half of 2018 have not been audited or been subject to review.

The condensed interim consolidated financial statements do not include all notes and disclosures required for year-end consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as of December 31, 2017.

The interim consolidated financial statements are prepared in euros, which is the functional currency of the parent company. Unless specifically indicated, all amounts are rounded to the nearest 1,000 euros (EUR k), which may give rise to rounding differences. Through the application of automated calculating tools rounding differences can also occur with accumulation of rounded figures and with percentages.

The accounting policies used on December 31, 2017 were applied without change, with the exception of the IFRS, the use of which is mandatory from January 1, 2018. The financial reporting of the companies included in the condensed interim consolidated financial statements is subject to uniform accounting principles, and these principles were applied by all consolidated entities.

In principle, the income tax expenditure is determined for the interim consolidated financial statements in accordance with IAS 34 as an estimate on the basis of the average annual tax rate expected for the full financial year, while already taking into consideration special tax effects of the first half-year in the actual tax expenditure.

The provisions for obligations for severance pay and anniversary bonuses were measured according to the years of service method (projected unit credit method). Actuarial reports for the measurement are generated as of the end of the reporting period. These values are adjusted for the interim consolidated financial statements. If significant changes to the parameters occur during the year the net debt is revalued.

CORRECTION PREVIOUS YEAR FIGURE

In the Notes to the Consolidated Financial Statements as at December 31, 2017, 'Point 3. Changes resulting from errors' made reference to the reversal of the offsetting of the promissory note loan in the 2016 consolidated financial statements of €32.0 m. Due to this misstatement, the cash level as at December 31, 2016 in the interim consolidated financial statements for the first half of 2017 should have been €32.0 m higher. For this reason, the opening balance of liquid funds in the statement of cash flows for the first half of 2017 has been adjusted in the present interim financial statements from €251.6 m to €283.6 m. The partial amount of the promissory note loan of €32.0 m that was repaid in January 2017 can be found in the cash flow from financing activity for the half-year 2017. The cash level as at June 30, 2017 corresponds to the published previous year's value of €83.8 m. For further information regarding the topic of offsetting the promissory note loan, please refer to Point 3 of the Notes to the Consolidated Financial Statements as at December 31, 2017.

NEWLY APPLIED STANDARDS AND INTERPRETATIONS

The following new and amended standards and interpretations, which must be applied in the EU with effect from January 1, 2018, do not have any significant effect on the interim consolidated financial statements of KTM Industries AG:

- Amendments to IFRS 2: Classification and measurement of share-based payment transactions
- Amendments to IFRS 4: Applying IFRS 9 together with IFRS 4
- Amendments to IAS 40: Transfers of investment property
- Annual Improvements to IFRS 2014-2016: Amendments to IFRS 1 and IAS 28
- IFRIC 22: Foreign currency transactions and advance consideration

The new standards IFRS 9 and IFRS 15 have an effect on the interim consolidated financial statement of KTM Industries AG. The table below shows the effects of IFRS 9 and IFRS 15 at January 1, 2018:

Group statement of financial position EURk	12/31/2017 Reported	Amendments in accordance with		01/01/2018 Adjusted
		IFRS 9	IFRS 15	
Inventories	296,950	0	-1,811	295,139
Trade receivables	120,305	13	2,677	122,995
Current assets	683,028	13	866	683,927
Deferred tax assets	7,483	20	-212	7,271
Non-current assets	782,125	20	-212	781,913
ASSETS	1,465,153	33	654	1,465,840

Group statement of financial position EURk	12/31/2017 Reported	Amendments in accordance with		01/01/2018 Adjusted
		IFRS 9	IFRS 15	
Current liabilities	475,098	0	0	475,098
Deferred tax liabilities	53,455	-8	4	53,451
Non-current liabilities	461,476	-8	4	461,472
Equity	528,579	41	650	529,270
EQUITY AND LIABILITIES	1,465,153	33	654	1,465,840

The IFRS 9 and IFRS 15 standards, which must be applied in the EU with effect from January 1, 2018, and their effects on the interim consolidated financial statements of KTM Industries AG are described below.

▪ IFRS 15 Revenue from Contracts with Customers

In a comprehensive model framework, IFRS 15 defines whether, when and at what amount revenues should be recognized. The standard provides a single, principles-based, five-stage model to be applied to all contracts with customers. It replaces existing guidelines on the recording of revenue, including IAS 18 Revenue, IAS 11 Construction Contracts, and IFRIC 13 Customer Loyalty Programmes. The contract analysis to identify any required adjustments in the implementation of IFRS 15 was carried out for all of the Group's major product groups (revenue streams).

Variable considerations, such as price rebates, sales bonuses, and cash discounts were identified, and these were already shown as revenue reductions in previous years.

As warranties are not sold separately, these only provide assurance that the products being sold meet the agreed specifications. As these warranties do not depart from the statutory warranty obligations or those that are typical of the industry in terms of their duration or their content, they are deemed to be assurance-type warranties, which do not constitute a separate performance obligation. Accordingly, the warranties will continue to be established in accordance with IAS 37, which is in line with current accounting.

According to IFRS 15, revenues are recognized as soon as control passes to the customer. In a number of contracts on the make-to-order production of products, the customer controls all of the ongoing works during production. The revenue from such contracts is recorded during production, and this means that negligible revenues and any associated costs for these contracts are recognized over a period, in other words before the goods are delivered to the customer.

In the transition to IFRS 15, the KTM Industries Group has used the modified retrospective method, according to which the cumulative adjustment amounts are recorded as at January 1, 2018. Accordingly, there is no adjustment of the comparison periods shown. The table below contains a summary of the effects on accounting at the time of initial application:

EURk	Effects as of January 1, 2018
Assets	
Inventories	-1,811
Contract assets	2,677
Deferred tax assets	-212
	654
Equity and liabilities	
Deferred tax liabilities	4
Equity	650
	654

Due to materiality considerations, the item 'contract assets' is not shown as an individual item in the consolidated statement of financial position, but instead is included in the trade receivables.

▪ IFRS 9 Financial Instruments

IFRS 9 will be applied with retroactive effect to January 1, 2018. The applications of the impairment requirements of IFRS 9 result overall in an increase in trade receivables in the KTM Industries Group of EUR 13 k. Due to the fact that impairment losses had already been recognized for trade receivables in the Pankl Group, this resulted in a positive effect on the equity of KTM Industries in the KTM Industries Group as a whole at the time of initial application, as the Pankl Group still formed part of the KTM Industries Group at this time.

The measurement categories of IFRS 9 were used to classify and measure the assets side:

- AC category: At amortized cost using the effective interest method
- FVOCI category: At fair value, changes to the fair value are recorded under other comprehensive income
- FVPL category: At fair value, changes to the fair value are recorded in the income statement

In the case of equity instruments (such as shares in companies not listed on the stock exchange) that are classified under IAS 39 as financial assets available for sale, the FVOCI option is being exercised now. This will lead to changes in the fair value being recorded under other comprehensive income, meaning that it will no longer be possible to regroup the changes to fair value accumulated under other comprehensive income in the income statement. KTM Industries is taking advantage of its right to choose the FVOCI option for carrying amounts of EUR 166 k (other non-current financial assets).

For the most part, the existing provisions will be adopted for the recognition and measurement of financial liabilities.

With regard to impairment loss, IFRS 9 replaces the previous “Incurred Loss” model from IAS 39 with the “Expected Credit Loss” model. In this regard, IFRS 9 defines different levels for the purposes of establishing the amount of the losses and interest receipts that are to be recorded. Trade receivables do not exhibit any significant financing components. For that reason, the simplified process for establishing the expected credit loss is used; this involves accounting for all instruments with a risk provision, which is independent of their credit quality, in the amount of the expected losses over the term to maturity. In the case of trade receivables, this amounts to fewer than 12 months and therefore corresponds to the 12-month loss. In order to determine the expected credit loss, historical default data were collected for receivables in the KTM Group over the last eight to ten years and split into geographic regions. In that regard, an expected credit loss of 0.06 % of trade receivables was determined for 2017. With regard to the Pankl Group, historical default data could not be utilized for statistical purposes due to the very few occurrences of defaults. The probability of default was therefore measured on the basis of external ratings of Pankl’s most important customers, taking into account particular geographic situations. The ratings of the most important customers were weighted in terms of revenue and then used as the probability of default for the entire segment.

Cash and cash equivalents mainly comprise cash on hand and cash balances at credit institutions that have received good creditworthiness ratings from external rating agencies. For that reason, the credit risk is classified as low. According to the 12-month loss model, no significant impairment losses are expected.

The classification and measurement of financial instruments from IAS 39 to IFRS 9 can be carried over as follows:

Financial assets EURk	Classification under IAS 39	Classification under IFRS 9	Carrying amount in accordance with IAS 39 12/31/2017	Carrying amount in accordance with IFRS 9, 01/01/2018
Financial assets measured at fair value				
Other current assets - Derivatives with positive market value that have already been assigned to receivables	Fair value - hedging instruments	Recorded in income statement at fair value	4,173	4,173
Other current assets - Derivatives with positive market value (cash flow hedge)	Fair value - hedging instruments	Recorded at fair value without affecting income statement	7,452	7,452
Other non-current financial assets	Available for sale	Recorded at fair value (without recycling) without affecting income statement	166	166

Financial assets EURk	Classification under IAS 39	Classification under IFRS 9	Carrying amount in accordance with IAS 39 12/31/2017	Carrying amount in accordance with IFRS 9, 01/01/2018
Financial assets not measured at fair value				
Cash and cash equivalents	Loans and receivables	Measured at amortized cost	169,068	169,068
Trade receivables	Loans and receivables	Measured at amortized cost	120,305	120,318
Other financial assets	Loans and receivables	Measured at amortized cost	43,671	43,671

The rules for hedge accounting are applied in accordance with IFRS 9 from the 2018 financial year onwards. Since the new requirements are intended to better illustrate risk management within the group, and since the range of possible hedged items and hedging transactions has been extended, the existing hedging relationships can continue to be accounted for as hedging relationships under IFRS 9.

IFRS 9 introduces the concept of the cost of hedging. For this, the fair value of an option, the forward element of a forward contract and any foreign currency basis spreads can be excluded from the designation of a financial instrument as a hedging instrument and accounted for as the cost of hedging. In this regard, fluctuations in the value of these components that have optionally not been designated are recorded as hedging costs under other comprehensive income and reclassified in the income statement in the event that the hedged item is recognized in profit or loss.

As at January 1, 2018, no change has been made with regard to the reserves under equity as a result of the application of the accounting principles for hedging relationships under IFRS 9.

Furthermore, no significant impacts are expected for the consolidated financial statements as a result of the application of the new hedge accounting provisions under IFRS 9. The right to choose to continue recording hedging in accordance with the provisions of IAS 39 will not be used until further notice.

The table below shows the effects of the IFRS 9 and IFRS 15 standards (which are now mandatory from 2018) on the statement of financial position, with the effect on the interim financial statements of the KTM Industries Group as at June 30, 2018:

Group statement of financial position EURk	06/30/2018 Reported	Amendments in accordance with		06/30/2018 Without application IFRS 9 & IFRS 15
		IFRS 9	IFRS 15	
Inventories	295,502	0	-1,057	296,559
Trade receivables	156,076	-56	1,420	154,712
Current assets	719,366	-56	363	719,059
Deferred tax assets	5,103	0	-91	5,194
Non-current assets	706,213	0	-91	706,304
ASSETS	1,425,579	-56	272	1,425,363
Current liabilities	461,277	0	0	461,277
Deferred tax liabilities	53,373	-14	0	53,387
Non-current liabilities	473,360	-14	0	473,374
Equity	490,942	-42	272	490,712
EQUITY AND LIABILITIES	1,425,579	-56	272	1,425,363

ESTIMATES

In the interim consolidated financial statements, certain estimates and assumptions have to be made that affect the recognized assets and liabilities, the disclosure of contingent liabilities as at the reporting date and the presentation of income and expenses for the reporting period. Estimates and assumptions are based on empirical values that the Executive Board deems appropriate. The amounts actually arising may differ from the estimates if assumed parameters develop contrary to expectations. If new conditions become known, they are duly taken into account and previous assumptions are revised accordingly.

Estimates and uncertainties in judgments and assumptions are explained in the consolidated financial statements of KTM Industries AG as of December 31, 2017 under 'Point (6) Estimates and uncertainties in judgments and assumptions'.

SEASONALITY

At KTM AG seasonality effects occur due to the different seasonality of offroad- and street motorcycles. In the street segment, there are higher sales in the first half of the year, whereas in the offroad division, the main focus is on the second half of the year. Due to the increasing importance of the street segment in total revenues, seasonal effects are straightened over the year to a large extent. At Pankl Racing Systems AG seasonal fluctuations exist in Racing/High Performance because the racing season for the most important racing categories begins in spring and ends in the fall. Consequently the first quarter tends to be the strongest one.

SCOPE OF CONSOLIDATION

All subsidiaries that are either legally or de facto under the control of KTM Industries AG are included in the interim consolidated financial statements as at June 30, 2018.

The number of companies included in the scope of consolidation changed in the first half of 2018 as shown below:

	Fully consolidated companies	At equity companies
Balance as of December 31, 2017	62	10
Additions to the scope of consolidation	3	1
Disposals from scope of consolidation	-11	0
Disposals due to mergers	-1	0
Balance as of June 30, 2018	53	11
Foreign companies	36	6

KTM Industries AG – as the parent company of the KTM Industries Group – was not taken into account in this list.

▪ DISCONTINUED OPERATION (IFRS 5) - SALE OF PANKL RACING SYSTEMS AG

The most significant change to the scope of consolidation concerns the disposal of the Pankl Group. KTM Industries AG sold all of its 98.2 % share in Pankl Racing Systems AG in June 2018. In the course of the sale, 10 fully consolidated companies of the Pankl Group were disposed of.

In the division of the consolidated income statement and the consolidated statement of comprehensive income into continued and discontinued operation, the continued operation of the KTM Industries Group has been shown in the manner in which it will continue in the long term. The following important points emerged as part of the division into continued and discontinued operation within the KTM Industries Group:

- Profit from the sale transaction is included in other operating income of the discontinued operation in the EBIT.
- Taxes due in connection with the discontinued operation and the sale thereof were allocated to discontinued operation.
- As the Pankl Group acts as a supplier of purchased parts for the KTM Group, the intra group expenses in the first half-year within the KTM Group increased by €12 m (previous year: €7 m) as a result of the expected continued involvement in continued operation. On the other hand, the expenses in discontinued operation were reduced accordingly.

The consolidated statement of cash flows of the KTM Industries Group showed details of the discontinued operation using 'of-which' sub-items. The most important allocation theme was to demonstrate the cash flow from the sale of the Pankl Group. The cash addition was allocated to the discontinued operation, and is included in the 'of-which' sub-item of investment cash flow at €58.5 m.

The following assets and liabilities were disposed of:

EURk	06/30/2018
Property, plant, and equipment	-106,526
Goodwill	-22,152
Intangible assets	-3,511
Deferred tax assets	-3,712
Other non-current assets	-1,583
Non-current assets	-137,484
Inventories	-66,981
Trade receivables	-23,491
Receivables and other assets	-11,208
Cash and cash equivalents	-9,142
Current assets	-110,822
Assets	-248,306
Financial liabilities	97,702
Liabilities for employee benefits	1,865
Deferred tax liabilities	658
Other non-current liabilities	3,327
Non-current liabilities	103,552
Financial liabilities	15,301
Trade payables	12,489
Provisions	274
Other current liabilities	8,711
Current liabilities	36,775
Liabilities	140,327
Non-controlling interests	2,242
Net assets disposed of	-105,737
Sale price	130,517
Deconsolidation profit¹	24,780

The cash inflow resulting from the sale was as follows:

EURk	06/30/2018
Sale price	130,517
Cash disposed of	-9,142
Settlement of perpetual bonds including interest	-62,877
Net cash inflow from the sale	58,498

¹ Including reclassification of foreign currency effects of €1.4m from the statement of comprehensive income to the income statement, the total effect is € 26.2 m.

▪ OTHER CHANGES TO SCOPE OF CONSOLIDATION

During the first half of the year, shares in KTM South East Europe S.A., Elefsina, Greece (until now a fully consolidated subsidiary) were sold off in full with effect from January 1, 2018. The company was deconsolidated and now operates as an importer. In addition, 100 % of shares in Fuhrmann Erodiertechnik GmbH were acquired with effect from January 2, 2018, and the initial consolidation of Fuhrmann Erodiertechnik GmbH also took place on January 2, 2018. The newly established KTM Beteiligungs GmbH in Mattighofen was also initially consolidated in the first half of 2018. Furthermore, KTM Innovation GmbH was newly established in March 2018, and was fully consolidated in the KTM Industries Group. K KraftFahrZeug Holding GmbH was merged with KTM Industries AG in the first half of 2018.

In early 2018, a joint venture was established with the partner CF-Moto under the name of 'Zhejiang CFMOTO-KTMR2R Motorcycles Co., Ltd.'. The production of mid-class motorcycles in the Chinese city of Hangzhou is planned from 2021 onwards.

SEGMENT REPORTING

KTM Industries AG consists of the segments KTM, KTM Components (formerly WP), PANKL and Others, and these are explained below:

KTM:

The KTM Group engages in the development, production and sale of motorized vehicles for recreational purposes (power sports), in particular under the KTM and Husqvarna Motorcycles brands, and holds equity holdings in entities engaging in the development, production and sale of such equipment.

KTM COMPONENTS:

The KTM Components Group develops and produces performance-determining components for the motorcycle and sports car industry. The product range spans the categories of chassis (chassis suspension/frame) and engine components (exhaust system/radiator).

PANKL:

The Pankl Group is specialized in the production of high-strength lightweight components for special niche markets such as the international racing industry, the international luxury and high-performance street vehicle industry as well as the aviation industry. Pankl mainly concentrates on developing, improving and testing products. The Pankl Group was deconsolidated in June 2018. Consequently, earnings ratios are still retained in the first half of the year, and carrying amounts were disposed of on June 30, 2018.

OTHERS:

The 'Others' segment represents KTM Industries AG, W Verwaltungs AG, KTM Technologies GmbH, KTM Innovation GmbH, and PF Beteiligungsverwaltungs GmbH. The deconsolidation profit resulting from the sale of the Pankl Group is included in the segment reporting in the 'Others' section. Segment information for the first half of 2018 and first half of 2017 can be divided into the described segments as follows:

H1 2018 €m	KTM	KTM Components	PANKL	Other	Consolidation	GROUP
Revenues (including revenues within the segments)	713.7	93.6	110.2	10.7	-106.3	821.8
External revenues	713.3	9.0	97.3	2.2	0.0	821.8
Result from operating activities	41.8	5.0	6.8	25.4	-0.7	78.4
Investments	75.7	4.6	16.0	0.1	-0.3	96.2
Depreciation and amortization	35.8	2.7	8.6	0.7	0.0	47.8
Share in the result of companies accounted for using the equity method	0.3	0.0	0.0	0.0	-0.6	-0.3
Balance sheet total	1,247.7	122.3	0.0	376.9	-321.2	1,425.6
Equity	491.9	56.1	0.0	203.7	-260.7	490.9

H1 2017 €m	KTM	KTM Components	PANKL	Other	Consolida- tion	GROUP
Revenues (including revenues within the segments)	654.5	85.7	100.3	3.9	-85.6	758.8
External revenues	654.1	11.6	92.9	0.2	0.0	758.8
Result from operating activities	52.4	3.9	9.1	2.6	-2.3	65.8
Investments	64.1	3.2	20.3	0.0	0.0	87.6
Depreciation and amortization	30.2	2.6	6.7	0.5	0.0	40.0
Share in the result of companies accounted for using the equity method	0.8	0.0	0.0	0.0	-0.7	0.1
Balance sheet total	1,034.5	115.4	218.0	627.7	-592.9	1,402.7
Equity	450.6	50.6	82.4	423.3	-520.7	486.2

NOTES TO THE CONSOLIDATED INCOME STATEMENT

In the first half-year, Group revenue amounted to €821.8 m, equivalent to an increase of €63.0 m or 8.3 % compared to the same period last year. The KTM Group (+9.0 %), the KTM Components Group (+9.2 %) and the Pankl Group (+9.8 %) achieved growth in revenues. When adjusted for the Pankl Group, the continued operation of the KTM Industries Group achieved total revenue of €724.5 m (previous year: €665.9 m).

The Group EBIT increased in the first half of 2018 by 19.1 % compared with the previous year to €78.4 m, which equates to an EBIT margin of 9.5 % (previous year: 8.7 %). When adjusted for Pankl's operating result and effects of deconsolidation of €26.2 m (including foreign currency effects of €1.4 m, which were reclassified from the statement of comprehensive income to the income statement), the operating result for the continued operation of KTM Industries Group is €46.0 m (previous year: €57.3 m). The negative difference compared with the previous year resulted from budgeted series launches in the first half of 2018. The EBIT margin of the continued operation is 6.3 %.

The result for the period amounted to €52.7 m (up 27.3 % on the previous year). €30.0 m is attributed to the continued operation.

In addition to the redemption of 2 shares to streamline the existing company share capital, a share consolidation took place in the ratio 10:1. This reduced the number of shares issued from 225,386,742 to 22,538,674. The earnings per share were €1.49 in the first half of 2018 (previous year: €1.04). The previous year's figure was adjusted.

NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The cash flow hedge reserve decreased the equity during the reporting period by €1.5 m. Changes to the foreign currency translation reserve resulting from currency translation of -€0.9 m were also recorded. Of these, -€1.4 m concerned effects that were reclassified in the income statement as part of the disposal of Pankl. All values are inclusive of non-controlling interests.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND CHANGES IN EQUITY

The non-current assets reduced by around 10 % during the first half of the year, essentially as a result of the disposal of Pankl. The current assets increased overall by around 5 %, on the one hand due to the growth-related rise in inventory, trade receivables and the realized cash addition resulting from the sale of the Pankl Group, while on the other hand, the disposal of Pankl reduced the current assets.

During the first half of 2018, KTM AG placed a promissory note loan with an issuing volume of €135 m and a term of seven or ten years, which serves to finance the company's growth in the future. Despite the deconsolidation of Pankl Group, liabilities therefore remained the same overall as the previous year.

During the first six months, consolidated equity reduced by €37.6 m to 490.9 m dividend payments worth €18.6 m, and the return of perpetual bonds recognized in equity of €62.9 m including interest resulted in a reduction of equity. The deconsolidation of the Pankl Group reduced the minority shares by €2.2 m. On the other hand, the result for the period of €52.7 m boosted equity. As a result of the integration of the KTM Components-Group into the KTM AG, the equity holding share of the KTM Components-Group in the KTM Industries-Group reduced from 88.26 % to 51.62 %. Therefore the non-controlling interests increased around €19 m, the controlling interests decreased accordingly. The equity ratio was 34.4 % (December 31, 2017: 36.1 %) on the reporting date.

Taking into account the explained effects, the balance sheet total of KTM Industries Group decreased by 2.7 % compared with the consolidated financial statements as at December 31, 2017.

At the end of the reporting period on December 31, 2017, property, plant and equipment amounting to €92.6 m were secured by pledge agreements recorded in the land register and duly filed, above all for liabilities owed to credit institutions. €30.7 m of this amount was attributed to the Pankl Group, which is no longer relevant in the KTM Industries Group as at the reporting date of June 30, 2018 in view of the sale of Pankl Racing Systems AG. As of June 30, 2018 there have been no further material changes compared with December 31, 2017.

NOTES ON THE STATEMENT OF CASH FLOWS

During the first six months, the level of liquid funds in the Group fell by €25.4 m to €143.7 m. The change comprised the cash flow from operating activities of -€49.6 m, the cash flow from investing activity of -€38.6 m, and the cash flow from financing activity of €62.8 m.

The negative cash flow from operating activities is essentially attributable to the seasonal increase in net current assets. The investment cash flow remained over the previous year's level due to the sale of Pankl and the resulting cash inflow of €58.5 m. The positive cash flow from financing activity resulted primarily from the taking out of a promissory note loan of €135.0 m.

DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

The measurement categories of IFRS 9 were used to classify and measure the assets side. The fair value of a financial instrument is determined by

means of quoted market prices for identical instruments in active markets (Level 1). If no quoted market prices in active markets are available for the instrument, the fair value is determined on the basis of measurement techniques for which at least one input is not based on observable market data (Level 3). The table below shows the carrying amounts and fair values of financial assets (financial instruments shown on the assets side), broken down by class and IFRS 9 measurement category. However, it does not provide any information in relation to financial assets not measured at fair value where the carrying amount is a reasonable approximation of fair value.

	Carrying amount 06/30/2018	Categories of IFRS 9	Fair value June 06/30/2018
€m			
Financial assets measured at fair value			
Other current assets - Derivatives with positive market value that have already been assigned to receivables	2.6	FVPL	2.6
Other current assets - Derivatives with positive market value (cash flow hedge)	4.8	FVOCI	4.8
Other non-current financial assets	0.2	FV OCI*	-
Total	7.6		
Financial assets not measured at fair value			
Cash and cash equivalents	143.7	AC	-
Trade receivables	156.1	AC	-
Other financial assets	72.4	AC	-
Total	372.1		
Overall total	379.7		

	Carrying amount 12/31/2017	Categories of IFRS 9	Fair value 12/31/2017
€m			
Financial assets measured at fair value			
Other current assets - Derivatives with positive market value that have already been assigned to receivables	4.2	FVPL	4.2
Other current assets - Derivatives with positive market value (cash flow hedge)	7.5	FVOCI	7.5
Other non-current financial assets	0.2	FVOCI	-
Total	11.8		
Financial assets not measured at fair value			
Cash and cash equivalents	169.1	AC	-
Trade receivables	120.3	AC	-
Other financial assets	43.7	AC	-
Total	333.0		
Overall total	344.8		

Abbreviations:

AC	Amortized Cost	at amortized cost
FVPL	Fair Value through Profit and Loss	at fair value in the result for the period
FVOCI	Fair Value through OCI	at fair value in other comprehensive income
FV OCI*	Fair Value through OCI (without recycling)	at fair value in other comprehensive income (without recycling)

value is determined by means of measurement techniques for which the material inputs are based exclusively on observable market data (Level 2). In all other cases, the

Fair value				Carrying amount 06/30/2018			
Level 1	Level 2	Level 3	Total	AC Amortized Cost	FVOCI Fair Value through OCI	FVOCI Fair Value through OCI (without recycling)	FVPL Fair Value through P&L
-	2.6	-	2.6	-	-	-	2.6
-	4.8	-	4.8	-	4.8	-	-
-	-	-	-	-	-	0.2	-
-	-	-	-	-	-	-	-
-	-	-	-	143.7	-	-	-
-	-	-	-	156.1	-	-	-
-	-	-	-	72.4	-	-	-

Fair value				Carrying amount 12/31/2017 (IAS 39)			
Level 1	Level 2	Level 3	Total	Fair value - hedging instruments	Available for sale	Loans and receivables	Held for trading
-	4.2	-	4.2	4.2	-	-	-
-	7.5	-	7.5	7.5	-	-	-
-	-	-	-	-	0.2	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	169.1	-
-	-	-	-	-	-	120.3	-
-	-	-	-	-	-	43.7	-

The table below shows the carrying amounts and fair values of financial liabilities (financial instruments shown on the liabilities side), broken down by class and IFRS 9 measurement category. However, it does not provide any information in relation to financial liabilities not measured at fair value where the carrying amount is a reasonable approximation of fair value.

€m	Carrying amount 06/30/2018	Categories of IFRS 9	Fair value 06/30/2018
Financial liabilities measured at fair value			
Other financial liabilities - Derivatives with negative market value that have already been assigned to receivables	0.4	FVPL	0.4
Other financial liabilities - derivatives with negative market value (cash flow hedge)	1.9	FVOCI	1.9
Total	2.3		
Financial liabilities not measured at fair value			
Interest-bearing liabilities	460.1	AC	473.4
Bonds	57.8	AC	58.4
Liabilities under finance leases	8.7	AC	-
Trade payables	209.9	AC	-
Other financial liabilities (current and non-current)	48.1	AC	-
Total	784.7		
Overall total	787.0		

€m	Carrying amount 12/31/2017	Categories of IFRS 9	Fair value 12/31/2017
Financial liabilities measured at fair value			
Other financial liabilities - Derivatives with negative market value that have already been assigned to receivables	0.1	FVPL	0.1
Other financial liabilities - derivatives with negative market value (cash flow hedge)	2.3	FVOCI	1.9
Total	2.4		
Financial liabilities not measured at fair value			
Interest-bearing liabilities	483.2	AC	502.2
Bonds	57.7	AC	59.5
Liabilities under finance leases	3.1	AC	-
Trade payables	178.5	AC	-
Other financial liabilities (current and non-current)	56.4	AC	-
Total	778.9		
Overall total	781.3		

Fair value				Carrying amount 06/30/2018			
Level 1	Level 2	Level 3	Total	AC Amortized Cost	FVOCI Fair Value through OCI	FVOCI Fair Value through OCI (without recycling)	FVPL Fair Value through P&L
-	0.4	-	0.4	-	-	-	0.4
-	1.9	-	1.9	-	1.9	-	-
-	-	473.4	473.4	460.1	-	-	-
58.4	-	-	-	57.8	-	-	-
-	-	-	-	8.7	-	-	-
-	-	-	-	209.9	-	-	-
-	-	-	-	48.1	-	-	-

Fair value				Carrying amount 12/31/2017 (IAS 39)			
Level 1	Level 2	Level 3	Total	Fair value - hedging instruments	Held for trading	At amortized cost	Other
-	0.1	-	0.1	0.1	-	-	-
-	1.9	-	1.9	2.3	-	-	-
-	-	502.2	502.2	-	-	483.2	-
59.5	-	-	59.5	-	-	57.7	-
-	-	-	-	-	-	3.1	-
-	-	-	-	-	-	178.5	-
-	-	-	-	-	-	56.4	-

FAIR VALUE DETERMINATION

Please refer to the consolidated financial statements of KTM Industries as of December 31, 2017 Point 44 (Classification and Fair Value) in relation to valuation technique.

RELATED PARTY DISCLOSURES

In January 2018, KTM Industries AG sold its 75.9 % share in W Verwaltungs AG internally to KTM AG. As a result of these transactions, the equity holding share within KTM Industries Group in W Verwaltungs AG reduced from the previous figure of 88.26 % (75.9 % directly, 24 % indirectly via KTM AG) to 51.62 %.

In June 2018, KTM Industries AG sold all of its 98.2 % share in Pankl Racing Systems AG to the Pierer Industrie AG Group. This sale laid the strategic and financial basis for an even greater focus in the KTM Industries Group on the two-wheel industry, particularly the development of e-mobility, over the next few years. The purchase price was €130.5 m and therefore corresponds to the price that the shareholders of Pankl Racing Systems AG were offered as part of the public takeover bid up to March 2018. The subordinated 5 % perpetual bond of €60.0 m subscribed to by Pierer Industrie AG in the 2016 financial year was set off against the sale price, including interest incurred of €2.9 m, as part of the sale of the Pankl Group.

The Pankl Group acts as a supplier of purchased parts for the KTM Group. Due to the disposal of Pankl, trade payables in respect of the Pankl Group of €1.1 m now exist as at June 30, 2018. The previous year's values were eliminated from the KTM Industries Group as part of the debt consolidation. From June 30, 2018, the Pankl Group forms part of the Pierer Industrie Group, and is therefore a related party in accordance with IAS 24 as far as the KTM Industries Group is concerned.

All products and services rendered and received from related companies and individuals as stated in the consolidated financial statements as of December 31, 2017 are carried out at arm's length. As of Saturday, June 30, 2018 there have been no material changes.

EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since June 30, 2018 that require inclusion in the reporting.

DECLARATION OF THE EXECUTIVE BOARD

IN ACCORDANCE WITH SECTION 87, PARAGRAPH 1, NO. 3 OF THE AUSTRIAN STOCK EXCHANGE ACT

We confirm to the best of our knowledge that the condensed consolidated interim financial statements created in line with the applicable accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the KTM Industries Group and that the interim Group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial statements, of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

Wels, August 27, 2018

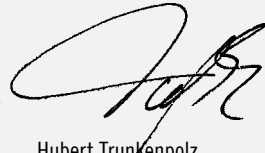
The Executive Board of KTM Industries AG



Stefan Pierer, CEO



Friedrich Roithner, CFO



Hubert Trunkenpolz



Harald Plöckinger

FINANCIAL CALENDAR

January 28, 2019	Announcement of preliminary annual results 2018
March 22, 2019	Publication of annual financial statements 2018
April 15, 2019	Record date annual general meeting
April 25, 2019	22st annual general meeting
May 2, 2019	Ex-dividend day
May 3, 2019	Record date dividends
May 6, 2019	Dividend payment day
August 26, 2019	Report on the 1st half year 2019

MORE INFORMATION ON THE KTM INDUSTRIES SHARE

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 Valor number (Switzerland) 41860974
 Share category no-bar value bearer shares
 Share capital EUR 22,538,674 divided into 22,538,674 shares
 Number of listed shares 22,538,674 shares
 Authorized capital up to 11,269,337 shares
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 Symbol Reuters KTM:VI
 Symbol Bloomberg KTM: AV
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The present annual 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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