



**KTM INDUSTRIES AG  
ANNUAL FINANCIAL REPORT 2017**

# HIGHLIGHTS 2017

## AND OUTLOOK AT A GLANCE

### ANOTHER RECORD YEAR FOR KTM INDUSTRIES

- EUR 1,533m revenues (+14% vs 2016) and record revenues for the 7th consecutive time
- 238,334 motorcycles sold (+17% vs 2016)

### STRONG MOMENTUM IN ALL RELEVANT MARKETS

- 10.1% market share in Europe and 8.3% market share in US/CA
- Husqvarna strong momentum maintained and posts one of the highest growth numbers in registrations (+5.2% vs 2016)

### ENLARGEMENT OF STRATEGIC PARTNERSHIP WITH BAJAJ AND NEW JV WITH CF MOTO

- Later in 2018, Bajaj will add Husqvarna models Vitpilen 401 and Svartpilen 401 to its production for global markets and distribution agreement
- Joint venture with CF Moto strengthens KTM's footprint in China and allows cost-efficient production of motorcycles with engines >690cc

### NEXT LEVEL OF eMOBILITY

- Next step to become a comprehensive power two-wheeler company
- Leveraging technological and market know-how

### SUCCESSFUL MOTORSPORT YEAR ACROSS ALL RACING CLASSES

- 11 championship titles in 2017 and more than 280 in KTM history
- Increase of brand visibility

### NEW GUIDANCE AND OUTLOOK

- >400,000 motorcycles in 2022
- Selected figures of new guidance:

	2021 (NEW)	2021 (OLD)
Motorcycles sold <sup>1)</sup>	>360,000 units	>300,000 units
EBIT margin	8 – 10%	8 – 10%
ROIC	10 – 12%	9 – 11%

<sup>1)</sup>Including units distributed by Bajaj



**READY TO RACE**  
» [www.ktm.com](http://www.ktm.com)

# 17 DAKARS UNDEFEATED

» THE MOST VICTORIOUS MOTORCYCLE BRAND IN DAKAR HISTORY!



What does it take to win 17 consecutive titles in the world's toughest rally race? After years of battling the Dakar, we can attribute our victories to one thing – sheer **READY TO RACE** spirit.

**CONGRATULATIONS TO MATTHIAS WALKNER AND THE ENTIRE RED BULL KTM FACTORY RACING TEAM!**



Please make no attempt to imitate the illustrated riding scenes, always wear protective clothing and observe the applicable provisions of the road traffic regulations! The illustrated vehicles may vary in selected details from the production models and some illustrations feature optional equipment available at additional cost.



[www.kitka.com](http://www.kitka.com)

Photo: KTM Images / PhotoDakar.com

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# KEY FIGURES

<b>EARNINGS RATIOS</b>		<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>CHG. IN %</b>
Revenue	in m€	910.6	1,086.3	1,223.6	1,343.0	1,533.0	14
EBITDA	in m€	116.7	148.1	178.4	198.4	218.9	10
EBIT	in m€	65.9	93.0	112.9	122.3	132.5	8
Earnings after taxes	in m€	31.7	57.0	65.0	89.0	83.9	-6
EBITDA margin	in %	12.8%	13.6%	14.6%	14.8%	14.3%	
EBIT margin	in %	7.2%	8.6%	9.2%	9.1%	8.6%	
<b>BALANCE SHEET RATIOS</b>		<b>12/31/2013</b>	<b>12/31/2014</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>CHG. IN %</b>
Balance sheet total	in m€	939.2	1,031.1	1,175.9	1,423.8	1,465.2	3
Equity	in m€	308.5	370.9	386.6	454.9	528.6	16
Equity ratio	in %	32.8%	36.0%	32.9%	32.0%	36.1%	
Working capital employed <sup>1)</sup>	in m€	180.4	206.8	243.3	245.2	238.4	-3
Net debt <sup>2)</sup>	in m€	342.7	315.1	387.4	364.6	375.0	3
Gearing <sup>3)</sup>	in %	111.1%	85.0%	100.2%	80.1%	70.9%	
<b>CASH FLOW AND CAPEX</b>		<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>CHG. IN %</b>
Cash flow from operating activities	in m€	64.1	82.4	106.9	167.8	161.3	-4
Cash flow from investing activities	in m€	-41.0	-72.0	-110.1	-158.8	-154.0	-3
Cash flow from financing activities	in m€	-23.6	32.7	50.7	139.2	-118.0	<100
Capital expenditure <sup>4)</sup>	in m€	96.4	108.4	133.0	144.4	178.6	24
<b>EMPLOYEES</b>		<b>12/31/2013</b>	<b>12/31/2014</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>CHG. IN %</b>
Number of employees as of balance sheet date <sup>5)</sup>	Number	4,084	4,182	4,553	5,069	5,887	16
<b>VALUE CREATION</b>		<b>12/31/2013</b>	<b>12/31/2014</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2017</b>	
ROCE (Return on capital employed) <sup>6)</sup>	in %	9.9%	12.9%	14.2%	13.9%	13.9%	
ROE (Return on equity) <sup>7)</sup>	in %	10.8%	16.8%	17.2%	21.2%	17.1%	
<b>STOCK EXCHANGE RATIOS<sup>8)</sup></b>		-	-	-	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>CHG. IN %</b>
Share price as of 31 Dec.; SIX Swiss Exchange	in CHF				5.35 CHF	7.39 CHF	38
Number of shares issued	in m shares				225.39	225.39	-
Market capitalization	in m CHF				1,205.82	1,665.61	38
Earnings per share	in €				0.23	0.20	-13

1) Working capital = stock + trade receivables - trade payables

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

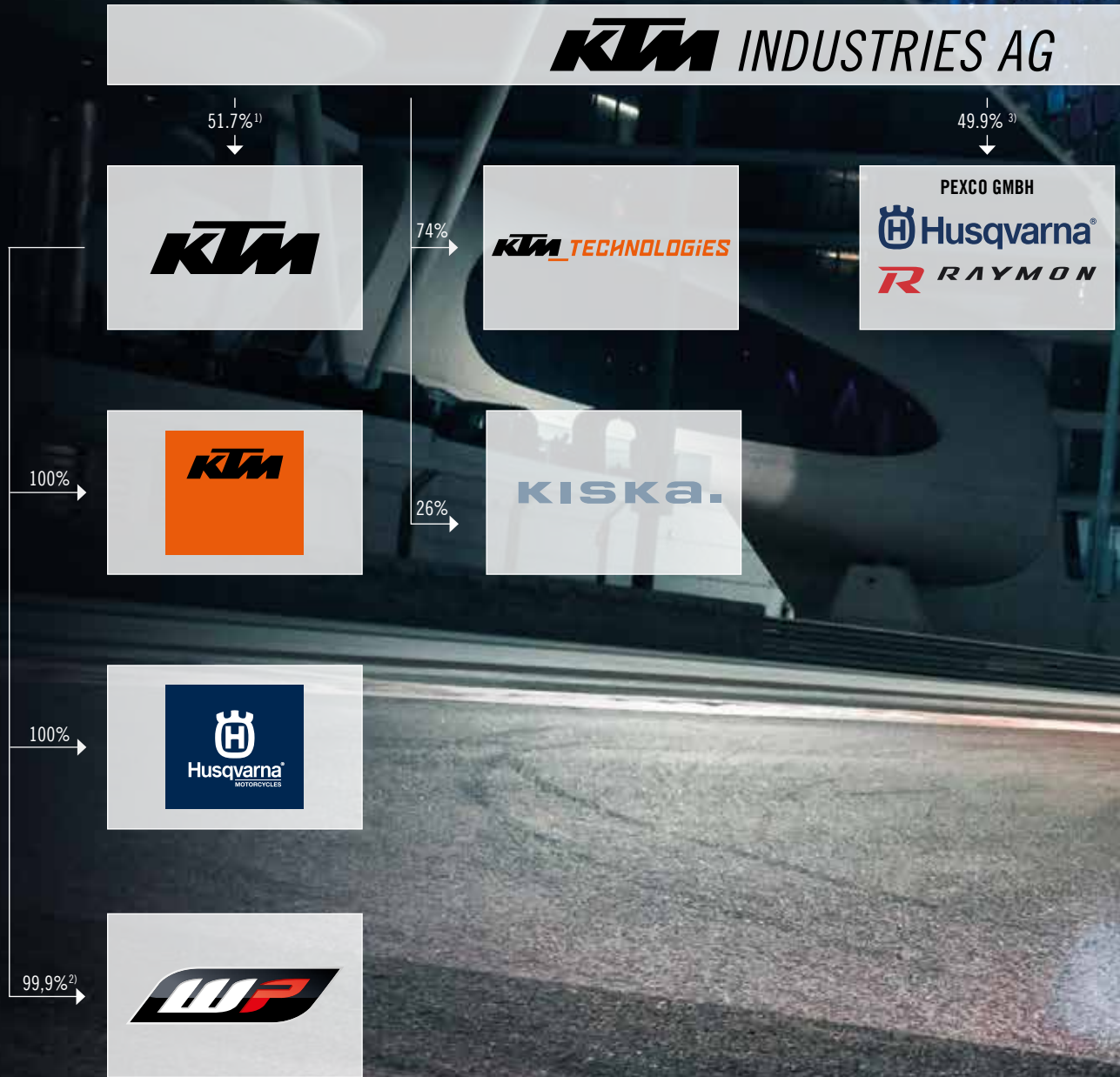
5) Number of employees on the reporting date (including temporary staff)

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) since Nov. 14, 2016 Listing on SIX Swiss Exchange

9) Equity / Number of shares



**PTW**  
Powered two wheelers

**Design, concept development & digitalization**

**eMobility**

K KraftFahrZeug Holding GmbH	100%
PF Beteiligungsverwaltungs GmbH	100%
ACstyria Mobilitätscluster GmbH	12.3%
Wethje Carbon Composites GmbH	8.4%

<sup>1)</sup> indirectly through K KraftFahrZeug Holding GmbH  
<sup>2)</sup> since January 2018 operating under the roof of KTM AG  
<sup>3)</sup> PEXCO GmbH „at equity“; 50.1% are held by family Puello  
<sup>4)</sup> further 2.45% are held by Pierer Immobilien GmbH

# GROUP STRUCTURE

Simplified presentation as of 12/31/2017

94.5%<sup>4)</sup>

**panki**  
RACING SYSTEMS



High performance  
components

# INTRODUCTION

## BY THE EXECUTIVE BOARD

### KTM INDUSTRIES AG ACHIEVED SEVENTH CONSECUTIVE RESULTS RECORD

The 2017 financial year was the seventh record year in a row for KTM Industries Group, making it the best year in its corporate history. In the 2017 financial year, the KTM Industries Group achieved record revenue of €1.533 billion (+ 14%), corresponding to an increase of €190 million. The EBIT increased to €132.5 million (+ 8%) following €122.3 million in the previous year, and the net result after tax fell from €89 million to €83.9 million. The balance sheet total as at December 31 amounted to €1.4652 billion, following €1.4238 billion in the previous year with an equity ratio of 36.1%.

### CONTINUED EXPANSION OF WORKFORCE DURING THE GROWTH COURSE

As part of the Group's growth, an additional 818 employees were hired in the 2017 financial year, of which 652 were in Austria. In 2017, the KTM Industries Group employed almost 6,000 people, more than 75% of which in Austria.

### LARGE INVESTMENTS IN THE AUSTRIAN SITES

During the past year, around €180 million was invested in the further growth course. The new high-performance drivetrain plant, investment in additive manufacturing at Pankl in Kapfenberg and the expansion of the research and development department at KTM in Mattighofen formed the focus of the investments in equipment and infrastructure. In addition, the investments in series product development and tools formed the largest item with around 50% of the volume.

### EXTENSION AND EXPANSION OF STRATEGIC PARTNERSHIPS

The last financial year in KTM was dominated by the extension of existing **strategic partnerships** and the expansion of new ones. At the beginning of July, KTM AG and its strategic partner **BAJAJ Auto Ltd.**, India, announced the global roll-out of the Husqvarna Motorcycles brand, significantly increasing sales as a result. As part of the cooperation with our Philippine partner **Ayala Corporation**, the KTM and Husqvarna Motorcycles partner and importer in the Philippines, the assembly of models from the KTM DUKE and RC family up to 400 cm<sup>3</sup> started as scheduled in the first half of 2017.





This opened up new distribution opportunities in the ASEAN region. With a view to further increasing its presence on the Chinese market, KTM AG is pursuing a joint venture with its long-standing partner, **CF Moto** in Hangzhou. Not only is this joint venture expected to increase the presence of KTM on the Chinese market, the intention is also to work together to develop and manufacture products in order to drive global expansion further forward.

The opportunity was also taken to enter into a further strategic partnership at the level of KTM Industries AG. In September 2017, KTM Industries AG acquired a 49.9% stake in **PEXCO GmbH**. The company, founded by the German Puello family of entrepreneurs in July 2017, specializes in e-mobility. Together with PEXCO, the Company intends to become a technology leader in the field of zero-emission lightweight vehicles, and to take **e-mobility** to the next level.

For the purpose of supporting and strengthening the strategic competence of **Design Development and Product Innovation** within the KTM Industries Group, KTM Industries AG increased its strategic management holding to 74% in KTM Technologies GmbH and 26% in Kiska GmbH in June 2017.

#### COURSE OF BUSINESS IN 2018

**KTM AG** again increased both its sales and revenue and achieved a new record high in 2017. KTM has been the fastest growing motorcycle brand in Europe for years now. Sales of 238,334 KTM and Husqvarna motorcycles in the 2017 financial year enabled KTM AG to further expand on its position as Europe's largest motorcycle manufacturer. Sales rose by over 17% compared with the previous year. Revenue was up in the same period by 16.6% to €1.33 billion.

In addition to KTM's continuing growth, this pleasing development is also mainly due to the successful product development of the Husqvarna models that was received extremely positively on the market.

In January 2018, the **WP Group**, the most important supplier to motorcycle production in Mattighofen, was fully integrated into KTM AG in order to secure the continued growth of KTM Industries Group and achieve synergy potential. **WP Performance Systems GmbH**, a technology leader in the powersports sector, was able to achieve growth in excess of the market level during the 2017 financial year thanks to the strong growth of KTM, increasing its revenue to €179.7 million (+ 8.2%).

**Pankl Racing Systems AG** also again surpassed its previous revenue record in the 2017 financial year. Pankl achieved revenue of €195.4 million, equivalent to an increase of 5%. For Pankl, the 2017 financial year was characterized primarily by the successful preparation for use of the new High Performance drivetrain plant in Kapfenberg. Within 18 months, it had built and prepared for use an ultra-modern plant with a wide range of different, complex and semi-automated production systems, and started up series production. A record sum of approximately €40 million was invested over two years in this new plant for the three subdivisions of transmission component production, heat treatment and additive production.

#### OUTLOOK

The KTM Industries Group will continue to focus on organic growth in all of its core areas during the 2018 financial year. The management expects the growth course to continue with the market launch of the first Husqvarna road motorcycles (Vitpilen 401/701 and Svartpilen 401) and the KTM twin-cylinder models (790 Duke), plus the extension of the strategic partnerships with production sites in India and also in China in the future, and has therefore adjusted the medium-term guidance.

The management expects positive business development to continue in 2018. The investment volumes in 2018 will also be once again dominated by the focus on series development of new vehicle models and investments in infrastructure and expansion.

KTM Industries AG has set itself the target of achieving annual sales of 400,000 motorcycles by the 2022 financial year.

Wels, March 2018



DI Stefan Pierer  
Chairman of the Executive Board

## BODIES OF THE COMPANY

# EXECUTIVE BOARD



**Stefan Pierer**

CEO

Appointed until February 29, 2020



**Friedrich Roithner**

CFO

Appointed until February 29, 2020



**Alfred Hörtenhuber**

Appointed until December 31, 2017



**Wolfgang Plasser**

Appointed until May 31, 2022



**Harald Plöckinger**

Appointed with effect from  
January 1, 2018

Appointed until February 29, 2020



**Hubert Trunkenpolz**

Appointed with effect from  
January 1, 2018

Appointed until February 29, 2020

## SUPERVISORY BOARD

**Josef Blazicek**

Supervisory Board Chairman

Elected until the end of the Annual General Meeting deciding on the ratification of the 2020 financial year

**Ernst Chalupsky**

Deputy Chairman of the Supervisory Board

Elected until the end of the Annual General Meeting deciding on the ratification of the 2020 financial year

**Gerald Kiska**

Member

Elected until the end of the Annual General Meeting deciding on the ratification of the 2019 financial year

**Klaus Rinnerberger**

Member

Elected until the end of the Annual General Meeting deciding on the ratification of the 2019 financial year

# KTM



## EUROPE'S LARGEST SPORTSMOTORCYCLE PRODUCER

KTM AG is a **premium manufacturer of high-performance** motorcycles for both offroad and street use. Thanks to continuous innovation and differentiated product design, every vehicle built is of the highest quality. Since its foundation in 1953, KTM has amassed over 6 decades of expertise in the two-wheeled world and maintains its position as Europe's largest motorcycle manufacturer.

The current trajectory of KTM AG as a whole bodes well for reaching a goal of **400,000 units** of annual production by **2022**. To achieve this, the strategy is to maximize the synergies and resources of the constituent brands, stakeholders and infrastructure within the group.

KTM AG's corporate success is grounded in **strengthening the core brand values** of the primary brands and communicating them appropriately. KTM has a distinct brand personality and bold presence in global competition. We don't just claim to be READY TO RACE, but lead by that example in all we do. This flows through our four core values of ADVENTURE, PURITY, PERFORMANCE and EXTREME. It is also this competitive vision which keeps us searching for global expansion opportunities to assert ourselves through – both through actions and through inspiring products that deliver on the implicit brand claim.

The growing global KTM brand presence, along with the brand's continued focus on racing and their impressive gains in the street, are all part of the **brand's steady world-wide expansion**. The recent push into the premier motorcycle competition series of MotoGP, supported by a strong first season showing in Moto2, highlight these global street ambitions. From this, top-level success in MotoGP is the next ambitious goal in KTM's sights, which will greatly influence the global business and brand expansion objectives.

Central to the corporate strategy is taking successful racing technology and directly incorporating it into serial products. The brand's winning culture flows into the products and everything else they do. An essential element of KTM's long-term growth-planning strategy is to **further extend the product range**, opening up new niches and markets. Accordingly, the strategy focuses on research & development to keep the performance edge, at the same time, developing distribution networks through new strategic regional partnerships, investing heavily in the global brand growth.

Geared for the future, KTM AG successfully markets products that were developed with a great deal of craftsmanship. With a long history and strong interest in motorsport, KTM AG constantly strives to develop the overall product range and to increase its competitiveness and penetration into global markets. **Innovation and the highest development standards** are crucial to achieving this vision.



The unveiling of **KTM's latest sports car**, the KTM X-BOW GT4 model, follows on from having sold over 1,000 of the original X-BOW model. It is an ongoing project that proves KTM AG is capable of developing and evolving new product ranges outside of its traditional core motorcycle business. The experience gained in terms of lightweight vehicle construction is invaluable in developing new vehicle concepts.

KTM AG has taken a leading developmental role in electric powertrain innovation. The experience gained from the research project to develop an innovative high-power electric motorcycle in the form of the **KTM FREERIDE-E** proved the potential of electric powertrains. Building on this research, KTM AG is developing technology that supports alternative forms of mobility in urban settings for multiple applications.

## KTM AG

Employees as of 31/12/2017 .....	3,245
Sales .....	238,334 motorcycles
World Championship Titles .....	>280
Revenue in m€ .....	1,331.7
EBIT in m€ .....	113.1
EBIT Margin .....	8.5%
Balance sheet total in m€ .....	1,091.9
Equity in m€ .....	488.0
Investments in m€ .....	136.6

# HUSQVARNA MOTORCYCLES

## THE PIONEER IN THE MOTORCYCLE WORLD

Husqvarna Motorcycles' ongoing vision is to be pioneers in the motorcycle world. A vision born out of the brand promise "**PIONEERING SINCE 1903**". To deliver on the brand promise, the future goal is to build a complete motorcycle brand, elevating Husqvarna to the **third largest European manufacturer by 2022**. Every year since Husqvarna Motorcycles joined the KTM AG in 2013, it has achieved impressive annual growth and with it, exceptional success in a very short time. After just one year in KTM AG, Husqvarna Motorcycles achieved record offroad unit sales for their 111-year-long history in 2014, further improving on this with another record-breaking year after introducing new street-legal models.

With the brand values of PREMIUM, PIONEERING and SWEDISH ROOTS as a guiding compass, Husqvarna is committed to making enjoyable riding experiences more accessible. More importantly, these values let Husqvarna Motorcycles look beyond, and expose new users to the exhilaration and liberation of discovering the motorcycle lifestyle.

This awareness is a central part of the ongoing strategy, which will continue to be supported through expansion of the dealer network and consequent improved global sales. The continuous development of the dealer network is aligned to serve the growing awareness of and demand for the brand globally. With many untapped markets, areas and customer groups beyond the traditional offroad motorcycle user-base, this ever-expanding global network will open up access for the brand.

A strong focus on **innovation and progression** has brought about Husqvarna Motorcycles' deliberate return to the street - which is the second important aspect of the current brand strategy. Being a pioneer combines well with the accessible, understated and approachable brand personality, allowing Husqvarna Motorcycles to open up and tap into a much broader target audience beyond traditional street motorcyclists.

The first bold step in this entirely new direction is evident in the **VITPILEN** and **SVARTPILEN 'real street'** range of production motorcycles. Important in the brand's strategy is to balance the street focus, and to consolidate and strengthen the brand's involvement and presence in the offroad world.

Husqvarna Motorcycles' future vision is to progress and expand the **brand's bold return to the street**. From the first showing of the VITPILEN 401 and SVARTPILEN 401 concept bikes in 2014 to the subsequent unveiling of further concepts and production models in the years since, the response and interest shown in this new range is significant. With the first three production models arriving at dealers in early 2018, the next chapter in the brand's story is about to begin. It is a strong commitment to continuing the long tradition of progressive thinking and pioneering actions.

An approach reflected as much in the **creation of leading motorcycles** as it is through outstanding ways of identifying, satisfying and engaging with the rapidly expanding global customer base. These new street production models will set Husqvarna Motorcycles on a trajectory to becoming Europe's third-largest motorcycle producer by 2022.





**PREMIUM, PIONEERING  
AND SWEDISH ROOTS**

# WP



## **PERFORMANCE- DETERMINING COMPONENTS FOR THE MOTORCYCLE AND SPORTS CAR INDUSTRIES**

Under the brand promise GET IN FRONT, the WP Group produces and develops performance-determining components for the motorcycle and sports car industries. The product range spans the categories of chassis (chassis suspension / frame) and engine components (exhaust system / radiator). Customers are primarily European motorcycle and sports car manufacturers.



In order to secure the continued growth of the KTM Industries Group and to realize synergy potential, the WP Group was fully integrated into KTM AG in January 2018 in its position as the most important supplier to motorcycle production in Mattighofen. As a result of the reorientation of the WP Group to include even closer **networking with the KTM Group**, particularly with regard to product strategy, the WP Group is concentrating first and foremost on its main customer, KTM AG. Furthermore, the Group distributes its products on the high-end retrofitting market via WP Performance Sports GmbH, which is 100% owned by KTM AG, and the distribution network of the KTM Group.

The success of this intensive collaboration can be seen in the record turnover of the KTM Group and the product quality that goes along with it, but also in the victories and titles achieved using WP chassis over the calendar year 2017. It is also important to note that KTM, in conjunction with WP chassis, has successfully broken a MotoGP monopoly lasting several years, thereby underlining the competitiveness of WP products in the process.

The WP Group has for years focused on the **expansion of strategic** partnerships, using such alliances to safeguard capacities at the Munderfing location and to ensure continued competitiveness. In 2017, these partnerships led to the first series deliveries for suspensions in conjunction with our Indian partner. The series production of frames also began in conjunction with our Chinese partner.

**Innovation & performance** are core points of focus at WP, with performance playing a particularly central role in brand activities. High-grade components are employed to meet the demands of both racers and “regular” motorcyclists. To meet these demands, and to maintain its standing in a highly competitive market, WP takes great efforts in the areas of innovation and research and development. This is the only way to ensure that the brands build on their competitive edge in the market.

This closer networking with the KTM Group has led to intensive collaboration in the field of **research and development**. WP products are associated with very high levels of performance, which means that customers have come to expect constant product development and additional enhancements. New developments and improvements to the existing product range are constantly being made, in conjunction with KTM, in the chassis, radiator, frame and exhaust product segments.

It is not only the performance on the race course, but also tests and improvements undertaken in the practical day-to-day sphere, that allow WP to transfer its racing-inspired expertise onto the road and provide **more intelligent and remarkable technologies** in the process. The sums invested in innovation have proven to be good business, as can be seen from the host of titles won in a wide range of racing disciplines.

Another great step forward for WP has been the **development of an Authorized Center Network** for further optimization of customer service and availability levels. This is the result of intensive training at the Group's headquarters that are intended to build upon the expertise and specialist knowledge of Authorized Center employees.

For 2018, WP has made this strong focus on **customer orientation** its most important target, followed closely by the aim of **strengthening market awareness** of its brand and trust in the brand itself. This also involves boosting demand for WP PRO components as a sustainable, high-performance **aftermarket-solution for motorcycles**. This will be of central importance when it comes to achieving better segmentation of the overall product range and the creation of a complete and comprehensive product portfolio.

As a consequence, the business goal for 2018 will entail the expansion of the Authorized Center Network and providing better access to WP products and expert knowledge, in addition to doubling aftermarket revenue within the next 5 years.

## WP PERFORMANCE SYTEMS

Employees as of 31/12/2017 .....	858
World Championship Titles .....	~300
Revenue in m€ .....	179.7
EBIT in m€ .....	10.2
EBIT Margin .....	5.7%
Balance sheet total m€ .....	114.5
Equity in m€ .....	55.0
Investments in m€ .....	6.9

# PANKL



## LEADING SYSTEMS' SUPPLIER AND DEVELOPMENT PARTNER

It is the primary strategic aim of Pankl Group to be the **leading systems supplier and development partner for engine and drivetrain systems**. This position as a systems supplier being able to provide customers with services ranging from development and calculations to production and assembly and to testing and maintenance of high performance components differentiates Pankl from its competitors. Focus lies on niche markets such as international motor racing, the international luxury and high performance automotive industry and aerospace.

### PANKL RACING SYSTEMS

Employees as of 31/12/2017 .....	1.693
Revenue in m€ .....	195.4
EBIT in m€ .....	11.8
EBIT Margin .....	6.0%
Bilanzsumme in m€ .....	220.2
Equity in m€ .....	91.3
Investments in m€ .....	35.7

In 2017, Pankl carried out a number of investment and optimisation projects in order to pursue the aim to remain **innovation leader** for implementation and improvement of products, materials and processes in all of the business and company divisions. For example, the additive manufacturing centre was increased significantly, a new state-of-the-art heat treatment plant and a new chassis test stand were put into operation and the tooth gearing manufacturing technologies were significantly expanded.

An innovative mindset with careful consideration of all parameters is one of the strategic pillars of the company. Especially in motor racing, **technological leadership** is the most important success factor. Therefore, Pankl considers itself a development partner in the area of dynamically loaded engine and drivetrain systems. Pankl puts major emphasis on ongoing research and development work.

Along with material- and product development, process optimisation constitutes an essential component in research and development. Development work in the formula-1-sector is also substantial. While the motor racing market is characterised by very short-term planning horizons and short product lifecycles, the high performance market allows the execution of longer-term projects.

The application of new or **improved materials** leading to more efficient operation of components is essential for successful development work and hence future progress. In 2017, Pankl tested a new aluminium material for pistons and connecting rods. In a dedicated project, Pankl tested steel pistons for motor racing applications. In addition, Pankl tested new coatings for pistons, piston pins and screws. Other key development projects deal with **improved heat treatments** for aluminium materials and the substitution of cast components with forged components which is made possible due to new heat treatments.

As part of the new drivetrain production facility Pankl established a completely new area called **Pankl additive manufacturing technologies** within the Company. Pankl created a dedicated department for print and post-editing equipped with seven laser melting machines and one electron beam unit to research 3D printing of components. Alloys from aluminium, titanium, steel and non-ferrous materials can be printed. A key area to be able to fully utilise the advantages of additive manufacturing is **topology optimisation**.



The major requirement of aerospace customers is complete process reliability and quality assurance. A permanent know-how transfer between the divisions leads to incremental improvements. Pankl paved the way for massive **technology in-sourcing** in the jet engine area. The defined future goal is the in-house realisation of special processes, such as special coating methods or non-destructive materials testing. Pankl already completed major steps in this direction in the current fiscal year.

Pankl aims to serve its customers' needs by constant further development and improvement of all components and systems and by **flexibility to react to customer requirements** and change requests. Since employees are the most important success factor of the company, Pankl pursues responsible human resources policies. Co-operation with academic and other research institutions such as the Vienna (TU Wien), Graz (TU Graz) and Leoben (Montanuniversität Leoben) universities generates optimal synergies to be able to fulfil the high requirements of the markets.

# KTM TECHNOLOGIES

## INNOVATION AND TECHNOLOGY POOL OF THE KTM INDUSTRIES GROUP

Its focus is on the **development of innovative product concepts** and new technologies for sports motorcycles and future-orientated mobility solutions. The development expertise of the company is wide-ranging and designed to develop holistic vehicle and product concepts with inventiveness and groundbreaking technology. The focus is on the application-oriented development of solutions and technologies that, insofar as possible, are suitable for serial production. The KTM GROUP is by far its largest customer, but its customers also include selected external companies. These include European OEMs from the automotive sector as well as renowned companies from other sectors, such as aviation, IT, consumer electronics, medical technology, energy supply, mechanical engineering, or sporting goods. Recently, our business with companies from the USA, in particular, grew. Specifically, the automotive project environment is very complex, ranging from high-performance sports motorcycles and autonomous electric vehicles to sports cars and highly integrated e-bikes.

### ELECTRIC VEHICLES – THE DEVELOPMENT FIELD OF THE FUTURE

KTM Technologies has been one of the pioneers in the **design of electric vehicles** for many years. Due to the continued high demand for the electrification of two- and four-wheeled vehicles, the E/E segment, including its software development, has grown disproportionately and has developed into a significant field of expertise for the company. This makes it possible to design and develop vehicle concepts with an electric traction drive, inverter, battery system, and the entire vehicle electrical system. This includes the definition of the vehicle electrical

system architecture and specification of the signal processing strategy, including the integration of all the control units and the layout of the wiring harness. Within the scope of the virtual pre-development of a drive system, the optimization of speed, power, torque, gear ratio, and range can, for example, be designed as part of the simulation. The essential software for the operation of vehicles and for various applications can also be developed and applied in-house. **Fully functional prototypes** are built and put into operation in our own workshops. Supported by a broad portfolio of sensors, data loggers and analysis tools, the prototypes can be tuned, tested, and validated. An example of this was the drive development for the “**KTM Sport e-Mini**”(Fig.) – a new generation of motorcycles for children and teenagers with a light and powerful electric motor.

### DIGITALIZATION

Driven by the **digitalization campaign** of the KTM Industries Group, product-related digitalization is a key area of activity. In the field of connectivity, hardware and software networking solutions are being developed to provide vehicles and products with access to the Internet. In respect of connections in the field of consumer electronics, Linux-based on-board computers can be used; for visualizations via displays or smartphones, HMI interfaces and protocols have been integrated into the overall system. Further spheres of activity include the development of **infotainment and content solutions**. The display information can be individualized by showing, for example, current rain radar information or safety warnings by means of three-dimensional enhancement of the navigation data with information on road conditions or climate data.

### EXTENSIVE MATERIAL KNOW-HOW

Due to the continuous expansion of our know-how, the company is now one of the world's leading specialists in the use of CFRP<sup>1</sup> and the development of new technologies. The extremely light and **highly functional CFRP front structure** of the current Dakar Rally winning bike is a prime example of the practical use of this technology as part of the successful multi-material construction of the entire bike. In relation to the **technology development** in the field of **lightweight construction**, KTM Technologies ensures that there is a close connection between the



KTM FREERIDE E

<sup>1</sup>CFRP = Carbon fiber reinforced plastic



KTM Sport e-Mini Concept

product design and the appropriate implementation of materials and manufacturing. The main focus of the technology development is the development and qualification of methods and process solutions for the industrial use of composite materials and hybrid material solutions. In 2017, KTM Technologies was selected with its two development partners for the **Austrian State Prize for Mobility** in the category “Researching. Developing. Opening new paths” among **the top three** for the sponsored “Conexus” project. The research results of the project provided an innovative solution for combining thermosetting and thermoplastic composite materials with each other in a reliable process, which resulted in highly integrated and cost-effective lightweight construction solutions.

**ADDITIVE MANUFACTURING**

Based on our existing expertise in materials science, simulation, and design, the company has recently become increasingly involved in the field of **additive manufacturing** processes of plastics and hybrid material structures. In close cooperation with other companies in the group, intensive work is currently being conducted on the qualification and use of existing and new AM processes. Currently, the focus is on the development of an integrated construction and design method so that the enormous potential of the technology can be used optimally. Especially in connection with the possibilities of **simulative component optimization**, there are manifold and impressive possibilities with regard to performance, lightweight construction, functional integration as well as component geometry and surface. This technology is a strategic focus

for the entire KTM Industries Group.

**VIRTUAL DEVELOPMENT AT THE HIGHEST LEVEL**

A major strength of KTM Technologies is a highly efficient **simulation department** with which developments can be virtually designed and assessed at an early stage. This allows development times to be reduced, risks to be minimized, and product characteristics to be enhanced. In addition to the static structural design, the crash and aerodynamic simulations, the areas of expertise include thermodynamic and process simulation – with the focus on the manufacturing processes with fiber composite materials. Furthermore, optimization tools represent an additional material building block in all simulation disciplines and make it possible, among other things, by using a very complex coupled simulation, to develop structures with the highest level of lightweight construction.

**KTM TECHNOLOGIES**  
 INNOVATION POOL, TECHNOLOGY POOL, INITIATOR

Employees as of 31/12/2017 .....	~ 80
Revenue in m€ .....	~ 10

# EMPLOYEES



## SUCCESS FACTOR IN THE KTM INDUSTRIES GROUP

### DEVELOPMENT OF EMPLOYMENT

Talent management in the KTM Industries Group is pleasing. A further 818 employees were taken on in the 2017 financial year, 652 of which in Austria. As of December 31 2017, the Group employed **5,887 employees** (previous year: 5,069 employees).

### (FURTHER) TRAINING

Every employee in the **KTM Industries Group** forms part of the large team that drives the success of the concern 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. The aim is to recruit employees from the region and to retain them in the long term. Our performance is supported by continuous training and further training based on requirements and specific target groups. On the one hand, knowledge is kept up to date and, on the other hand, strengths are further reinforced.

## APPRENTICES

**Apprentice training** forms an important aspect of HR strategy, as the employees make a significant contribution towards the concern'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, 2017, KTM employed **124 apprentices**, who were training in 9 vocational training programs. It is a central aim of the company to continue to employ apprentices when they have completed their training. In 2017 all 22 employees who had completed training were integrated into various specialized areas in KTM AG. This satisfies the company's requirement for specialized 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. For instance, in 2017, 22 employees in KTM AG successfully completed the "training to become trainers" course and five employees successfully completed a consolidation course on apprentice training.

Within **Pankl**, **69 apprentices** were trained in Austria during the 2017 financial year. The tripartite training program for apprentices was continued during the last year, in which apprentices in the 'Pankl apprentice college' not only have their professional training in Pankl and in the vocational school, but also enjoy non-company specific training, which promotes and improves the personal and social skills of every individual apprentice.

## WORK AND FAMILY

Reconciliation of Work and Family is crucial. Therefore **KTM Industries Group** tries to support its employees as much as possible before and after birth as well as after the maternity leave. To help our employees return to the workplace after starting a family, children aged between one and three receive educational care in the KTM crèche in groups of not more than nine children. At Pankl (parental-) parttime is arranged individually and after detailed discussion only.

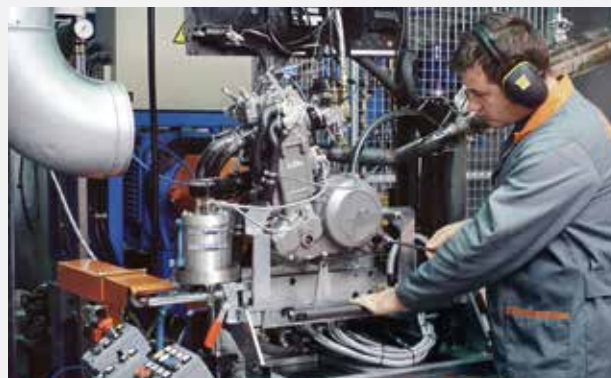
## OCCUPATIONAL SAFETY/EMPLOYEE HEALTH

The **KTM Industry Group** is concerned with guaranteeing the safety of its employees at all times. 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).

## DIVERSITY

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 are given to individuals with physical and / or mental disabilities. As at December 31, 2017, 46 individuals with disabilities were employed in total within KTM Industries Group.



# SHARE & INVESTOR RELATIONS



KTM Industries AG no-par ordinary bearer shares (WKN: 919331 Stock Exchange: SIX Swiss Exchange)

The share capital of €225,386,742 is divided into 225,386,742 no-par bearer shares with voting rights, where every ordinary share has an equal stake in the share capital. The shares of KTM Industries AG have had a primary listing in the International Reporting Standard of the SIX Swiss Exchange since November 14, 2016. The shares of KTM Industries AG were accepted into the Swiss Performance Index (SPI) of the SIX Swiss Exchange on March 29, 2017. The shares of KTM Industries AG remain listed on the Vienna Stock Exchange. Following their withdrawal from the prime market segment of the Vienna Stock Exchange, the shares of KTM Industries AG were initially traded in the “standard market” segment; the shares have been listed in the “standard market auction” segment since April 28, 2017.

## DEVELOPMENT OF THE KTM INDUSTRIES SHARE

KTM Industries shares began trading on the SIX Swiss Exchange on November 14, 2016 at an opening price of CHF 4.90. Since shares commenced trading on the Swiss stock exchange their price has risen very encouragingly. On the last day of trading for the year 2017 (12/29/2017) shares stood at CHF 7.39, posting growth of around 51% compared to the opening price of CHF 4.90. The highest closing price on the SIX Swiss Exchange for the financial year 2017 was CHF 7.50, with the lowest coming in at CHF 4.99. Market capitalization as of 12/31/2017 stood at CHF 1,665.6 million

## RESEARCH COVERAGE

The support provided to KTM Industries AG by investment banks is an important component of the comprehensive investor relations activities of the concern, and is of particular importance for investors' perception and estimation of KTM Industries shares. Bank Vontobel AG published its comprehensive initial analysis in February 2017 with the recommendation to “hold”, and an upside potential of CHF 5.50. Over the course of the business year 2017, several additional updates were published and in October 2017 a further analysis was released. This took account of the expansion of the partnership with Bajaj and the resulting acceleration in growth up to 400,000 motorcycle sales by 2022. Bank Vontobel AG's rating for KTM Industries AG was changed to “Buy” and the upside potential was raised from CHF 5.50 to CHF 8.70.

## INTERNATIONAL PRIVATE PLACEMENT TO QUALIFIED INVESTORS (FEBRUARY 2017) AND GROUP-INTERNAL RESTRUCTURING (MAY 2017)

As part of an international private placement to qualified investors carried out without a prospectus, 27,205,398 KTM Industries AG shares were sold by Pierer Industrie AG in February 2017, significantly increasing the free float of the share by around 12.1%. Additionally, shares amounting to around 0.9% of the company's share capital were sold by third parties. Through the increase in free float, it was possible to expand the shareholders' group of KTM Industries AG and the liquidity of the shares was also improved. In May 2017, Pierer Konzerngesellschaft mbH, as the sole, direct shareholder of Pierer Industrie AG, acquired the latter's shares in KTM Industries AG as part of a demerger.



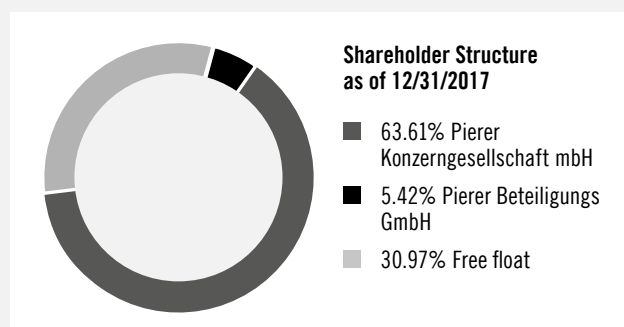
### ACQUISITION OF KTM INDUSTRIES AG SHARES (5.42%) BY PIERER INDUSTRIE AG (NOVEMBER 2017) AND FURTHER INCREASE OF SHARE LIQUIDITY IN FEBRUARY 2018

In November 2017, Pierer Industrie AG acquired a total of 12,215,958 KTM Industries shares (this corresponds to approximately 5.42% of share capital) from board members of KTM Industries AG and persons with a close relationship to the company at a price of EUR 4.80 per share. The sellers had acquired the shares as part of a private placement by Pierer Industrie AG in July 2015. Pierer Industrie AG transferred the purchased KTM Industries shares to its subsidiary Pierer Beteiligungs GmbH in December 2017.

### SHAREHOLDER STRUCTURE

In February 2018, Pierer Beteiligungs GmbH sold 15,884,217 KTM Industries AG shares (this corresponds to approximately 7.0% of share capital) to qualified investors as part of an international private placement without a prospectus, with a resulting increase in share liquidity. Additionally, 2,146,722 shares, amounting to around 1.0% of the company's share capital, were sold by third parties. Bank Vontobel AG was once more commissioned to perform the international private placements without a prospectus.

Following the successfully executed private placement on February 8, 2018 the free float increased to around 37.02%. Pierer Konzerngesellschaft mbH currently holds an equity holding of around 62.98% of the company's share capital.



### MORE INFORMATION ON THE KTM INDUSTRIES SHARE

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Stock exchange code .....	KTMI
Reuters .....	KTMI:VI
Bloomberg .....	KTMI:AV
Stock category .....	No-par ordinary bearer shares

### DIVIDEND

On April 26, 2018 the Executive Board will propose to the Annual General Meeting the distribution of a dividend of €0.03 per share. Given earnings per share of €0.20, this means a distribution ratio of 15%. For 225,386,742 shares with dividend rights, an amount of around €6.76 million will therefore be distributed.

### INVESTOR RELATIONS ACTIVITIES

The management of KTM Industries AG endeavors to practice a policy of transparent, swift and comprehensive information to and communication with capital market participants as well as the general public. At regular intervals information is therefore provided on the economic position as well as on the future development of the KTM Industries Group. To ensure transparency, service and currency, all financial reports, press releases, ad-hoc announcements, voting rights communications and corporate presentations are published on the company's website [www.ktm-industries.com](http://www.ktm-industries.com), thus making them available to all shareholders at the same time.

# CORPORATE GOVERNANCE

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## CORPORATE GOVERNANCE 2017

### 01 ADHERENCE TO THE AUSTRIAN CODE OF CORPORATE GOVERNANCE (ÖCGK)

The Austrian Code of Corporate Governance provides Austrian stock corporations with a framework for managing and monitoring their company. The Code aims to establish a system of management and control for companies and groups that is accountable and geared towards creating sustainable, long-term value. It is designed to provide a high degree of transparency for all stakeholders of a company.

The Code is based on the provisions of Austrian stock corporation, stock exchange, and capital market law, the EU recommendations regarding the responsibilities of members of Supervisory Boards and the compensation of company directors, as well as the OECD Principles of Corporate Governance. Since 2002, the Code has undergone a number of revisions. The present Corporate Governance Report is based on the most recent version of the Code, which was adopted in January 2018. The Code can be accessed by the public at [www.corporate-governance.at](http://www.corporate-governance.at).

KTM Industries AG is fully committed to the Austrian Code of Corporate Governance in its current version. This commitment by KTM Industries AG is voluntary and aims to boost shareholder confidence and to constantly optimize the high internal legal, behavioral and ethical standards of KTM Industries AG.

The Corporate Governance Report for the 2017 financial year is publicly available on the homepage of the company ([www.ktm-industries.com](http://www.ktm-industries.com)) in the section Investor Relations > Corporate Governance > Corporate Governance Report.

As a result of this commitment, KTM Industries AG has to comply with more than just the legal requirements ("L-Rules"). This voluntary self-imposed obligation means that it must explain non-compliance with the so-called C-Rules ("comply or explain") which go above and beyond the legal requirements. In accordance with this part of the Austrian Code of Corporate Governance, KTM Industries AG explains its nonconformity with C-Rules of the Code as follows:

"C-Rule 18": In light of the company's size, no separate internal audit department has been set up. However, the company has established an internal control and reporting system which enables the Executive Board to identify risks and quickly implement an appropriate response. The Supervisory Board, particularly the Audit Committee, is kept regularly informed about the internal control mechanisms and risk management in place across the group. Further information on risk management can be found in the notes to the consolidated financial statements as at December 31, 2017.

"C-Rules 27 and 30": The variable annual compensation components are unlimited in terms of their amount and are dependent on the performance indicators of companies of the KTM Industries Group. No details of the Executive Board remuneration, especially of the individual performance criteria of the variable compensation, will be published. In the company's opinion, the provision of this information in addition to the information provided in the Corporate Governance report, would not provide shareholders with any further relevant capital market information.

"C-Rule 36": The Supervisory Board strives to continually improve its organization, work procedures and efficiency. An explicit self-evaluation did not take place during the financial year under review.

"C-Rules 39, 41 and 43": As the Supervisory Board of KTM Industries consisted solely of four members during the 2017 financial year, a Remuneration and Nomination Committee, as well as a committee that is authorized to make decisions in urgent cases, has not been established, as it would not lead to an increase in the efficiency of the Supervisory Board's work. The tasks of the Remuneration and Nomination Committee are fulfilled by the entire Supervisory Board.

"C-Rule 49": The conclusion of contracts with members of the Supervisory Board, by means of which such members are committed to performing a service for the company outside of their activities on the Supervisory Board in return for remuneration not of minor value, shall legally require the consent of the Supervisory Board. However, these shall not be published by the company in view of the associated company and business secrets. In addition, the notes to the consolidated financial statements contain notes regarding "Explanations regarding related parties and the corporate bodies", which detail the remuneration of Supervisory Board members outside of their activities on the Supervisory Board.

"C-Rule 83": This rule is not complied with, since the company-specific risk management is established at the level of the affiliated companies and therefore, risk management forms part of the investment management due to the holding function.

In addition, KTM Industries AG also endeavors to comply, without exception, not only with the minimum requirements, but also with all of the Code's R-Rules (Recommendations).

The company is committed to the principle of transparency and the goal of providing a true and fair view for the benefit of all shareholders. All relevant information is published in our annual report, half-year report, on the corporate website and within the context of our ongoing press relations work. Reports are prepared in accordance with the international financial reporting standards (IFRS). KTM Industries AG also informs its shareholders of all issues and developments of relevance to the company by means of ad-hoc announcements and press releases. We will include important dates on the financial calendar. All information is published on the website within the "Investor Relations" or "Newsroom" sections. It is therefore available to all shareholders at the same time.

The company has issued a total of 225,386,742 ordinary shares. There are no preferential shares or restrictions on these ordinary shares. Accordingly, the principle of "one share – one vote" fully applies. The Austrian Takeover Act ensures that every shareholder will receive the same price for the shares in the event of a takeover bid (public tender offer). The shareholder structure at KTM Industries AG is depicted in the "Share & Investor Relations" section of the annual report.

## 02 MEMBERS OF THE CORPORATE BODIES AND THEIR REMUNERATION:

The boards of KTM Industries AG consist of the Executive Board, the Supervisory Board and the Annual General Meeting. The Executive and Supervisory Board cooperate at regular intervals on the basis of open and transparent discussion.

### WORKING PROCEDURES OF THE EXECUTIVE BOARD:

The Executive Board of KTM Industries AG or the individual Executive Board members, respectively, act on the basis of the laws, the Articles of Association and the Executive Board's rules of procedure, which have been laid down by the Supervisory Board and which govern the rules for cooperation between the Executive Board members as well as the allocation of the duties within the Executive Board.

Coordination within the Executive Board occurs during regular meetings, but also in the form of an informal exchange of information. Matters discussed at the Executive Board meetings include the current operations and the company strategy. Any current or outstanding management or leadership measures that are to be implemented by the Executive Board members responsible under the rules of procedure are also discussed.

The rules of procedure require the Executive Board or the individual Executive Board members to provide extensive information and reporting to the Supervisory Board and to define an extensive catalog of measures and legal transactions that require the approval of the Supervisory Board.

### COMPOSITION OF THE EXECUTIVE BOARD:

The Executive Board of KTM Industries AG consists of four members (rule 16):

**Stefan Pierer (CEO)**, born 1956

- Initial appointment: June 2, 2015
- End of the current term of office: February 29, 2020
- Responsible for the strategic and operational management of the Group, as well as the strategic/operational management of KTM Group

After graduating from the Montan University in Leoben, Austria (Business and Energy Management), Stefan Pierer began his career as a sales assistant at HOVAL GmbH in Marchtrenk in 1982, where he continued as a sales manager and authorized signatory. In 1987, he founded the KTM Industries Group, where he acts as majority shareholder and member of the Executive Board. He has been shareholder and member of the Executive Board of the KTM Group since 1992. In 2011, he established Pierer Industrie AG, where he is sole shareholder and Chairman of the Executive Board.

**Further main functions within the Group:**

Chairman of the Executive Board of KTM AG

Chairman of the Executive Board of Pierer Industrie AG

Chairman of the Supervisory Board of Pankl Racing Systems AG

Deputy Chairman of the Supervisory Board of WP Performance Systems GmbH (since June 8, 2017)

**Membership of supervisory boards or comparable functions in other foreign and domestic companies, excluding companies included in the consolidated financial statements:**

Chairman of the Supervisory Board of Wirtschaftspark Wels Errichtungs- und Betriebs-Aktiengesellschaft

Member of the Supervisory Board of ATHOS Immobilien Aktiengesellschaft (until March 9, 2017)

**Friedrich Roithner (CFO)**, born 1963

- Initial appointment: June 2, 2015
- End of the current term of office: February 29, 2020
- Responsible for finance/(Group) accounting/tax and legal affairs

After graduating from the Johannes Kepler University of Linz (Business Administration), Friedrich Roithner started his career at Ernst & Young GmbH. After three years, he switched to Austria Metall AG, where worked until 2006 (he became a member of the Executive Board in 2002). Since the end of 2007, Friedrich Roithner has been part of the management team at the KTM Industries Group. From March 2008 until June 2010, Friedrich Roithner was a member of the Executive Board of Unternehmens Invest AG; since July 2010, he has been a member of the Executive Board of KTM Industries AG.

**Further main functions within the Group:**

Member of the Executive Board of Pierer Industrie AG

Member of the Executive Board of W Verwaltungs AG (formerly: WP AG) (since July 27, 2017)

Chairman of the Supervisory Board of KTM AG

Member of the Supervisory Board of WP Performance Systems GmbH (since April 29, 2017)

Member of the Supervisory Board of Pankl Racing Systems AG

**Membership of supervisory boards or comparable functions in other foreign and domestic companies, excluding companies included in the consolidated financial statements:**

Member of the Supervisory Board of Wirtschaftspark Wels Errichtungs- und Betriebs-Aktiengesellschaft

**Alfred Hörtenhuber**, born 1955

- Initial appointment: June 2, 2015
- End of the term of office: December 31, 2017
- Responsible for the strategic/operational management of the WP Group (until November 30, 2017)
- Group-wide project management

After graduating from high school, Alfred Hörtenhuber began his professional career as a sales assistant at K. Rosenbauer KG in Leonding (Austria) in 1975, before becoming export manager for Western Europe. He completed his management training at the MZSG St. Gallen and the IMD Lausanne. In 1985, Alfred Hörtenhuber joined the Miba Group, where he started out as marketing manager. In 1990, he became a member of the Executive Board and was responsible for marketing, research and development at Miba Sintermetall AG. In 1998, he was appointed CEO of the Miba Friction Group and member of the Executive Board of Miba AG Holding. Since 2008, Alfred Hörtenhuber has been a member of the Management of the KTM Industries Group and, from October 2010 until December 31, 2017 he has also been a member of the Executive Board of KTM Industries AG.

**Further main functions within the Group:**

Member of the Executive Board of W Verwaltungs AG (formerly: WP AG)

Member of the Supervisory Board of Pankl Racing Systems AG

**Membership of supervisory boards or comparable functions in other foreign and domestic companies, excluding companies included in the consolidated financial statements:** None

**Wolfgang Plasser**, born 1962

- Initial appointment: June 2, 2015
- End of the current term of office: May 31, 2022
- Responsible for the strategic/operational management of the Pankl Group

Wolfgang Plasser was born in Upper Austria in 1962 and studied business sciences at the Vienna University of Economics and Business. Important positions during his professional career include roles at KPMG, Investment Bank Austria, Vossen AG (as CFO) and Ocean Consulting GmbH. Wolfgang Plasser joined the Executive Board of Pankl Racing Systems AG in 2004 and took on the role of CEO in 2006.

**Further main functions within the Group:**

Member of the Executive Board of Pankl Racing Systems AG

Chairman of the Supervisory Board of Pankl Systems Austria GmbH (since September 27, 2017)

**Membership of supervisory boards or comparable functions in other foreign and domestic companies, excluding companies included in the consolidated financial statements:** None

**WORKING PROCEDURES OF THE SUPERVISORY BOARD:**

During the 2017 financial year, the Supervisory Board diligently performed the duties and tasks incumbent upon it under Austrian law, the Articles of Association, the Austrian Code of Corporate Governance (ÖCGK), and the Rules of Procedure. All members of the Supervisory Board and its committees are free and independent according to the terms of the Austrian Code of Corporate Governance. The Supervisory Board held a total of five meetings during the 2017 financial year, therefore at least one per quarter (C-Rule 36 of the ÖCGK). The meetings lasted approximately two and a half hours on average. In addition, two Audit Committee meetings were held; the meetings lasted approximately one hour on average.

In accordance with the Articles of Association, the Supervisory Board has elected a Chairman and a Deputy Chairman and has appointed an Audit Committee in order to comply with legal requirements.

The Supervisory Board meetings were conducted by the Chairman, or, in the event that he was unable to attend, by his representative.

Members of the Supervisory Board receive the agenda that has been agreed with the Chairman 14 days before each meeting, together with comprehensive information concerning each point included on the agenda. In urgent cases, the Chairman of the Supervisory Board is permitted to shorten that period, provided he can provide evidence that all Members of the Supervisory Board have been informed of this. In the event that the above-mentioned period is shortened, and if not all Members of the Supervisory Board are present or represented, only those points on the agenda that resulted in the notice period being shortened shall be addressed.

A quorum of the Supervisory Board shall be present when all Members of the Supervisory Board have been duly invited and at least half of the elected members, but no fewer than three members, including the Chairman or his Deputy, participate in the meeting in person.

Supervisory Board decisions shall be made on the basis of a simple majority of the votes cast; in the event that votes are tied, the Chairman of the Supervisory Board shall cast the deciding vote.

The Supervisory Board shall be entitled to request written reports from the Executive Board at any time with regard to company affairs and management issues. As a general rule, the Executive Board shall also participate in meetings of the Supervisory Board and the Audit Committee, unless the Chairman of the Supervisory Board states otherwise. Members of the Executive Board do not possess any voting rights.

During the Supervisory Board meeting, the Members of the Executive Board will provide a comprehensive explanation of the course of business and the personal and financial development of the Group. Lengthy discussions take place between the Executive Board and the members. Resolutions concerning investments, acquisitions and other requests made in accordance with the rules of procedure of the Executive Board represent an additional focus for each Supervisory Board meeting.

The committees formed by the Supervisory Board shall carry out their tasks on behalf of the Supervisory Board. Each committee must comprise at least 2 members. For each committee formed, the Supervisory Board shall appoint a chairman from among the members of that committee. The rules of procedure of the Supervisory Board shall apply with regard to the notice period, the meetings and resolutions of a committee.

The Supervisory Board shall also be entitled to task an individual member with the supervision and auditing of individual business transactions. That member of the Supervisory Board must report to the Supervisory Board with regard to its activities.

No contracts requiring approval by the Supervisory Board were concluded between the company and members of the Supervisory Board (C-Rule 49 of the ÖCGK).

Furthermore, the Audit Committee monitored the financial reporting processes (including the preparation of the consolidated financial statements) and the work of the auditor (including the audit of the consolidated financial statements) as well as the effectiveness of the system of internal control, the risk management system and the audit system. The Audit Committee approved non-audit reviews by the auditor (auditor of the consolidated financial statements). Finally, the independence and the activities of the auditor (group financial auditor) was reviewed and monitored, with regard in particular to the additional services provided to the audited company.

For further information regarding the Supervisory Board's work methods, please refer to the Supervisory Board report.

#### **COMPOSITION OF THE SUPERVISORY BOARD:**

The Supervisory Board of the company comprises four members and is composed as follows:

**Josef Blazicek**, born 1964

- Chairman of the Supervisory Board
- Initial appointment: 2008
- End of the current term of office: Annual General Meeting which decides on the financial year 2020

**Further mandates on supervisory boards or similar functions in other foreign and domestic companies, listed on a stock exchange:**

Pankl Racing Systems AG, All for One Steeb AG (Germany)

**Ernst Chalupsky**, born 1954

- Deputy chairman of the Supervisory Board
- Initial appointment: 2014
- End of the current term of office: Annual General Meeting which decides on the financial year 2020

**Further mandates on supervisory boards or similar functions in other foreign and domestic companies, listed on a stock exchange:** None

**Gerald Kiska**, born 1959

- Member of the Supervisory Board
- Initial appointment: 2014
- End of the current term of office: Annual General Meeting which decides on the financial year 2019

**Further mandates on supervisory boards or similar functions in other foreign and domestic companies, listed on a stock exchange:** None

**Klaus Rinnerberger**, born 1964

- Member of the Supervisory Board
- Initial appointment: 2015
- End of the current term of office: Annual General Meeting which decides on the financial year 2019

**Further mandates on supervisory boards or similar functions in other foreign and domestic companies, listed on a stock exchange:** None



## COMMITTEES OF THE SUPERVISORY BOARD AND THEIR MEMBERS:

The Audit Committee of the company comprises three members and is composed as follows:

### Klaus Rinnerberger

- Chairman, financial expert

### Josef Blazicek

- Deputy Chairman

### Ernst Chalupsky

- Member

In accordance with the Stock Corporation Act, the Supervisory Board of KTM Industries AG established an Audit Committee to perform its scheduled supervisory and control functions.

The Audit Committee is responsible for the auditing and preparation for the establishment of the annual financial statements, the proposed distribution of net income and the management report, as well as the auditing of the consolidated financial statements and the corporate governance report. The Audit Committee makes a proposal for the selection of the auditor and presents the proposal of the Supervisory Board to the Annual General Meeting for voting. In line with C-Rule 81a of the ÖCGK, the Audit Committee must establish a mutual line of communication with the financial auditor in a meeting. The Audit Committee of KTM Industries AG held two meetings during the 2017 financial year, in which a representative of the certified public accountant also participated.

Since the Supervisory Board consists of no more than six members, the tasks of the Remuneration and Nomination committee are fulfilled by the entire Supervisory Board.

## INDEPENDENCE OF THE SUPERVISORY BOARD

A member of the Supervisory Board shall be deemed to be independent if said member does not have any business or personal relations with the company or its Executive Board that constitute a material conflict of interests and are therefore capable of influencing the behavior of the member.

Ernst Chalupsky is partner and general manager of Saxinger, Chalupsky & Partner Rechtsanwälte GmbH. The KTM Industries Group is advised by Saxinger, Chalupsky & Partner Rechtsanwälte GmbH on legal affairs. The advisory services are provided in accordance with standard market terms and conditions.

Consulting and other services are provided by Kiska GmbH, of which the managing shareholder is the Supervisory Board member Gerald Kiska, in accordance with standard market terms and conditions.

The independence of the Supervisory Board members is defined by the following guidelines:

- **Criterion 1:** The Supervisory Board member was not a member of the Executive Board or a top executive of KTM Industries AG or a subsidiary of the company during the previous five-year period.
- **Criterion 2:** The Supervisory Board member does not or did not maintain any business relationships with the company or a subsidiary of the company in the previous year of a scope which may be considered significant for the Supervisory Board member. This also applies to business relationships with companies in which the Supervisory Board member has a considerable economic interest, but not to performing roles on committees within the Group. Approval of individual transactions by the Supervisory Board pursuant to L-Rule 48 of the Austrian Code of Corporate Governance does not automatically disqualify the Supervisory Board member from being independent.
- **Criterion 3:** The Supervisory Board member was not an auditor of the company, a shareholder or employee of the auditing company during the previous three years.
- **Criterion 4:** The Supervisory Board member is not a member of the Executive Board of another company, in which a member of the Executive Board of KTM Industries AG serves on its Supervisory Board.
- **Criterion 5:** The Supervisory Board member has not been on the Supervisory Board of the company for more than 15 years. This does not apply to Supervisory Board members, who are shareholders with a direct investment in the company or who represent the interests of such a shareholder.
- **Criterion 6:** The Supervisory Board member is not a close family member (direct descendant, spouse, common law spouse, parent, uncle, aunt, sibling, niece or nephew) of a member of the Executive Board of the company or of people who fulfill one of the other criteria described above.

According to C-Rule 54 of the Austrian Code of Corporate Governance, the Supervisory Board of the company shall include at least one independent member delegated by the shareholders who is not a shareholder with a share of more than 10% or who represents such a shareholder's interests. This

requirement of C-Rule 54 has been met, since no member of the Supervisory Board is a shareholder with a share of more than 10% or who represents such a shareholder's interests.

According to C-Rule 53, the Supervisory Board member Gerald Kiska is not independent from the company and the Executive Board. The other members of the Supervisory Board of KTM Industries AG admit to the criteria of independence according to C-Rule 53 and declare themselves independent.

#### REMUNERATION REPORT:

While establishing the total remuneration for members of the Executive Board, the Supervisory Board must ensure proportionality of the remuneration with the tasks assumed by, and performance delivered by, the individual member of the Executive Board, the situation of the company and the ordinary remuneration, and undertakes to take into account long-term incentives with regard to sustained corporate development.

Members of the Executive Board are remunerated in accordance with agreements under private law that have been concluded between the Member of the Executive Board and the company, represented by the Supervisory Board.

The remuneration of the members of the Executive Board of KTM Industries AG consists of both fixed and variable components. The variable components of the remuneration shall be established in advance in accordance with individual agreements and shall be linked to measurable, sustainable, long-term and multi-annual performance criteria and shall not encourage the taking of inappropriate risks. The variable components of the remuneration are unlimited in terms of their amount and, for the 2017 financial year, are based on the following performance indicators: EBIT, EBT, operative cash flow and free cash flow<sup>1</sup> of the companies belonging to the KTM Industries Group. The variable components of the remuneration that have been established for each of the Members of the Executive Board by virtue of the individual agreements will each be based on different performance indicators (see table on page 35). The weighting of the individual parameters for the variable components of the remuneration shall be discretionary and are to be established on a case-by-case basis by the company, the Supervisory Board and the Member of the Executive Board in question.

The remuneration policy is reviewed by the Supervisory Board each year. No external benchmarking takes place with regard to remuneration or the remuneration structure. The chairman of the Supervisory Board shall provide the Annual General Meeting with information concerning the principles of the remuneration system once per year.

The members of the Executive Board are eligible for a company car. Accident insurance provides insurance cover in the case of death or disability. Personal liability insurance covers the legal liability of the Executive Board members that results from personal injuries, material damage or financial losses suffered by third parties. Insurance cover exists for claims for damages due to financial losses suffered by third parties or the company as a result of breaches of duty committed by a member of executive bodies of the company. The company bears the cost of these insurance policies.

For group internal mandates and functions, no additional remuneration is granted.

In the case of premature termination without a compelling reason, the fixed salary shall be paid out for the contractual period.

The members of the Executive Board, except Stefan Pierer, render their services on the basis of employment contracts liable to income tax. The board activity of Stefan Pierer is regulated by a posting agreement with Pierer Konzerngesellschaft mbH. No further agreements with the Executive Board exist in respect of occupational retirement benefit plans. According to the contract, the Executive Board members are eligible for voluntary severance pay; however, as a general rule, they are submitted to the system of "Abfertigung Neu" (new severance pay).

No stock option plans or similar share-based remuneration systems exist. D&O insurance exists and it covers the Executive Board and Supervisory Board, as well as the management of the group companies.

The total remuneration paid to Executive Board Members, including the performance-related components, amounted to €4.29 million during the 2017 financial year (previous year: €4.24 million). The most important calculation parameter for the variable remuneration is – alongside the individually agreed performance-related target achievement – the development of individual performance indicators of the Group. During the 2017 financial year, no loans or advance payments were granted to Members of the Executive Board. As at the reporting date of December 31, 2017, no loans or advance payments to current or previous Executive Board members exist. During the 2017 financial year, no non-standard remuneration was paid to persons related to Members of the Executive Board and no loans were granted to such persons.

<sup>1</sup> The free cash flow value is calculated on the basis of the total Group cash flow from operating activities minus Group cash flow from investment activities.

Executive Board remuneration for the 2017 financial year (group level):

	FIXED (in EUR)	FIXED (in %)	VARIABLE (in EUR)	VARIABLE (in %)	TOTAL
Stefan Pierer	381,163	18	1,744,900 <sup>1)</sup>	82	2,126,063
Friedrich Roithner <sup>*)</sup>	170,331	19	723,467 <sup>2)</sup>	81	893,797
Alfred Hörtenhuber	294,581	53	261,099 <sup>3)</sup>	47	555,680
Wolfgang Plasser <sup>*)</sup>	398,406	63	235,000 <sup>4)</sup>	37	633,406
<b>Total</b>	<b>1,244,481</b>	<b>30</b>	<b>2,964,466</b>	<b>70</b>	<b>4,208,947</b>

(1) The variable component of the remuneration is based on the EBT value and the free cash flow of the KTM Group.

(2) The variable component of the remuneration is based on the EBIT value of the KTM Industries Group.

(3) The variable component of the remuneration is based on the EBT value and the operative cash flow of the WP Group.

(4) The variable component of the remuneration is based on the EBIT value of the Pankl Group.

In addition, the Members of the Executive Board received income from previous periods amounting to EUR 79.3k.

<sup>\*)</sup> Since January 1, 2016, Friedrich Roithner is in an white-collar employee/Executive Board contract with Pierer Industrie AG; he has been charged to KTM Industries AG pursuant to a posting agreement.

<sup>\*)</sup> Wolfgang Plasser was appointed to the Executive Board of KTM Industries upon registration of the merger on June 2, 2015.

Since October 1, 2015, Wolfgang Plasser has been charged to KTM Industries AG pursuant to a posting agreement. Furthermore, he has been posted to Pankl Racing Systems AG pursuant to a posting agreement.

The amount of the total remuneration of the Supervisory Board members is resolved within the framework of the Annual General Meeting for the respective preceding financial year of the Annual General Meeting. The proposed resolution is to be submitted by the Executive Board. As a general rule, discretion is to be applied when drawing up the proposed resolution and while passing the resolution at the Annual General Meeting; account is to be taken of responsibilities and the scope of activity, together with the economic position of the company. If members of the Supervisory Board are also shareholders in the company, they are not subject to a voting ban in the vote on the remuneration of Supervisory Board members in the Annual General Meeting.

As part of the 20th Annual General Meeting held on April 27, 2017, the total remuneration for the 2016 financial year for the Supervisory Board was resolved to be EUR 28,000. In his capacity as a member of the Executive Board of Pierer Industrie AG, Klaus Rinnerberger has committed to acting as a member of the Supervisory Boards of companies belonging to the Group and he shall not be entitled to receive any separate remuneration for roles of this nature. For the 2017 financial year, the total remuneration of the Supervisory Board was recognized in the income statement in the amount of EUR 39,000. Members of the Supervisory Board that are elected to the Supervisory Board or leave during a financial year receive the remuneration commensurate with the duration of their actual affiliation with the Supervisory Board pro rata temporis.

The Executive Board will propose total remuneration of this amount to the 21st Annual General Meeting for the 2017 financial year, which is scheduled to take place on April 26, 2018. The individual distribution should be divided as follows, subject to the approval of the Annual General Meeting:

MEMBER OF THE SUPERVISORY BOARD	REMUNERATION	
Josef Blazicek Chairman of the Supervisory Board Deputy chairman of the Audit Committee	EUR	19,000
Ernst Chalupsky Deputy chairman of the Supervisory Board Member of the Audit Committee	EUR	12,000
Gerald Kiska Member of the Supervisory Board	EUR	8,000
Klaus Rinnerberger Member of the Supervisory Board Chairman of the Audit Committee	EUR	0
<b>Total</b>	<b>EUR</b>	<b>39,000</b>

In addition to the annual expenses allowance, the Supervisory Board members receive compensation for their cash expenses for the expenses that they actually incur. The Supervisory Board members are furthermore covered by the company's manager liability insurance up to a certain upper limit, which covers the personal liability of the Supervisory Board members in case of a negligent breach of duties in exercising their activity as a board of the company. During the 2017 financial year, no loans or advance payments were granted to members of the Supervisory Board. As at the reporting date of December 31, 2017, no loans or advance payments to current or previous Supervisory Board members exist. During the 2017 financial year, no non-standard remuneration was paid to persons related to members of the Supervisory Board and no loans were granted to such persons. In addition, in 2017 no (other) remuneration has been paid to members of the Supervisory Board. Other business relationships with Supervisory Board members did not exist.

## 03 MEASURES TO PROMOTE WOMEN

It is not currently planned to include a female member in the Executive Board. Equal treatment of female and male employees and equal career opportunities are a matter of course for KTM Industries AG. No program to promote and encourage the appointment of women to positions of that type is in place.

## 04 DESCRIPTION OF THE DIVERSITY CONCEPT

For the composition of the Executive Board and the Supervisory Board, the Supervisory Board has agreed a diversity concept pursuant to Section 243c (2) 2a UGB that provides for the following:

### COMPOSITION OF THE EXECUTIVE BOARD

#### Concept:

- Candidates for an Executive Board position are selected based on their specialist qualification for the role applied for, their leadership qualities and previous performance, as well as their knowledge of the company.
- The aim is to ensure that the Executive Board as a whole has many years of experience in the areas of development, production, sales and finances.
- A person's age and sex play no role in the decision to appoint members of the Executive Board; there is no preference or disadvantage in the selection process.
- At least two members of the Executive Board should have technical professional training.

#### Objectives:

The objective of the Diversity Concept is to fill the Executive Board with persons that complement each other based on their various professional and life experience. It should be ensured that the Executive Board as a whole has the highest level of experience and specialist training in order to successfully manage the KTM Industries Group and achieve the best results.

#### Implementation:

The Supervisory Board decides on the composition of the Executive Board roles using the criteria set out in the diversity concept, taking into account the interests of the company.

#### Results in the reporting period:

The course was set in financial year 2017 for the expansion of the Executive Board on the basis of the diversity concept. The Management Board of KTM AG comprises five members since January 1, 2018.

### COMPOSITION OF THE SUPERVISORY BOARD

#### Concept:

- The Supervisory Board includes specialist and personally trained personnel. In the process the structure and business activities and expert balanced composition of the KTM Industries Group must be considered. A minimum of one financial expert must hold a seat on the Supervisory Board.

- Wherever possible, the Supervisory Board should include a total of 2 members with international experience or special expertise in one or more of the markets outside Austria that are of importance to the KTM Industries Group.
- Wherever possible, the Supervisory Board should include a total of one member, who, by virtue of his/her prior experience, has a detailed knowledge of KTM Industries AG.
- Aspects relating to diversity within the Supervisory Board should be taken into account, with regard to the age structure and the representation of both genders on the Supervisory Board. Greater attention must be devoted to these criteria, the larger the membership of the Supervisory Board becomes.

**Objectives:**

The objective of the diversity concept is to populate the Supervisory Board with individuals that complement one another based on their differing professional and life experience. It is necessary to ensure that the Supervisory Board as a whole possesses the highest level of experience and specialist training in order to monitor the business activities of KTM Industries AG and that of the KTM Industries Group in a critical manner and from as many different angles as possible.

**Implementation:**

Nominations for election to the Supervisory Board that are submitted to the Annual General Meeting should take account of the criteria laid down in the Diversity Concept. The objectives of the Supervisory Board with regard to its membership will not restrict the voting freedom enjoyed by the Annual General Meeting.

**Results in the reporting period:**

In view of the fact that during the reporting period, there were no changes to the composition of the Supervisory Board, there are no results to be reported.

## 05 AUDITS AND EXTERNAL EVALUATION

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, was appointed by the 20th Annual General Meeting to serve as the auditors of the consolidated financial statements and annual financial statements of the company for the financial year from January 1, 2017 until December 31, 2017. In addition to this function, KPMG and partner offices around the world also sporadically provide tax and financial consulting services on behalf of the Group. The auditor's expenses are made up as follows: Audit of the consolidated financial statements (including subgroups) EUR 319,900 (previous year: EURk 318), and audit of the annual financial statements of all individual companies EUR 350,950 (previous year: EURk 338). Other services amount to EUR 180,843.20.

In accordance with C-Rule 62 of the Austrian Code of Corporate Governance, the company commissions an external evaluation of compliance with the C and R-Rules of the Code regularly, every three years. KTM Industries AG has commissioned Oberhammer Rechtsanwälte GmbH to evaluate the 2015 financial year. The complete report, including the results of the evaluation for the 2015 financial year, is available at [www.ktm-industries.com](http://www.ktm-industries.com).

The next external evaluation will be conducted in 2019 for the 2018 financial year.

## 06 CHANGES AFTER THE END OF THE REPORTING PERIOD

The members of the Executive Board of KTM AG Hubert Trunkenpolz and Harald Plöckinger were appointed to the Executive Board of KTM Industries AG with effect from January 1, 2018. Mag. Hubert Trunkenpolz is responsible for Sales, Marketing and Customer Service within KTM AG. Harald Plöckinger is active in the areas of Production, Purchasing, Logistics and Business Development at KTM AG.

Wels, March 2018  
The Executive Board

REPORT PURSUANT TO THE DIRECTIVE ON

## CORPORATE GOVERNANCE (DCG) OF THE SIX SWISS EXCHANGE

### REPORT PURSUANT TO THE DIRECTIVE ON CORPORATE GOVERNANCE (DCG) OF THE SIX SWISS EXCHANGE

As an Austrian company listed in Switzerland, KTM Industries AG is subject to the rules of the Directive on Information relating to Corporate Governance of the SIX Swiss Exchange (the “Swiss Directive on Corporate Governance”). The Swiss Directive on Corporate Governance is available at [https://www.six-exchange-regulation.com/dam/downloads/regulation/admission-manual/directives/06\\_16-DCG\\_en.pdf](https://www.six-exchange-regulation.com/dam/downloads/regulation/admission-manual/directives/06_16-DCG_en.pdf).

KTM Industries AG draws your attention to the fact that the company has been established under Austrian law and that the names, responsibilities and duties of organs of the company may therefore diverge from the rules applicable in Switzerland. In consequence, only Austrian legal terminology will be used in what follows. Companies that are not constituted in accordance with the Swiss Code of Obligations are required to fulfill the stipulations of the Swiss Directive on Corporate Governance, which are formulated with close reference to the Code of Obligations, in a manner analogous to Swiss companies. A short description of Austrian organizational structure therefore follows:

- **Executive Board:** The Executive Board is responsible for the general management and representation of the company; it is the sole organ of general management and representation. The Executive Board is not bound by any instructions from the shareholders or the Supervisory Board; rather, it acts under its own responsibility and without being under orders. Only when undertaking certain extraordinary transactions is the Executive Board required to obtain the consent of the Supervisory Board. Where the Swiss Directive on Corporate Governance requires details of the “management”, details regarding the Executive Board will be provided accordingly. However, the function of the Executive Board does not precisely match that of the “management” in a Swiss company.
- **Supervisory Board:** The Supervisory Board appoints, dismisses and oversees the Executive Board. Its consent is also required for certain legal transactions. Where the Swiss Directive on Corporate Governance requires details of the “board of directors”, details regarding the Supervisory Board will be provided accordingly. However, the function of the Supervisory Board does not precisely match that of the board of directors of a Swiss company.
- **Annual General Meeting:** The Annual General Meeting, as the highest board of the company, appoints and dismisses the members of the Supervisory Board and appoints the auditor. Where the Swiss Directive on Corporate Governance requires details of the “general meeting of shareholders”, details regarding the General Meeting will be provided accordingly. Differences exist between Austrian and Swiss law with respect to general meetings.

#### 1. GROUP STRUCTURE AND SHAREHOLDER BASE

##### 1.1. Group structure

KTM Industries AG, with registered office in 4600 Wels, Edisonstraße 1, Austria, has had its primary listing on the SIX Swiss Exchange since November 14, 2016 (ISIN: AT0000820659, Security Number: 504.289). KTM Industries AG has share capital of EUR 225,386,742, divided into 225,386,742 voting bearer shares of no par value. Every share has an equal stake in the share capital.

The object of KTM Industries AG is in particular to act as a holding company, with a particular focus on the acquisition and administration of industrial companies and holdings in such companies, the management of companies and holdings forming part of the KTM Industries Group and the performance of services for these companies (group services), as well as corporate advisory services in general. This corporate object is laid down in § 2 of the articles of association, which can be found on the KTM Industries AG website (<http://www.ktm-industries.com/index.php/en/corporate-governance/articles-association>).

Management of the KTM Industries Group is carried out by a management team that includes divisional managers who are responsible for managing a particular product group within the framework of the strategy set by the Executive Board. Divisional managers report directly to the Executive Board of KTM Industries AG.

KTM Industries AG is the parent company of the KTM Industries Group. 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. The KTM Industries Group is divided into the strategic core divisions of (i) Vehicle (powered two-wheelers) with its equity holding inter alia in the KTM Group and the WP Group (under the name of KTM AG since January 2018), (ii) Design and Concept Development with the equity holdings inter alia in KTM Technologies GmbH and Kiska GmbH, and (iii) High Performance with the equity holding inter alia in the Pankl Group.

A description of the group structure and the operating segments of KTM Industries AG is included in the following sections of the notes to the Consolidated Financial Statements (I.1. Company Information) on page 84 and in the Annual Report under “Group Structure” on pages 6-7.

### KTM Group

K KraftFahrZeug Holding GmbH, the registered office of which is in Wels, Austria, is the parent company of KTM AG and thus of the KTM Group. The share capital of K KraftFahrZeug Holding GmbH is EUR 35,000. KTM Industries AG owns 100% of K KraftFahrZeug Holding GmbH.

KTM AG has its registered office in Mattighofen, Austria. The share capital of KTM AG is EUR 10,845,000. KTM Industries AG holds approximately 51.7% of KTM AG. This interest is held via K KraftFahrZeug Holding GmbH.

KTM AG owns KTM Sportmotorcycle GmbH, KTM-Racing AG, KTM Immobilien GmbH, KTM Sportcar GmbH, Husqvarna Motorcycles GmbH, and WP Performance Sports GmbH, as well as equity holdings inter alia in the sales subsidiaries of the KTM Group and the Husqvarna Group.

The KTM Group is a global manufacturer of Offroad and Street vehicles. The products of the KTM Group are sold under the “KTM” and “Husqvarna Motorcycles” brands. The KTM Group develops, manufactures and sells high-performance and competition-ready vehicles for the Offroad and Street segments. As well as Offroad and Street motorcycles, the product range includes mini-motorcycles, the KTM X-BOW and brand accessories (spare parts, technical accessories and clothing).

Through 35 sales subsidiaries and joint ventures in Australia and the Philippines the employees of KTM AG look after more than 2,350 independent dealers and also further importers for the two brands around the world.

### WP Group

W Verwaltungs AG (formerly: WP AG) has its registered office in Wels, Austria. The share capital of W Verwaltungs AG is EUR 5,000,000. KTM Industries AG held a direct interest of approximately 75.9% in W Verwaltungs AG and a further interest of approximately 24% indirectly via KTM AG. The entire WP Group has been operating under the name of KTM AG since January 2018.

The parent company of the WP Group for operational purposes is WP Performance Systems GmbH, which has its registered office in Munderfing, Austria. W Verwaltungs AG is the sole shareholder in WP Performance Systems GmbH. The share capital of WP Performance Systems GmbH is EUR 100,000.

The object of the WP Group is the development, production and sale of the following chassis components for motorcycles and vehicles: (i) suspension components, (ii) frame construction and related welded-steel components, (iii) exhaust systems and (iv) cooling systems.

WP Group is a comprehensive systems provider to the international motorcycle and power sports industry. The Group offers a wide range of products and can develop, test and produce the entire chassis of a motorcycle.

WP Group products are sold under the “WP Suspension”, “WP” and “WP Performance Systems” brands.

Pankl Group

Pankl Racing Systems AG, the registered office of which is in Kapfenberg, Austria, is the parent company of the Pankl Group, which comprises 9 companies in total. It is essentially a holding company.

The share capital of Pankl Racing Systems AG is EUR 3,150,000. The company's shares are listed on the Official Market of the Vienna Stock Exchange (ISIN AT0000800800). KTM Industries AG has a direct holding of approximately 94.5% in Pankl Racing Systems AG. As at the reporting date of December 31, 2017, Pankl Racing Systems AG had a market capitalization of approximately EUR 129.2 million.

In Austria, the Pankl Group operates as Pankl Aerospace Systems Europe GmbH and Pankl Systems Austria GmbH. In other countries, it is represented by its subsidiaries Pankl Racing Systems UK Limited, Pankl Holdings, Inc., Pankl Japan Inc., Pankl Automotive Slovakia s.r.o., Pankl Turbosystems GmbH and its subsidiaries.

The Pankl Group develops, produces, services and sells high-tech engine and drivetrain systems for global racing, luxury car and aerospace brands, especially helicopter and aircraft engine manufacturers. Pankl products are made from high-grade innovative materials designed to withstand extreme mechanical stress.

KTM Technologies/Kiska

KTM Technologies GmbH operates in technology, product development and consulting, focusing on high-performance composites and lightweight construction. The combination of vehicle construction expertise and many years of experience in the field of composites development and production form the central focus of the Concern.

As Europe's largest independent and owner-operated design company, Kiska GmbH operates in the business segments of Consultancy in relation to marketing, brand and design, Transportation Design, Product Design and Environmental Design.

A detailed list of the active non-listed subsidiaries of KTM Industries AG can be found in the schedule of equity holdings (pages 139-141).

**1.2. Significant shareholders**

The shareholder structure of KTM Industries AG as at December 31, 2017 was as follows:

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Pierer Group:	
- Pierer Beteiligungs GmbH	5.42%
- Pierer Konzerngesellschaft mbH	63.61%
-----	
Free float	30.97%

As at the reporting date of December 31, 2017, the Pierer Group thus held approximately 69.03% of the share capital and voting rights of KTM Industries AG.

KTM Industries AG is not aware of any other shareholders holding over 3 percent of the company's voting rights, whether directly or indirectly.

On November 21, 2017, Pierer Industrie AG was acquired by institutions of KTM Industries AG and by persons closely associated with the Company for a share price of EUR 4.80, totaling 12,215,958 KTM Industries AG shares (equivalent to about 5.42% of the share capital of KTM Industries AG). The buyers had acquired the shares as part of a private placement in 2015. At the end of September 2017, Pierer Industrie AG offered the buyers the option of selling some of the shares they held in order to prematurely return their financing liabilities entered into within the scope of the private placement in 2015. Pricing was based on the stock-exchange price in September 2017 and the average stock-exchange prices during the preceding months.

On November 21, 2017, the equity holding inter alia of the Pierer Group in KTM Industries AG therefore exceeded the threshold of  $\frac{66}{3}$  and is approximately 69.03% as of the reporting date.



Notifications of significant shareholders and shareholder groups made to KTM Industries AG and the Disclosure Office of SIX Swiss Exchange AG pursuant to Art.120 et seq. of the Financial Markets Infrastructure Act (FinfraG) can be viewed on the publications platform of the Disclosure Office at <https://www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html>.

### 1.3 Cross-shareholdings

There are no cross-shareholdings.

## 2. CAPITAL STRUCTURE

### 2.1 Capital

As at the reporting date, the share capital of KTM Industries AG was EUR 225.386.742 and was fully paid-up. The share capital of KTM Industries AG is divided into 225,386,742 bearer shares of no par value, each of which represents an equal interest in the share capital.

The shares grant the rights that are due to stockholders under the Austrian Stock Corporation Act. These include in particular the right to payout of the dividend resolved upon at the Annual General Meeting as well as the right to vote at Annual General Meetings.

On the reporting date of December 31, 2017, KTM Industries AG held conditional capital, but not yet authorized capital.

### 2.2 Authorized and conditional capital in particular

#### Authorized capital:

As at the reporting date, KTM Industries AG had no authorized capital<sup>1</sup>.

#### Conditional capital:

As at the reporting date, KTM Industries AG had no conditional capital<sup>2</sup>.

The following resolutions were adopted during the Annual General Meeting of April 27, 2017:

- a) The authorization of the Executive Board, subject to the agreement of the Supervisory Board, to issue financial instruments in the sense of Section 174 of the Austrian Stock Corporations Act until April 1, 2022, particularly convertible bonds, participating bonds and special dividend rights, with a nominal total of EUR 150 million, which may also grant pre-emption rights and/or option of exchange on the acquisition of up to 25 million shares in the Company and/or are organized in such a way that they may be reported as equity, also in multiple tranches and in different combinations.
- b) The Executive Board may use the conditional capital and/or treasury shares to fulfil options of exchange and or pre-emption rights.
- c) The issue amount and issue conditions of the financial instruments are to be set by the Executive Board, subject to the agreement of the Supervisory Board, whereby the issue amount is to be determined according to recognized mathematical methods used in finance and the price of shares in the Company in a recognized pricing procedure.
- d) The Executive Board is authorized to exclude the pre-emption rights of shareholders to financial instruments in the sense of Section 174 AktG with the agreement of the Supervisory Board.
- e) The conditional increase of the Company share capital in accordance with Section 159, paragraph 2, no. 1 AktG by up to EUR 25 million by issuing up to 25 million no-par value bearer shares (ordinary shares) for issue to creditors of financial instruments in accordance with Section 174 AktG, which are issued using the authorization granted in this Annual General Meeting, in so far as the creditors of the financial instruments make use of their options of exchange and/or pre-emption rights on Company shares. The issue price and the conversion ratio shall be determined according to a recognized pricing procedure, following accepted financial mathematical methods and based on the company's share price. The newly issued shares of the conditional capital increase have the same dividend entitlement as the pre-existing shares of the Company. The Executive Board, subject to the approval of the Supervisory Board, is authorized to determine the further details of the execution of the conditional capital increase. The Supervisory Board is authorized to pass amendments to the articles of association that may arise due to the issue of shares from the conditional capital.

<sup>1</sup> The Articles of Association are available to view on the KTM Industries AG website: <http://www.ktm-industries.com/index.php/en/corporate-governance/articles-association>

<sup>2</sup> The Articles of Association are available to view on the KTM Industries AG website: <http://www.ktm-industries.com/index.php/en/corporate-governance/articles-association>

### 2.3 Changes in capital in the last three reporting periods

The merger of CROSS Industries AG into BF HOLDING AG (now KTM Industries AG) was entered in the Register of Companies on June 2, 2015. In the course of the merger, the share capital BF HOLDING AG was increased by EUR 210,000,000 (from EUR 15,386,742 to EUR 225,386,742) through the issue of 210,000,000 new shares. These new shares were allocated to Pierer Industrie AG as sole shareholder of the transferring company. No further changes to the share capital have occurred in the last three reporting periods.

In consequence of the merger, BF HOLDING AG was renamed CROSS Industries AG. The company's name was changed to "KTM Industries AG" at the Extraordinary General Meeting of July 21, 2016. The corresponding amendment to the Articles of Association<sup>3</sup> was entered in the Register of Companies on July 29, 2016.

The consolidated equity of KTM Industries AG was EUR 386.6 million at December 31, 2015, EUR 454.9 million at December 31, 2016 and EUR 528.6 million at December 31, 2017. Information on changes in equity is set out in the consolidated statement of changes in equity in the Annual Report (pages 82-83).

#### 2.4/2.5 Shares and participation certificates/dividend-right certificates

As at the reporting date, the share capital of KTM Industries AG was EUR 225,386,742 and was fully paid-up. The share capital of KTM Industries AG is divided into 225,386,742 bearer shares of no par value, each of which represents an equal interest in the share capital.

KTM Industries AG has issued no participation certificates or dividend-right certificates.

The following rights attach to shares in KTM Industries AG:

#### Rights over assets:

##### Right to dividends / Right to participate in profit

Every shareholder has the right to the distribution of a dividend from the net profit disclosed in the annual financial statements. Under the Company's Articles of Association<sup>4</sup>, the Annual General Meeting of KTM Industries AG is entitled to exclude all or part of the balance sheet profit from distribution. Should the Annual General Meeting thus resolve to exclude the profit from distribution, the shareholder shall have no claim to it, even if the company has achieved a profit during the past financial year and disclosed it on its statement of financial position.

Each shareholder's share in the profit of the company is determined in proportion to his share of the share capital. There are no restrictions in this regard affecting non-local investors. Dividends that are not claimed within 30 years of the date of entitlement shall expire and shall be assigned to the company's unrestricted reserves. Resolutions concerning the distribution of dividends on the company's shares for any financial year shall be made at the Annual General Meeting for the following year, which shall rule on a proposal submitted by the Executive Board and Supervisory Board. Dividends may only be paid from retained earnings as disclosed in the (separate) annual financial statements of the company, as prepared in accordance with the Austrian Companies Code. The amount available for distribution shall be the profit for the year, plus or minus retained earnings/losses brought forward from the previous year, plus or minus transfers to/from reserves. By law, certain reserves must be formed which must be deducted from the retained earnings available for distribution.

Dividends passed by the Annual General Meeting shall be paid out in accordance with the rules of the relevant clearing system, as the shares entitled to dividends are held in a clearing system.

<sup>3</sup> The Articles of Association are available to view on the KTM Industries AG website:  
<http://www.ktm-industries.com/index.php/en/corporate-governance/articles-association>

<sup>4</sup> The Articles of Association are available to view on the KTM Industries AG website:  
<http://www.ktm-industries.com/index.php/en/corporate-governance/articles-association>

#### Pre-emption rights regarding subscription offers for shares of the same category

In the event of a capital increase, every shareholder may request to be allotted a number of shares in proportion to his current holding. This pre-emption right serves firstly to allow the shareholder to maintain his current interest (antidilution) and secondly to preserve the value of his current interest (asset protection). Pre-emption rights may be overridden by a resolution adopted at the General Meeting, subject to a qualified majority of three quarters of the share capital represented. A valid reason for overriding the pre-emption right must exist.

#### Right to a share of the balance in the event of liquidation

In the event of a winding-up (liquidation), every shareholder has a claim to the assets remaining after all debts have been settled (liquidation proceeds). The shareholder will thus become a creditor of the company, with a claim that may be enforced in court. Liquidation proceeds are to be distributed among the shareholders in proportion to their shareholdings. They need not be in cash; they may also be distributed in the form of other assets.

Dissolution of the company shall be in accordance with the Austrian Stock Corporation Act

#### **Rights in relation to Annual General Meetings:**

##### Right to attend

Every shareholder has the right to attend the Annual General Meetings, as shareholders exercise their rights at General Meetings. Shareholders are entitled to attend Annual General Meetings insofar as they hold shares on the evidence date, that is, at the end of the tenth day before the day of the General Meeting in question. A securities account confirmation as per § 10a of the Austrian Stock Corporation Act suffices as evidence of a shareholding; this must be supplied to the company no later than the third working day before the Annual General Meeting. Shareholders do not need to attend the Annual General Meeting in person; they may also appoint a proxy to represent them or issue a voting instruction.

##### Right of petition

Pursuant to § 109 of the Austrian Stock Corporation Act, shareholders whose cumulative holdings reach 5% of the share capital may demand in writing that certain points be placed on the agenda of the Annual General Meeting and announced. Each agenda point thus moved must include a proposal for a resolution and provide grounds. The petitioning shareholders must have held the shares for at least three months before the petition is submitted. The shareholders' demand must reach the company no later than the 21st day before an Annual General Meeting, or no later than the 19th day before any other General Meeting (§ 109, paragraph 2 of the Austrian Stock Corporation Act).

Pursuant to § 110 of the Austrian Stock Corporation Act, shareholders whose cumulative holdings reach 1% of the share capital may submit proposed resolutions on each point of the agenda to the company in text form and demand that said proposals be made available on the company's website together with the names of the shareholders concerned, the grounds for the proposal and the opinion, if any, of the Executive or Supervisory Board. The demand shall be valid if it reaches the company no later than on the seventh working day before the Annual General Meeting. Where the proposal is for the election of a member of the Supervisory Board, the declaration of the nominee as per § 87(2) of the Austrian Stock Corporation Act shall be submitted in place of the grounds for the proposal.

Pursuant to § 119 of the Austrian Stock Corporation Act, every shareholder has the right to propose a motion on any point on the agenda at a Annual General Meeting. Where a motion is proposed at the Annual General Meeting itself, there is no requirement to provide grounds.

##### Right to information / Right of inquiry

Pursuant to § 118 of the Austrian Stock Corporation Act, information on matters concerning the company is to be given to every shareholder on demand at the Annual General Meeting, insofar as such information is necessary for the factual assessment of a point on the agenda. The right to information allows information to be obtained on the company's position and serves as a basis for the company's decision-making.

In principle, the obligation to provide information is incumbent on the Executive Board only, not on the Supervisory Board, except as regards matters that concern the Supervisory Board alone.

Information need not be provided if, according to reasonable commercial judgment, it is of a nature that may cause substantial harm to the company or an affiliated company, or if providing it would be a criminal offense. Further, information need not be provided where it has been constantly available in question-and-answer form on the company's website for at least seven days before the start of the Annual General Meeting.

#### Right to speak

Every shareholder has the right to express his opinion at the Annual General Meeting. The Annual General Meeting is the shareholders' forum for information and discussion. The chairman of the Meeting may restrict the right to speak from the start of the meeting or as required. The right to speak as such may not be set aside entirely.

#### Voting rights

Every shareholder has a right to vote at the Annual General Meeting in proportion to his shareholding. The Articles of Association<sup>5</sup> cannot generally grant a shareholder more votes than he has shares; however, it is permissible to restrict voting rights for equity holdings inter alia exceeding a certain size. Shareholders may exercise their voting right in three ways: they may vote for a motion, vote against the motion, or abstain. Voting rights in respect of specific resolutions are suspended in certain cases of a shareholder's conflict of interest.

Where the law does not prescribe a different majority, the Annual General Meeting shall pass resolutions by simple majority of the votes cast and, in those cases where a majority of the capital is required, by simple majority of the share capital represented.

#### Right of objection

At various points, the Austrian Stock Corporation Act lays down the option or duty of a shareholder to raise objections in order to safeguard or exercise his rights (e.g. objection to the issue of dividend warrants, objection to the minutes of the Annual General Meeting, objection to a resolution to convert the company to another legal form).

#### Right of avoidance

Every shareholder has the right to have resolutions adopted at the General Meeting declared void, whereby avoidance shall entail the rescission of a validly passed resolution. All resolutions may be contested that contravene the law or the Articles of Association<sup>6</sup> but are not void ab initio. Shareholders must have their objections minuted in order to have a right to avoidance.

### **2.6 Limitations on transferability and nominee registrations**

KTM Industries AG has only bearer shares in issue. There are no limitations on transferability or company rules on nominee registrations.

### **2.7 Convertible bonds and options**

KTM Industries AG has issued no convertible bonds or options.

<sup>5</sup> The Articles of association are available on the website of KTM Industries AG: <http://www.ktm-industries.com/index.php/en/corporate-governance/articles-association>

<sup>6</sup> The Articles of association are available on the website of KTM Industries AG: <http://www.ktm-industries.com/index.php/en/corporate-governance/articles-association>

### 3. SUPERVISORY BOARD

#### 3.1 / 3.2/ 3.3 / 3.4 Members of the Supervisory Board, other activities and vested interests, cross-interests, election and term of office

The Supervisory Board is made up of at least three members who are separately elected by the Annual General Meeting, plus as many employee representatives as are required pursuant to § 110(1) of the Austrian Labor Relations Act. The members of the Supervisory Board are elected by the Annual General Meeting, for a term that shall not go beyond the end of the General Meeting resolving on the discharge of the Executive Board for the fourth financial year following the election; in determining what constitutes the fourth financial year, the financial year in which the member is elected is excluded.

Members of the Supervisory Board of an Austrian Aktiengesellschaft are non-executive directors in Swiss legal terminology.

As at the reporting date, the Supervisory Board of KTM Industries AG consisted of four members, as below:

Name	Position
Josef Blazicek	Chairman of the Supervisory Board
Dr. Ernst Chalupsky	Deputy Chairman of the Supervisory Board
Gerald Kiska	Member of the Supervisory Board
Klaus Rinnerberger	Member of the Supervisory Board

**Josef Blazicek** (b. 1964), Austrian citizen, has been active in business since completing high school. He began his career in the International Sales division of GIRO Credit Bank der Österreichischen Sparkassen AG. From 1989, he was head of the trading department at ERSTE BANK AG, before taking up the same position at INVESTMENTBANK AUSTRIA AG in 1991, where he was inter alia a director of Bank Austria Securities Ltd. in New York. From 1997 to 2000, he was Head of Syndications at ICE Securities Ltd. in London. Subsequently, until 2003, he was managing shareholder at OCEAN Equities Ltd. in London. From 2000 until today he is in different leading positions at OCEAN/QINO Group.

Josef Blazicek has been a member of the Supervisory Board since 2008. He currently serves as Chairman of the Supervisory Board of KTM Industries AG. His term of office will expire at the end of the Annual General Meeting ruling upon the financial year 2020.

Josef Blazicek holds the following positions that are significant to KTM Industries AG:

- Chairman of the Supervisory Board of W Verwaltungs AG (formerly: WP AG), 4600 Wels
- Deputy Chairman of the Supervisory Board of Pierer Industrie AG, 4600 Wels
- Deputy Chairman of the Supervisory Board of Pankl Racing Systems AG, 8605 Kapfenberg

**Dr. Ernst Chalupsky** (b. 1954), Austrian citizen, is an attorney and partner in the international law firm of SCWP Schindhelm. Dr. Chalupsky studied at the Johannes Kepler Universität, Linz and trained as an attorney at a highly reputed partnership in Upper Austria. He has been a practicing attorney in Wels since 1982. He was a partner in the firm of Chalupsky & Gumpoldsberger, which merged in 2000 with Saxinger & Baumann to form SCWP. Dr. Chalupsky completed a master's degree in European and International Commercial Law at the Universität St. Gallen in 1996-97.

Dr. Ernst Chalupsky has been a member of the Supervisory Board since 2014. He currently serves as Deputy Chairman of the Supervisory Board of KTM Industries AG. His term of office will expire at the end of the Annual General Meeting ruling upon the financial year 2020.

Dr. Ernst Chalupsky holds the following positions that are significant to KTM Industries AG:

- Chairman of the Supervisory Board of Pierer Industrie AG, 4600 Wels
- Deputy Chairman of the Supervisory Board of W Verwaltungs AG (formerly: WP AG), 4600 Wels
- Member of the Supervisory Board of KTM AG, 5230 Mattighofen

Dr. Ernst Chalupsky is partner and general manager of Saxinger, Chalupsky & Partner Rechtsanwälte GmbH. The KTM Industries Group is advised by Saxinger, Chalupsky & Partner Rechtsanwälte GmbH on legal affairs. The advisory services are provided in accordance with standard market terms and conditions.

**Mag. Gerald Kiska** (b. 1959), Austrian citizen, studied at the Linz School of Design and subsequently worked at various design bureaus and agencies in Austria and abroad, including Interform Design in Wolfsburg, Form Orange in Götzis, Agentur Idea in Stuttgart and Porsche Design in Zell am See. He established his own design business in Anif, Salzburg, in 1990. From 1994 to 1995, Mr. Kiska taught as a guest professor at the Offenbach am Main School of Design. From 1995 to 2002 he acted as founder and lecturer at the School of Industrial Design in Graz. He also held a guest professorship at the Linz University of Design until 2003.

Gerald Kiska has been a member of the Supervisory Board since 2014. His term of office will expire at the end of the Annual General Meeting ruling upon the financial year 2019.

Gerald Kiska holds the following positions that are significant to KTM Industries AG:

- General Manager, Kiska GmbH, 5081 Anif
- Member of the Supervisory Board of W Verwaltungs AG (formerly: WP AG), 4600 Wels
- Member of the Supervisory Board of Pierer Industrie AG, 4600 Wels.

Consulting and other services are provided by Kiska GmbH, of which the managing shareholder is the Supervisory Board member Gerald Kiska, in accordance with standard market terms and conditions.

**Mag. Klaus Rinnerberger** (b. 1964), Austrian citizen, studied law in Vienna and began his career in 1987 as an auditor and consultant at Arthur Andersen & Co. He subsequently performed a variety of management roles in the automotive industry, including serving on the Executive Boards of Magna Automobiltechnik AG and Magna Steyr AG. In 2009, he joined the Executive Board of Polytec Holding AG, serving as CEO of the Peguform Group after its separation from Polytec until 2011.

Klaus Rinneberger has been a member of the Supervisory Board since 2015. His term of office will expire at the end of the Annual General Meeting ruling upon the financial year 2019.

Klaus Rinneberger holds the following positions that are significant to KTM Industries AG:

- Member of the Executive Board of Pierer Industrie AG, 4600 Wels.
- Member of the Supervisory Board of W Verwaltungs AG (formerly: WP AG), 4600 Wels

The table below shows the names of businesses and companies - insofar as known to the Company - in which the current members of the Supervisory Board of KTM Industries AG have been partners or members of a management, executive or supervisory board during the last three reporting periods. The column headed "Still serving" indicates whether the partnership or membership of a management, executive or supervisory board is still current.

SUPERVISORY BOARD	COMPANY	POSITION	STILL SERVING
<b>Josef Blazicek</b>			
	KTM Industries AG	Chairman of Supervisory Board	Yes
	KTM AG	Chairman of Supervisory Board	No
	All for One Steeb AG	Chairman of Supervisory Board	Yes
	BEKO Holding AG (company dissolved)	Chairman of Supervisory Board	No
	Pierer Industrie AG	Member/deputy chairman of Supervisory Board	Yes
	Pankl Racing Systems AG	Member/deputy chairman of Supervisory Board	Yes
	QINO Group Holding AG (formerly Swissburg AG)	Member of Board of Directors	Yes
	QINO AG (formerly QINO CAPITAL PARTNERS AG)	Member of Board of Directors	Yes
	QCP Swiss AG	Member of Board of Directors	Yes
	Triplan AG	Member of Supervisory Board	No
	BF HOLDING AG	Member of Supervisory Board	No
	KTM Immobilien GmbH (formerly KTM Motorrad AG)	Member of Supervisory Board	No
	KTM-Sportmotorcycle AG (company dissolved)	Member/deputy chairman of Supervisory Board	No
	WP Immobilien GmbH (formerly CROSS Immobilien AG)	Member of Supervisory Board	No
	W Verwaltungs AG	Chairman of Supervisory Board	Yes
	OCEAN Advisory GmbH (company dissolved)	General Manager	No
	OCEAN Consulting GmbH	Shareholder	Yes
	Qino Management & Advisory Ltd.	Executive Director	Yes
	BEKO Engineering & Informatik GmbH	Member of Supervisory Board	Yes
	Pankl Vermögensverwaltung AG (company dissolved)	Member of Supervisory Board	No
<b>Dr. Ernst Chalupsky</b>			
	KTM Industries AG	Member/deputy chairman of Supervisory Board	Yes
	Pierer Industrie AG	Chairman of Supervisory Board	Yes
	KTM AG	Member of Supervisory Board	Yes
	Wirtschaftspark Wels Errichtungs- und Betriebsaktiengesellschaft	Member of Supervisory Board	Yes
	TGW Logistics Group GmbH	Member of Supervisory Board	Yes
	MCGA Beteiligungs- und verwaltungs-GmbH	Shareholder/General Manager	Yes
	Saxinger, Chalupsky & Partner Rechtsanwälte GmbH	Shareholder/General Manager	Yes
	KTM Immobilien GmbH (formerly KTM Motorrad AG)	Member of Supervisory Board	No
	W Verwaltungs AG	Member/deputy chairman of Supervisory Board	Yes
	Beteiligungsverwaltungsgesellschaft mbH	Shareholder	No
	Zielpunkt GmbH	Member of Supervisory Board	No
	Privatstiftung Herman Greiner	Member of Executive Board	Yes
	TGW Futue Privatstiftung	Member of Executive Board	Yes
<b>Gerald Kiska</b>			
	KTM Industries AG	Member of Supervisory Board	Yes
	Kiska GmbH	Shareholder/General Manager	No/Yes
	Kiska Beteiligungs GmbH	Shareholder/General Manager	Yes
	Kiska Holding GmbH	Shareholder/General Manager	Yes

<b>SUPERVISORY BOARD</b>	<b>COMPANY</b>	<b>POSITION</b>	<b>STILL SERVING</b>
	Österreichische DESIGN Privatstiftung	Member of Executive Board	Yes
	KTM Technologies GmbH	General Manager	Yes
	Pierer Industrie AG	Member of Supervisory Board	Yes
	W Verwaltungs AG (formerly WP AG)	Member of Supervisory Board	Yes
<b>Klaus Rinnerberger</b>			
	KTM Industries AG	Member of Supervisory Board	Yes
	CROSS Industries AG (now KTM Industries AG)	Member of Executive Board	No
	Pierer Industrie AG	Member of Executive Board	Yes
	W Verwaltungs AG	Member of Supervisory Board	Yes
	SHW Beteiligungs GmbH	General Manager	Yes
	PF Beteiligungsverwaltungs GmbH	General Manager	Yes
	Durmont Teppichbodenfabrik GmbH (now AGM Durmont Austria GmbH)	General Manager	No

The members of the Supervisory Board have no other material activities, vested interests or cross-interests.

### 3.5 Internal organizational structure

#### 3.5.1 Allocation of tasks within the Supervisory Board

Please refer to the Report under the Austrian Corporate Governance Code (Composition of the Supervisory Board, page 32).

#### 3.5.2 Members list, tasks and area of responsibility for each committee of the Supervisory Board

The Supervisory Board has established an Audit Committee from among its members. For reasons of efficiency, since the Supervisory Board of KTM Industries AG is made up of no more than 6 members, the tasks of a compensation committee and appointments committee are fulfilled by the full Supervisory Board.

Please refer to the Report under the Austrian Corporate Governance Code (Committees of the Supervisory Board, pages 33-34).

#### 3.5.3 Working methods of the Supervisory Board and its committees

Please refer to the Report under the Austrian Corporate Governance Code (Working Methods of the Supervisory Board, pages 31-32).

### 3.6 Definition of areas of responsibility

Responsibility for the management of an Austrian Aktiengesellschaft lies with the Executive Board. Neither the Supervisory Board nor the Annual General Meeting has a right to issue instructions to the Executive Board. However, under the Austrian Stock Corporation Act, the Executive Board is required to obtain the consent of the Supervisory Board before entering into certain extraordinary transactions. The Executive Board consults with the Supervisory Board on the strategic direction of the company and discusses the implementation status of the strategy with the Supervisory Board at regular intervals.

The duty of the Supervisory Board is to appoint and dismiss the Executive Board and in particular to review the ongoing activities of the Executive Board. To this end, the Executive Board informs the Supervisory Board of its activities on a regular basis.

In total, the Supervisory Board met on five occasions during 2017, thus at least once per quarter. The meetings lasted approximately two and a half hours on average. Two meetings of the Audit Committee also took place; these meetings lasted approximately one hour on average (see also the Report under the Austrian Corporate Governance Code, Working methods of the Supervisory Board, pages 31-32).



### 3.7 Information and control instruments vis-à-vis the Executive Board

KTM Industries AG does not have its own risk management system. In light of the company's size, no separate internal audit department has been set up. However, the company has established an internal control and reporting system which enables the Executive Board to identify risks and quickly implement an appropriate response. The Supervisory Board, particularly the Audit Committee, is kept regularly informed about the internal control mechanisms and risk management in place across the group.

Under the internal control and reporting system, identifiable risks in numerous areas of the business are captured and evaluated on an ongoing basis; material results are assessed by the Executive Board and brought to the attention of the Supervisory Board. Further information on risk management can be found in the notes to the consolidated financial statements as at Sunday, December 31, 2017.

The company's management information system collates a large number of performance indicators from various areas of the KTM Industries Group, as well as comprehensive financial information. The system makes this data available electronically to the company's management in a predesigned format. The Supervisory Board receives monthly and quarterly reports based on information in the management information system.

## 4. EXECUTIVE BOARD

### 4.1 / 4.2 Members of the Executive Board, other activities and vested interests

Unless otherwise stated below, the members of the Executive Board have no further disclosable activities or vested interests.

The Executive Board of KTM Industries AG consisted in the financial year 2017 of four members:

NAME	POSITION
Stefan Pierer	Chairman of the Executive Board, CEO
Friedrich Roithner	Deputy Chairman of the Executive Board, CFO
Alfred Hörtenhuber	Member of the Executive Board
Wolfgang Plasser	Member of the Executive Board

**Stefan Pierer** (b. 1956), Austrian citizen, began his career in 1982 at HOVAL GmbH, Marchtrenk, after graduating in business and energy economics from the Montanuniversität Leoben. Initially a sales assistant, he rose to become Head of Sales for Upper Austria and an authorized signatory of the company. He founded what is now the KTM Industries Group in 1987. The KTM Industries Group is an Austrian industrial holdings group with a strategic and operational focus on the motorcycle and motor vehicle sector. Stefan Pierer is Chairman of the Executive Board of KTM Industries AG.

#### Responsibility:

Overall strategic and operational management, strategic and operational management of the KTM Group

#### Further main functions within the Group:

Chairman of the Executive Board of KTM AG  
 Chairman of the Executive Board of Pierer Industrie AG  
 Chairman of the Supervisory Board of Pankl Racing Systems AG  
 Deputy Chairman of the Supervisory Board of WP Performance Systems GmbH (since 6/8/2017)

#### Membership of supervisory boards or comparable functions in other foreign and domestic companies, excluding companies included in the consolidated financial statements:

Chairman of the Supervisory Board of Wirtschaftspark Wels Errichtungs- und Betriebs-Aktiengesellschaft  
 Member of the Supervisory Board of ATHOS Immobilien Aktiengesellschaft (until March 9, 2017)

**Friedrich Roithner** (b. 1963), Austrian citizen, graduated in business studies from the University of Linz and subsequently worked as an assistant auditor, with a focus on auditing and tax, at an international accountancy firm. From 1992 onwards, he was employed by Austria Metall AG, where he was a member of the Executive Board from 2002 to 2006. Since the end of 2007, Friedrich Roithner has been part of the management team at the KTM Industries Group. Friedrich Roithner is Deputy Chairman and Chief Financial Officer of the KTM Industries AG.

Responsibility:

Finance/(Group) accounting/tax and legal affairs

Further main functions within the Group:

Member of the Executive Board of Pierer Industrie AG  
 Member of the Executive Board of W Verwaltungs AG (formerly: WP AG) (since 7/27/2017)  
 Chairman of the Supervisory Board of KTM AG  
 Member of the Supervisory Board of Pankl Racing Systems AG  
 Member of the Supervisory Board of WP Performance Systems GmbH (since 4/29/2017)

Membership of supervisory boards or comparable functions in other foreign and domestic companies, excluding companies included in the consolidated financial statements:

Member of the Supervisory Board of Wirtschaftspark Wels Errichtungs- und Betriebs-Aktiengesellschaft

**Alfred Hörtenhuber** (b. 1955), Austrian citizen, graduated from high school in 1975 and began his career as an assistant salesman at K. Rosenbauer KG in Leonding, later rising to be Head of Exports for Western Europe. He completed his management training at the MZSG St. Gallen and the IMD Lausanne. In 1985, he joined the Miba Group, initially as a marketing manager. In 1990, he became a member of the Executive Board at Miba Sintermetall AG, with responsibility for marketing, research and development. In 1998, he became CEO of the Miba Friction Group and a member of the Executive Board of Miba AG Holding. Alfred Hörtenhuber has been a member of the management team of the KTM Industries Group since February 6, 2008. Alfred Hörtenhuber is a member of the Executive Board of KTM Industries AG. Alfred Hörtenhuber stepped down from the Management Board of KTM Industries AG at the end of the 2017 financial year.

Responsibility:

Strategic/operational management of WP Group and Group-wide product management

Further main functions within the Group:

Member of the Executive Board of W Verwaltungs AG (formerly: WP AG)  
 Member of the Supervisory Board of Pankl Racing Systems AG

Membership of supervisory boards or comparable functions in other foreign and domestic companies, excluding companies included in the consolidated financial statements:

None

**Wolfgang Plasser** (b. 1962), Austrian citizen, studied business sciences at the Vienna University of Economics and Business. Important positions during his professional career include roles at KPMG, Investment Bank Austria, Vossen AG (as CFO) and Ocean Consulting GmbH. Wolfgang Plasser joined the Executive Board of Pankl Racing Systems AG in 2004 and took on the role of Chairman of the Executive Board in 2006. Wolfgang Plasser is a member of the Executive Board of the Company.

Responsibility:

Strategic/operational management of the Pankl Group

Further main functions within the Group:

Member of the Executive Board of Pankl Racing Systems AG

Membership of supervisory boards or comparable functions in other foreign and domestic companies, excluding companies included in the consolidated financial statements: None

The table below shows the names of businesses and companies - insofar as known to the Company - in which the current members of the Executive Board have been partners or members of a management, executive or supervisory board during the last five reporting periods. The column headed "Still serving" indicates whether the partnership or membership of a management, executive or supervisory board is still current.

MEMBER OF EXECUTIVE BOARD	COMPANY	POSITION	STILL SERVING
<b>Stefan Pierer</b>			
	KTM Industries AG	Chairman of Executive Board	Yes
	W Verwaltungs AG (formerly WP AG)	Chairman of Supervisory Board	No
	Pierer Konzerngesellschaft mbH	Shareholder/General Manager	Yes
	KTM AG	Chairman of Executive Board	Yes
	KTM Immobilien GmbH (formerly KTM Motorrad AG)	Chairman of Executive Board	No
	Pierer Industrie AG	Chairman of Executive Board	Yes
	Pierer Beteiligungs GmbH	General Manager	Yes
	K KraftFahrZeug Holding GmbH	General Manager	Yes
	PF Beteiligungsverwaltungs GmbH	General Manager	Yes
	PIERER Immobilien GmbH	General Manager	Yes
	SHW Beteiligungs GmbH (formerly Pierer Anlagenbau GmbH)	General Manager	Yes
	PS GmbH (company dissolved)	General Manager	No
	Pierer Immobilien GmbH & Co KG	General manager of the general partner company Pierer Immobilien GmbH; Chairman of the Executive Board of the limited partner Pierer Industrie AG	Yes
	Pierer Invest Beteiligungs GmbH (company dissolved)	General Manager	No
	UIAG Beteiligungs GmbH (formerly RK Invest Holding GmbH)	General Manager	No
	SP GmbH (company dissolved)	General Manager	No
	Wohnbau-west Bauträger Gesellschaft m.b.H.	General Manager	Yes
	ATHOS Immobilien Aktiengesellschaft	Member of Supervisory Board	No
	BF HOLDING AG	Chairman of Supervisory Board	No
	Pankl Racing Systems AG	Chairman of Supervisory Board	Yes
	Wirtschaftspark Wels Errichtungs- und Betriebs-Aktiengesellschaft	Chairman of Supervisory Board	Yes
	Privatstiftung Christina	Chairman of Executive Board	Yes
	Österreichische DESIGN Privatstiftung	Chairman of Executive Board	Yes
	Stossier Privatstiftung	Chairman of Executive Board	Yes
	Swisspartners AG	Member of Board of Directors	Yes
	Pierer Swiss AG	Member of Board of Directors	Yes
	QINO AG (formerly QINO CAPITAL PARTNERS)	Member of Board of Directors	Yes
	QCP Swiss AG	Member of Board of Directors	Yes
	WP Immobilien GmbH (formerly CROSS Immobilien AG)	Chairman of Executive Board, Chairman of Supervisory Board	No
	KTM Logistikzentrum GmbH (formerly Oberbank Mattigtal Immobilienleasing GmbH)	General Manager	No
	Pierer Finanzierungsgesellschaft m.b.H. (company dissolved)	General Manager	No

MEMBER OF EXECUTIVE BOARD	COMPANY	POSITION	STILL SERVING
	Seestern Holding GmbH (This company merged, as the assuming company, with Pierer Industrie AG (registered in Austria, company no. 290677 t) by way of a merger agreement dated 07/23/2013)	General Manager	No
	WP Performance Systems GmbH (now KTM Components GmbH)	Member/deputy chairman of Supervisory Board	Yes
	Pierer Liegenschaft GmbH	Shareholder	Yes
	PIERER IMMOREAL GmbH	Shareholder/General Manager	No/Yes
	Pankl Vermögensverwaltung AG (company dissolved)	Chairman of Supervisory Board	No
	P Immobilienverwaltung GmbH	General Manager	Yes
<b>Friedrich Roithner</b>			
	KTM Industries AG	Deputy Chairman of the Executive Board	Yes
	WP AG (now W Verwaltungs AG)	Member/deputy chairman of Supervisory Board	No
	W Verwaltungs AG (formerly WP AG)	Member of Executive Board	Yes
	CROSS Motorsport Systems GmbH (now W Verwaltungs AG)	General Manager	No
	KTM AG	Member of Executive Board	No
	KTM AG	Chairman of Supervisory Board	Yes
	Pierer Industrie AG	Member of Executive Board	Yes
	Pierer Beteiligungs GmbH	General Manager	Yes
	K KraftFahrZeug Holding GmbH	General Manager	Yes
	Durmont Teppichbodenfabrik GmbH (now AGM Durmont Austria GmbH)	General Manager	No
	PF Beteiligungsverwaltungs GmbH	General Manager	Yes
	Pankl Racing Systems AG	Member of Supervisory Board	Yes
	BF HOLDING AG	Member of Supervisory Board	No
	Wirtschaftspark Wels Errichtungs- und Betriebs-Aktiengesellschaft	Member of Supervisory Board	Yes
	WP Immobilien GmbH (formerly CROSS Immobilien AG)	Chairman of the Executive Board, General Manager	No
	CROSS Automotive Beteiligungs GmbH (company dissolved)	General Manager	No
	CROSS Automotive Holding GmbH (company dissolved)	General Manager	No
	CROSS Lightweight Technologies Holding GmbH (company dissolved)	General Manager	No
	KTM Immobilien GmbH (company dissolved)	General Manager	No
	Oberbank Mattigtal Immobilienleasing GmbH (now KTM Logistikzentrum GmbH)	General Manager	No
	Seestern Holding GmbH	General Manager	No
	Pierer Invest Beteiligungs GmbH (company dissolved)	General Manager	No
	WP Performance Systems GmbH (now KTM Components GmbH)	Member of Supervisory Board	Yes
	PIERER IMMOREAL GmbH	General Manager	Yes
	SHW Beteiligungs GmbH (formerly Pierer Anlagenbau GmbH)	General Manager	Yes
<b>Alfred Hörtenhuber</b>			
	KTM Industries AG	Member of Executive Board	Yes
	W Verwaltungs AG (formerly WP AG)	Member of Executive Board	Yes
	WP Performance Systems GmbH (now KTM Components GmbH)	General Manager	No
	WP Components GmbH	General Manager	No
	Pankl Racing Systems AG	Member of Supervisory Board	Yes

MEMBER OF EXECUTIVE BOARD	COMPANY	POSITION	STILL SERVING
	KinderPaliativNetzwerk GmbH	Shareholder	Yes
	KTM AG	Member of Supervisory Board	No
	KTM Immobilien GmbH (formerly KTM Motorrad AG)	Member of Supervisory Board	No
	TGW-Future Privatstiftung	Chairman of Foundation Board	No
	CROSS Automotive Beteiligungs GmbH (company dissolved)	General Manager	No
	CROSS Automotive Holding GmbH (company dissolved)	General Manager	No
	CROSS Lightweight Technologies Holding GmbH (company dissolved)	General Manager	No
	WP Immobilien GmbH (formerly CROSS Immobilien GmbH)	General Manager	No
	Wethje Carbon Composites GmbH (formerly Wethje Holding GmbH)	General Manager	No
	Pankl Vermögensverwaltung AG (company dissolved)	Member of Supervisory Board	No
<b>Wolfgang Plasser</b>			
	KTM Industries AG	Member of Executive Board	Yes
	Pankl Racing Systems AG	Chairman of Executive Board	Yes
	CROSS Motorsport Systems AG (now W Verwaltungs AG)	Member of Executive Board	No
	CROSS Motorsport Systems GmbH (now W Verwaltungs AG)	General Manager	No
	OCEAN Advisory GmbH (company dissolved)	General Manager	No
	OCEAN Consulting GmbH	Shareholder/General Manager	Yes
	Pankl Holdings, Inc. (CA)	Chairman of Supervisory Board	Yes
	Pankl Aerospace Systems, Inc	Member of Supervisory Board	Yes
	CP-Carrillo, Inc	Member of Supervisory Board	Yes
	Pankl Holdings, Inc. (NV)	Chairman of Supervisory Board	No
	CP-Carrillo, LLC	Member of Supervisory Board	No
	Performance Equipment Company, LLC	Member of Supervisory Board	No
	Pankl Systems Austria GmbH	Chairman of Supervisory Board	Yes
	Pankl Vermögensverwaltung AG (company dissolved)	Member of Executive Board	No
	Pankl Engine Systems, Inc	Member of Supervisory Board	No

#### 4.3 Management contracts

There are no management contracts.

### 5. COMPENSATION, SHAREHOLDINGS AND LOANS

#### 5.1 Content and method of determining the compensation and the shareholding programs

Please refer to the Report under the Austrian Corporate Governance Code (Compensation Report, pages 34-36).

There are no programs that enable employees at any level or members of the company's boards to acquire equity interests in the company.

#### 5.2 Compensation report as per Art. 14-16 of the Ordinance against Excessive Compensation in Listed Companies (OaEC)

Please refer to the Report under the Austrian Corporate Governance Code (Compensation Report, pages 34-36). No compensation was paid and no non-cash benefits were granted to former members of the Supervisory or Executive Boards in the 2017 reporting year.

The members of the Executive and Supervisory Boards of KTM Industries AG held shares in the company as at the reporting date:

PERSON	Direct shareholding	Indirect shareholding	Number of shares	Voting rights in %*
Stefan Pierer	No	Yes**	155,574,011	69.03
Friedrich Roithner	Yes	No	1,397,480	0.62
Alfred Hörtenhuber	Yes	No	403,000	0.18
Wolfgang Plasser	Yes	No	403,000	0.18
Klaus Rinnerberger	Yes	No	1,397,480	0.62
Josef Blazicek	Yes	No	2,660,800	1.18
Dr. Ernst Chalupsky	Yes	No	264,635	0.12
Gerald Kiska	Yes	No	1,397,480	0.62

\* rounded

\*\* via Pierer Konzerngesellschaft mbH and Pierer Beteiligungs GmbH

## 6. SHAREHOLDERS' PARTICIPATION RIGHTS

### 6.1 Voting rights restrictions and representation

KTM Industries AG has 225,386,742 shares of no par value in issue. Each share confers one vote. There are no shares with preferential rights and no restrictions on the shares in issue. The principle of "one share – one vote" thus applies. Voting rights may be exercised by proxy. Proxy authorization must be granted in text form to a specific person and forwarded to KTM Industries AG, which must retain or traceably record it.

There are thus no restrictions on voting rights in the articles of association, no group clauses and no rules on granting exceptions.

### 6.2 Quorums required by the articles of association

Where the law does not prescribe a different majority, the Annual General Meeting shall pass resolutions by simple majority of the votes cast and, in those cases where a majority of the capital is required, by simple majority of the share capital represented.

The Articles of Association of KTM Industries AG<sup>7</sup> do not set more stringent voting requirements than those set by the Austrian Stock Corporation Act.

### 6.3 / 6.4 Convocation of the annual general meeting of shareholders, inclusion of items on the agenda

The provisions regarding the convocation of the Annual General Meeting do not diverge from the provisions of the Austrian Stock Corporation Act<sup>8</sup>.

Convocation should be issued no later than the 28th day before an Annual General Meeting, and no later than the 21st day before any other General Meeting. Convocations are published in the "Wiener Zeitung", made known via a European dissemination system and made available on the website of KTM Industries AG.

Annual General Meetings are normally convoked by the Executive Board of the company.

The Executive Board is also obliged to convoke a General Meeting if shareholders holding at least 5% of the share capital submit a written demand for convocation, stating the grounds for the demand and presenting an agenda and a proposed resolution for each point thereon. The articles of association may modify this statutory requirement by relaxing the formal requirements or reducing the minimum size of the shareholding required to demand convocation of a General Meeting. The Articles of Association of KTM Industries AG currently contain no such provisions that deviate from

<sup>7</sup> The Articles of Association are available to view on the KTM Industries AG website: <http://www.ktm-industries.com/index.php/en/corporate-governance/articles-association>

<sup>8</sup> The Articles of Association are available to view on the KTM Industries AG website: <http://www.ktm-industries.com/index.php/en/corporate-governance/articles-association>

the statutory requirements<sup>9</sup>. The petitioning shareholders must have held their shares for at least three months before submitting the petition and retain them until a decision on the petition is made. If the convocation is not issued by the Executive Board, the Executive Board is obliged to assist as necessary with the proper convocation of and preparation for the General Meeting

## 6.5 Share register

KTM Industries AG has only bearer shares in issue. It therefore does not maintain a share register.

## 7. CHANGES OF CONTROL AND DEFENSE MEASURES

### 7.1 Duty to make an offer

The shares of KTM Industries AG are admitted for trading on the Official Market of the Vienna Stock Exchange. The company is therefore subject to the provisions of the Austrian Takeovers Act. The Austrian Takeovers Act provides for both mandatory and voluntary takeover bids.

#### Mandatory offers

If a bidder (acting alone or in concert with other legal entities) obtains a controlling interest in a listed Austrian company, it is obliged under the Takeovers Act to make a mandatory offer to the remaining shareholders. Anyone who controls, directly or indirectly, 30% or more of the permanent voting shares of the listed company is deemed to have a controlling interest.

The obligation to make an offer for all equity shares in a target company is also triggered if a shareholder who has a controlling interest but does not hold more than 50% of the voting shares acquires an additional 2% or more of the voting rights in the company within a twelve-month period ("creeping in").

If a control-relevant threshold is reached, this must be notified to the Takeovers Commission without delay. The offer document must be submitted to the Takeovers Commission within 20 stock-market working days from the date control is attained.

A control-relevant threshold may be reached by a single shareholder or by two or more legal entities acting in concert. It follows that the duty of notification and mandatory offer may be triggered by the conclusion of a syndicate agreement or other agreements. Shareholders acting in concert need not be related parties for company law purposes.

When calculating a control-relevant threshold, treasury shares whose votes are suspended are disregarded.

The Takeovers Act provides for various exceptions to the rules regarding mandatory offers. In such cases, the matter must merely be notified to the Takeovers Commission.

In order to protect the interests of shareholders, the Takeovers Act sets a twofold lower limit to the offer price in the event of a mandatory offer. First, the offer price must not be less than the highest amount of consideration offered by the bidder (or a legal entity acting in concert with the bidder) for shares in the target company during the twelve months before the takeover offer. Second, the offer price must not be less than the average stock-exchange price of shares in the target company, weighted according to trading volumes, over the last six months.

#### Voluntary offer to achieve control

Such a bid may be issued by a bidder who does not have, but wishes to obtain, a controlling interest in the target company. The rules regarding mandatory offers, including those concerning the minimum price, must be applied accordingly.

Where an offer would enable a bidder to obtain a controlling interest, the bidder must, by law, receive declarations of acceptance relating to over 50% of the permanent voting shares that are the object of the offer.

<sup>9</sup> The Articles of Association are available to view on the KTM Industries AG website: <http://www.ktm-industries.com/index.php/en/corporate-governance/articles-association>

### Voluntary offer

A voluntary offer is an offer that is neither required by law nor a means to bring about a change of control. In practice, voluntary offers are frequently used by existing controlling shareholders to reduce the free float. Bidders making voluntary offers are not subject to statutory rules regarding the offer price, which they can set freely.

### **7.2 Clauses on change of control**

As at the balance sheet date, the management of the company (Executive Board and Supervisory Board) has not made any special contractual agreements to protect itself against a hostile takeover.

## **8. AUDITORS**

### **8.1 Duration of mandate and term of office of the lead audit partner**

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, was appointed by the 20th Annual General Meeting to serve as the auditor of the consolidated financial statements and separate financial statements of the company for the 2017 financial year. KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft was first appointed as group and company auditor for the short accounting period from 10/1/2014 to 12/31/2014.

The lead audit partner is Ernst Pichler, who first fulfilled this role for the short accounting period from 10/1/2014 to 12/31/2014.

### **8.2 Audit fee**

Please refer to the Report under the Austrian Corporate Governance Code (Audit and External Evaluation, page 37).

### **8.3 Additional fees**

Please refer to the Report under the Austrian Corporate Governance Code (Audit and External Evaluation, page 37).

### **8.4 Information and control instruments pertaining to the auditor of the financial statements**

During the reporting year, the auditor attended two meetings of the Supervisory Board and two meetings of the Audit Committee. The auditor is monitored and evaluated at regular intervals by the Audit Committee of the Supervisory Board.

The Audit Committee makes a proposal for the selection of the auditor and presents the proposal of the Supervisory Board to the Annual General Meeting for voting. The Audit Committee must also meet with the auditor to establish a mutual line of communication. The Audit Committee must also approve non-audit reviews by the auditor (auditor of the consolidated financial statements). Finally, the independence and activities of the auditor are reviewed and monitored, particularly with regard to the additional services provided to the audited company.

The compensation paid to the auditor is reviewed regularly for conformity to market terms and conditions. The lead audit partner for the company rotates every 7 years (internal rotation). By virtue of the implementation of Regulation (EU) No. 537/2014 of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities, KTM Industries must change its auditor by the 2024 financial year at the latest (external rotation).



## 9. Information policy

The company maintains an investor relations area on its website at <http://www.ktm-industries.com/index.php/ir>. This is freely accessible and serves as a permanent information source. All important information can be obtained here, as well as documents on the course of business and the share price (price data, shareholder structure, reports, financial calendar, AGM documents).

With effect from May 2, 2017, the shares of the company moved to the standard market auction segment in the Official Market of the Vienna Stock Exchange. As a result, only annual and half-yearly financial reports need to be compiled and published.

As the company's shares are listed in the standard market auction segment of the Official Market of the Vienna Stock Exchange, KTM Industries AG prepared and published annual financial reports and half-yearly financial reports in both German and English in the 2017 financial year.

The annual financial report must be published and made available on the internet (<http://www.ktm-industries.com/index.php/bericht>) no later than four months after the end of the reporting period. The half-yearly reports must cover the first six months of the financial year and must be published and made available on the internet (<http://www.ktm-industries.com/index.php/bericht>) no later than two months after the end of the reporting period. Annual reports can also be provided in printed copies or obtained from the website of the Oesterreichische Kontrollbank <http://issuerinfo.oekb.at/startpage.html>.

The company is required to maintain a connection to a suitable Europe-wide electronic information dissemination system and to disseminate via said system, in German and English, the inside information and reports on directors' dealings that must be published under Article 17 of Regulation (EU) No 596/2014. Price-relevant events are publicized promptly via the media and on the website. Inside information concerning KTM Industries AG is available on the websites <http://www.ktm-industries.com/index.php/newsroom> and <http://issuerinfo.oekb.at/startpage.html> and can also be obtained at <http://www.ktm-industries.com/index.php/ir-kontakt> (Investor Relations email subscription).

The financial calendar of KTM Industries AG, showing key dates in the current financial year, is available at <http://www.ktm-industries.com/index.php/finanzkal>.

Information on the corporate governance of KTM Industries AG (independence requirements for Supervisory Board members, compliance guideline, corporate governance reports, directors' dealings and notices regarding voting rights) is available from the website at <http://www.ktm-industries.com/index.php/corporate-governance>.

The company's contact details can be found in the imprint notice at the end of this annual report.



## REPORT BY THE SUPERVISORY BOARD

During the 2017 financial year, the Supervisory Board of KTM Industries AG held five meetings, thus fulfilling its duties required by law and under the articles of association; during those meetings, it held intense discussions concerning the overall economic position and the future strategic development of the company and its Group companies as well as significant events. Within the context of its regular reporting, and on the basis of comprehensive reports submitted in all meetings, the Executive Board of KTM Industries AG regularly informed the Supervisory Board of the present business and the financial situation, the course of business and the position of the Company including its Group companies during the 2017 financial year. Additional information was supplied with regard to extraordinary developments.

The Audit Committee dealt in detail with individual specialized issues and subsequently reported its findings to the Supervisory Board. The Presidium of the Supervisory Board was kept regularly informed about the current business situation by the Executive Board. The Audit Committee convened twice. In March 2017, all issues concerning the annual and consolidated financial statements for 2016 were covered, together with the proposal for the appointment of the auditor. During the meeting held in December 2017, the auditor provided an overview of the planned process, together with the main audit focus for the 2017 financial year. The members of the Audit Committee were Klaus Rinnerberger (Chairman and Financial Expert), Josef Blazicek (Deputy Chairman) and Dr Ernst Chalupsky. Since the Supervisory Board consists of no more than six members, the tasks of the Remuneration and Nomination Committee are fulfilled by the entire Supervisory Board.

The annual financial statements and the management report for the 2017 financial year were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, together with the consolidated financial statements and the consolidated management report for the 2017 financial year. The audit did not give rise to any objections and the annual and consolidated financial statements for the 2017 financial year were granted an unqualified audit opinion.

The auditor confirmed that the company's annual financial statements as at December 31, 2017 are consistent with applicable laws, that they give a true and fair view in all material aspects of the net asset and financial position as at December 31, 2017, that the company's earnings position for the financial year ending on this reporting date is in accordance with the regulations under Austrian company law, and that the management report is consistent with the annual financial statements.

Furthermore, the auditor certifies that the consolidated financial statements are consistent with applicable laws and give a true and fair view in all material respects of the Group's net assets and financial position as at December 31, 2017, as well as of the earnings position and cash flows for the financial year ended in accordance with the International Financial Reporting Standards (IFRS), and that the consolidated management report is consistent with the consolidated financial statements.

All documents relating to the financial statements and the auditor's reports (including the "Supplementary Report to the Audit Committee on the audit of the annual financial statements in accordance with Art. 11 of EU Regulation (EU) 537/2014 as at December 31, 2017") were discussed in detail with the auditors in the Audit Committee meeting held on March 19, 2018 and presented to the Supervisory Board together with the management reports drawn up by the Executive Board, the Corporate Governance report and the Sustainability report (non-financial report) according to § 96 section 1 AktG in its subsequent meeting. The Audit Committee stated in its report to the Supervisory Board that it agreed with the result from the auditor, and, following his audit of the financial statements and management report, together with the consolidated financial statements, the consolidated management report, the corporate governance report and the sustainability report for the 2017 financial year, it concluded that the documents submitted for auditing are correct and in compliance with the law, that the Executive Board's decisions regarding accounting policy are cost-effective and appropriate, and there is no reason for any objections.

The Supervisory Board agrees with the report of the Audit Committee and thereby with the result of the final audit. The final result of the Supervisory Board's audit of the annual financial statements and the management report, as well as the consolidated financial statements, the consolidated management report, the corporate governance report and the sustainability report (non-financial report) for the 2017 financial year, also gives no reason for any objections. Having been accepted by the Supervisory Board, the 2017 annual financial statements can be deemed to have been approved pursuant to Art. 96 (4) of the Austrian Stock Corporation Law (AktG). The Supervisory Board acknowledged the consolidated financial statements and the group management report for the 2017 financial year. The Supervisory Board concurs with the Executive Board with regard to the proposal concerning the distribution of the net profit achieved during the 2017 financial year.

Moreover, following a proposal by the Audit Committee, a proposal for the election of the auditor for the 2018 financial year was prepared for the 21st Annual General Meeting on April 26, 2018. KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, has been proposed as auditor for the financial year commencing on January 1, 2018 and ending on December 31, 2018.

#### FOCUS OF THE SUPERVISORY BOARD MEETINGS

In its meetings, the Supervisory Board regularly concerned itself with the monitoring of projects, the course of business and the business planning, including the non-financial performance indicators, compliance management and corporate governance within the Concern.

During its first meeting of the 2017 financial year on **March 21, 2017** the Supervisory Board mainly concerned itself with the discussion of and adoption of resolutions relating to the auditing and approval of the 2016 annual financial statements and the audit of the 2016 consolidated financial statements, the agenda and the proposals for resolutions for the Annual General Meeting and the medium-term planning for 2018-2021.

During its meeting on **April 27, 2017** the Supervisory Board mainly discussed current business development as well as the first quarter of the group companies.

The meeting of **July 27, 2017** focused on the course of business during the first six months of 2017, the outlook for the whole year and Executive Board matters. Furthermore it was reported about capital market topics and the financial status.

The Supervisory Board meeting of **October 18, 2017** heard reports on the business development of the KTM Industries Group and current projects and concluded contracts.

The last meeting of the 2017 financial year was held on **December 20, 2017**, and covered the course of business after 11 months and the outlook of the whole 2017 financial year. The 2018 budget was also decided on and the Supervisory Board took cognizance of the medium-term planning for 2019-2021. Resolutions were also adopted on the sale of shares of W Verwaltungs AG (75.9%) to KTM AG and the establishment of KTM Innovation GmbH, which is intended to pool the expertise and competencies of the "Industrialization 4.0 and Digitalization" division. During this meeting, Mr Hubert Trunkenpolz and Mr Harald Plöckinger were appointed as additional Executive Board members of KTM Industries AG with effect from January 1, 2018. Also at this meeting, Mr Alfred Hörtenhuber renounced his Executive Board mandate in KTM Industries AG with effect from December 31, 2017, and moved to the Executive Board of Pierer Industrie AG from January 2018.

Every member of the Supervisory Board attended at least half the meetings in the 2017 financial year.

The Supervisory Board would like to thank the Executive Board, as well as all employees, for their dedication and contribution to the pleasing results achieved during the last financial year. We would also like to convey our thanks to the shareholders, customers and partners who placed their trust in the company and who have therefore played a fundamental role in this success.

Wels, March 2018



Josef Blazicek  
Chairman of the Supervisory Board

# MANAGEMENT REPORT CONCERNING THE CONSOLIDATED FINANCIAL STATEMENTS

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# MANAGEMENT REPORT CONCERNING THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2017 OF KTM INDUSTRIES AG, WELS

## 1. SIGNIFICANT EVENTS IN THE 2017 FINANCIAL YEAR

The KTM Industries Group is the largest European sports motorcycle manufacturer, making it a leading European vehicle group with a strategic focus on the 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 form the foundation for the high level of innovation within the KTM Industries Group and secure our organic growth course in the long term. Please refer to the segment reporting of the notes to the Consolidated Financial Statements for further information regarding the Company divisions.

During the 2017 financial year, the KTM Industries Group continued its **strong growth**, achieving a new sales record of €1.533 billion, equivalent to an increase of €190 million. EBIT reached €132.5 million after €122.3 million in the previous year. Once sales of the KTM DUKE 200, KTM DUKE 390, KTM RC 200, and KTM RC 390, sold in India and Indonesia by our commercial partner Bajaj Auto Ltd., are included, 238,334 motorcycles of the KTM and Husqvarna Motorcycles brands were sold worldwide during the 2017 financial year. KTM therefore continued to build on its position as Europe's largest motorcycle manufacturer.

The implementation of the global product strategy as well as the expansion into further Asian and South American markets were consistently pursued in the financial year 2017. In support of this strategy, KTM expanded its **strategic partnerships**, such as by entering into new cooperation agreements. At the beginning of July, for example, KTM AG and its strategic partner **BAJAJ Auto Ltd.**, India, announced the global roll-out of the "Husqvarna Motorcycles" brand and their plans to manufacture the small displacement models in India in the future. This extension of cooperation in the Husqvarna Motorcycles brand will enable future sales to increase significantly once again, taking the partnership between KTM and Bajaj to the next level.

With a view to further increasing its presence on the Chinese market, KTM AG is pursuing a joint venture with its long-standing partner, **CF Moto** in Hangzhou. Not only is this joint venture expected to increase the presence of KTM on the Chinese market, the intention is also to work together to develop and manufacture products in order to drive global expansion further forward.

In order to strategically develop the important sales market of Oceania (Australia and New Zealand) further, KTM acquired a 26% equity stake in the **Australian importer** Motorcycle Distributors Australia Pty Ltd. in July 2017.

As part of the cooperation with our Philippine partner **Ayala Corporation**, the KTM and Husqvarna Motorcycles partner and importer in the Philippines, the assembly of models from the KTM DUKE and RC family up to 400 cm<sup>3</sup> started as scheduled in the first half of 2017. This opened up new distribution opportunities in the ASEAN region.

A further strategic partnership was entered into at the level of KTM Industries AG. In September 2017, KTM Industries AG acquired a 49.9% stake in **PEXCO GmbH**. The company, founded by the German Puello family of entrepreneurs in July 2017, specializes in e-mobility. From 2018, PEXCO electric two wheels will be launched onto the market under the "Husqvarna" and "Raymon" brands. The aim of this is to become a technology leader in the zero emissions sector for lightweight vehicles and to take the next major step in the field of **e-mobility**.

For the purpose of supporting and strengthening the strategic competence of **Design Development and Product Innovation** within the KTM Industries Group, KTM Industries AG increased its strategic management holding to 74% in KTM Technologies GmbH and 26% in Kiska GmbH in June 2017. KTM Technologies GmbH operates in technology, product development and consulting, focusing on high-performance composites and lightweight construction. The combination of vehicle construction expertise and many years of experience in the field of composites development and production are the central focus of the concern. Kiska GmbH is Europe's largest independent and owner-managed design company, and it operates in the business areas of consultancy relating to marketing, brand and design, transportation design, product design and environmental design.

In January 2018, the **WP Group**, the most important supplier to 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. In the Pankl Group, the 2017 financial year was dominated by two opposing trends in the racing/high performance segment. In racing, Pankl enjoyed a very positive first six months of the year due to the change in Formula 1 rules. In the second half of the year, the fact that a number of automotive companies pulled out of various racing series gave rise to a distinctly more moderate volume of business. The course of high performance business was the exact opposite. While delays occurred in the course of business of a number of customer projects during the first six months, the second half of the year saw a significant upturn in business.

2017 was the year of the largest investments in the history of the KTM Industries Group. For example, during the last financial year, around €179 million was invested to support the planned growth, particularly in the Austrian sites. The new high-performance drivetrain plant, investment in additive manufacturing at Pankl in Kapfenberg and the expansion of the research and development department at KTM in Mattighofen formed the focus of the **investments in equipment** and infrastructure. Around half of the investment volume was used for series production development and tools, which enhanced the basis of our power of innovation and sustainable growth.

Also worth highlighting are the **successes in motorsport** that KTM AG enjoyed back in January 2017. The year was barely underway when KTM factory rider Sam Sunderland was celebrating his win on his KTM 450 RALLY at the Dakar Rally, which was also the 16th consecutive win for KTM with this classic motorcycle. Alongside its many years of success in Moto3, KTM also lined up on the starting grid of the Moto2 competition for the 2017 season. KTM was also being represented for the first time in the premier class of motorcycle racing, MotoGP – the highest racing class in the world motorcycle championship. The two KTM factory riders, Pol Espargaro from Spain and Bradley Smith from the UK, enjoyed a highly successful finish to the 2017 season and have already brought in the first world championship points for KTM.

## 2. ECONOMY AND MARKET DEVELOPMENT

According to the January 2018 assessments of the International Monetary Fund (IMF), the global economy is set to experience a slight recovery. The IMF expects to see a 3.9% rise in global economic output in 2018, with growth of 2.3% in 2018 and 2.2% in 2019 being forecast for industrial nations.

Growth in the eurozone is forecast to be 2.2% and 2.0% in 2018 and 2019 respectively. Growth of 2.7% is anticipated in the U.S. for 2018. The IMF also forecasts global growth of 3.9% in 2019.

Economic output for emerging and developing nations is forecast to grow by 4.9% in 2018 and 5.0% in 2019. The biggest growth is expected in India, whose economy is forecast to grow by 7.4% in 2018 and by 7.8% in 2019. Growth of 5.3% is expected in the ASEAN countries in 2018.

### MOTORCYCLE MARKET

The **overall European market<sup>1</sup>** recorded a fall of 5.7% when compared with the preceding year, with around 539,000 vehicles registered. The fall in 2017 compared with the previous year can be essentially explained by an atypical surge in EURO3 vehicle registrations in Q4 of 2016, and it was predominantly detectable in the major European markets, such as Germany (- 19.3%), the United Kingdom (- 14.3%), and Sweden (- 24.6%). The French (+ 3.4%) and Italian (+ 8.0%) markets, on the other hand, recorded a positive development with regard to vehicles registered. One particularly noteworthy positive is also the United Kingdom, which showed a significant growth in market share (+ 10.7%) in spite of the extremely difficult market environment. In 2017, KTM and Husqvarna retained a double-digit share of the market for motorcycles registered for road use in Europe.

Amid this difficult market environment, KTM brand vehicles succeeded in gaining additional market share in key markets such as the United Kingdom (+ 0.6 percentage points compared to the previous year) and the Netherlands (+ 1.4 percentage points compared to the previous year). However, a fall was recorded in the principal markets in Germany, France, and Italy. KTM has a share of 8.7% of the overall European market (previous year: 9.7%).

Husqvarna Motorcycles' market share grew in Germany (+ 0.3 percentage points compared to the previous year), the United Kingdom (+ 0.2 percentage points compared to the previous year), and Switzerland (+ 0.2 percentage points compared to the previous year). However, a slight fall in market share was seen in France (- 0.2 percentage points compared to the previous year), Italy (- 0.5 percentage points compared to the previous year), and Sweden (- 2.6 percentage points compared to the previous year). Husqvarna has a share of 1.4% of the overall European market (previous year: 1.6%).

New registrations in the **overall U.S. market<sup>2</sup>** fell slightly to around 391,000 vehicles in the 2017 financial year (previous year: 407,000 vehicles). In spite of the shrinking overall market, KTM and Husqvarna managed to significantly build upon their market share in the USA and Canada; this was largely driven by the slump experienced by Harley-Davidson. KTM increased its share of the overall U.S. market to 6.1%, a rise of 0.6 percentage points compared to the previous year. Husqvarna increased its share of the overall U.S. market by 0.4 percentage points to 1.9%.

<sup>1</sup>Motorcycles >= 120 cm<sup>3</sup> excluding Motocross, scooters, and ATVs, including electric motorcycles

<sup>2</sup>Motorcycles >= 120 cm<sup>3</sup> including Motocross, excluding scooters and ATVs, including electric motorcycles

Strong growth was also recorded in **Australia and South Africa**. KTM and Husqvarna achieved a market share in Australia of 13.6% (+ 0.6 percentage points compared with the previous year), while in South Africa they achieved a market share of 16.4% (+ 3.1 percentage points compared with the previous year).

### RACING/HIGH PERFORMANCE MARKET

During the last financial year, the overall economic conditions in Europe also finally rallied following almost nine consecutive years of economic gloom. The USA, meanwhile, saw its third year of solid economic growth in a row. The USA continued to be the largest single sales market for the Pankl Group, accounting for 24.3% of the total revenue. The largest European sales markets were Germany (19.0%), Austria (13.2%) and Italy (12.3%). Following the continued positive economic development in Asia too, 2017 gave us our best year of economic performance overall for a long time. The economic outlook for 2018 is also definitely positive.

In the **racing market**, Pankl specializes in the development, construction, manufacture and testing of crank drives, pistons, piston pins, connecting rods, crankshafts, turbo applications and complete drive and chassis systems for racing. Pankl supplies international racing series such as Formula 1, NASCAR (National Association for Stock Car Auto Racing), MotoGP, WEC (World Endurance Championship), DTM (German Touring Car Championship) and the WRC (World Rally Championship), with Formula 1 continuing to be Pankl's most important racing series in terms of revenue. The racing market requires a considerable degree of flexibility, and is characterized by an extremely short planning horizon and a short product life cycle.

In the racing market, demand is predominantly affected by global economic growth in general and the economic situation in the automotive sector in particular. The economic cycles for their part are reflected in the size of the racing budget and the number of participants. The organizers of racing series try to increase the stakeholder appeal of their respective racing series by means of appropriate regulatory changes. In times of economic downturn, for example, costs for participants will be limited by development and testing restrictions.

In the **high performance** field, Pankl develops and produces drive and engine components for luxury cars, engine components for the aftermarket and high-performance aluminum forge pieces. Drive components for motorcycles are produced in the high-performance drivetrain plant, which began operating in 2017. The trend towards development of series cars suitable for racing, which has become more intense over the last few years, has made this market segment increasingly important to the Pankl Group.

The know-how gained from racing is continuously incorporated into series production. Pankl's target group is all OEMs (original equipment manufacturers) that manufacture motor vehicles (road racing cars, road racing motorcycles) with high-performance engines in small and medium-sized series (several hundred up to around 30,000 vehicles per year). Its customer base in the road racing cars segment includes Porsche, Mercedes AMG, Ferrari, McLaren, GM, Audi, Bugatti and Lamborghini. Components for motorcycle sport are produced for customers such as Honda, Yamaha, KTM and Ducati, to name just a few.

### AEROSPACE MARKET

Pankl Aerospace has factories in the USA and Europe, and is a direct supplier to the aviation industry of complex drive components, propeller shafts, air refueling pipes and chassis components for fixed-wing aircraft and helicopters. The products must fulfil the most stringent requirements, as they determine the safe operation of the aircraft and engines fitted with them. The product range includes the development and production of high-reliability lightweight drive components and systems for over 60 different types of engine, fixed-wing aircraft and helicopters.

Pankl is a qualified manufacturer of flight safety parts and systems for the market leaders in the aviation industry and is approved by numerous renowned OEMs.



### 3. FINANCIAL PERFORMANCE INDICATORS

<b>EARNINGS RATIOS</b>		<b>2017</b>	<b>2016</b>	<b>Chg. in %</b>
Revenue	in € million	1,533.0	1,343.0	14%
EBITDA	in € million	218.9	198.4	10%
EBITDA margin	in %	14.3%	14.8%	
Result from operating activities (EBIT)	in € million	132.5	122.3	8%
EBIT margin	in %	8.6%	9.1%	
Net result after tax	in € million	83.9	89.0	-6%
Result after minority interests	in € million	44.7	52.1	-14%
<b>STATEMENT OF FINANCIAL POSITION RATIOS</b>		<b>12/31/2017</b>	<b>12/31/2016</b>	<b>Chg. in %</b>
Balance sheet total	in € million	1,465.2	1,423.8	3%
Equity	in € million	528.6	454.9	16%
Equity ratio	in %	36.1%	32.0%	
Working Capital Employed <sup>1)</sup>	in € million	238.4	245.2	-3%
Net financial debt <sup>2)</sup>	in € million	375.0	364.6	3%
Gearing <sup>3)</sup>	in %	70.9%	80.1%	
<b>CASH FLOW AND INVESTMENTS</b>		<b>2017</b>	<b>2016</b>	<b>Chg. in %</b>
Cash flow from operations	in € million	161.3	167.8	-4%
Cash flow from investing activity	in € million	-154.0	-158.8	-3%
Cash flow from financing activity	in € million	-118.0	139.2	<100%
Investments <sup>4)</sup>	in € million	178.6	144.4	24%
<b>EMPLOYEES</b>		<b>12/31/2017</b>	<b>12/31/2016</b>	<b>Chg. in %</b>
Employees <sup>5)</sup>	Number	5,887	5,069	16%
<b>VALUE CREATION</b>		<b>12/31/2017</b>	<b>12/31/2016</b>	
ROCE (Return on Capital Employed) <sup>6)</sup>	in %	13.9%	13.9%	
ROE (Return on Equity) <sup>7)</sup>	in %	17.1%	21.2%	

1) Working capital = stock + trade receivables - trade payables

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

## BUSINESS DEVELOPMENT AND ANALYSIS OF THE EARNINGS RATIOS

During the 2017 financial year, the KTM Industries Group achieved revenue of €1,533 million (previous year: €1,343 million), and a result from operating activities (EBIT) of €132.5 million, which equates to an increase of around 8% compared with the previous year (previous year: €122.3 million).

The smaller EBIT margin compared with the previous year is due to one-off effects in 2016 and 2017. The sale of an operationally redundant property of WP had a positive effect on the previous year's EBIT. During the current financial year, however, the EBIT included one-off expenses of around €4 million as a result of starting up the transmission plant in Kapfenberg. When both of these effects are excluded, the EBIT margin of 8.9% saw a slight increase compared with 8.8% in the previous year.

The net result after tax fell from €89 million to €83.9 million. The previous year's result benefited as a result of deferred taxes on loss carryforwards booked as assets. However, the deferred tax increased in 2017 as a result of the amendment to the Internal Revenue Code in the USA, which resulted overall in a significantly higher tax rate of 28.3% compared with 18.3% in the previous year.

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

€ million	KTM AG		WP PERFORMANCE SYSTEMS GMBH		PANKL RACING SYSTEMS AG	
	2017	2016	2017	2016	2017	2016
Revenue	1,331.7	1,141.8	179.7	166.1	195.4	186.0
EBITDA	178.8	160.0	15.5	16.4	25.9	26.2
EBIT	113.1	102.8	10.2	11.8	11.8	13.2
Net result after tax	79.0	72.1	7.6	14.0	5.7	10.0

### KTM AG

The 2017 financial year will go down as another record year in KTM's history. By consistently implementing the global product strategy and expanding into all continents, KTM yet again successfully increased both revenue and sales figures, thereby also achieving new record levels in 2017.

KTM AG net revenue rose in the 2017 financial year by 16.6% to €1.3317 billion (previous year: €1.1418 billion). This was attributable to the increase in sales. Approximately 96% of revenues were earned outside Austria. Thanks to the growth in sales and revenues compared with the previous year, EBIT rose by €10.3 million to €113.1 million (previous year: €102.8 million).

Sales of 238,334 KTM and Husqvarna motorcycles in the 2017 financial year enabled KTM AG to further expand on its position as Europe's largest motorcycle manufacturer. Sales rose by over 17% compared with the previous year.

During the first half of 2017, the new generation of KTM DUKE models was launched on the market. Husqvarna presented the new 2018 Enduro range and the 2018 Motocross range. KTM revealed the second generation of its KTM FREERIDE E-XC of the 2018 model year in October. At the EICMA Motorcycle Show in Milan, which took place in November, KTM presented a completely new series motorcycle: the KTM 790 DUKE, together with the prototype version of the KTM 790 ADVENTURE R. In doing so, the Austrian company gave an indication as to how it is planning to expand its product range with the help of its new 799 cm<sup>3</sup> in-line 2-cylinder engine, the LC8c. In addition, KTM introduced the completely new generation of the KTM 450 RALLY, while Husqvarna Motorcycles introduced the Naked Bikes Vitpilen 401 and Svartpilen 401, together with their big sister, the Vitpilen 701, and the Svartpilen 701 concept bike.

### WP Performance Systems GmbH

For the WP Group, the 2017 financial year was dominated by structural changes, due to the reorientation of the Group with an even closer integration with the KTM Group, particularly in terms of product strategy, and this enabled the Group to increase its sales to €179.7 million (previous year: €166.1 million). The rise in revenue could be seen in all product divisions and across a majority of customer segments. The strong growth course of KTM enabled WP to achieve growth in excess of the market level (the WP Group achieved over 85% of its sales with KTM).

The EBIT of €10.2 million was below the result of the previous year (€11.8 million), but that figure was mainly attributed to the revenue from the disposal of operationally redundant property in 2016. The Group's earnings position was also characterized by launch costs for new products, and costs and investments for the expansion and modernization of production and machinery in order to secure and expand manufacturing capacities.

Despite limited growth across the market as a whole, WP showed very strong volume and revenue growth in the area of chassis components, which was attributable to KTM's strong growth. As was the case with the chassis division, the engine components division was characterized by the close collaboration with the KTM Group that has been ongoing since 2016, which is ensuring continuous new and further development of products.

### Pankl Racing Systems AG

In the 2017 financial year, revenues of the Pankl Group increased by 5.1% compared with the previous year to a new record level of €195.4 million. The Racing/High Performance segment recorded revenue increases both in the Racing and in High Performance divisions compared with 2016. The Aerospace segment also booked an increase in sales compared with previous years.

Despite launch costs of €4 million for the new high-performance drivetrain plant, the Pankl Group achieved operating results of €11.8 million (2016: €13.2 million), and therefore holds a very strong position. The EBIT margin stands at 6.0% (2016: 7.1%).

Due to the altered Formula 1 rules, the earnings position in the racing division developed positively. The high-performance business grew robustly over the prior year, taking account of launch costs. Overall, the Racing/High Performance segment generated revenue of €169 million following €161.5 million in 2016, equivalent to an increase in revenue of 4.6%. As a result of the start-up costs of the new high-performance drivetrain plant, the operating result (EBIT) fell from €12 million in 2016 to €10.7 million in 2017, which equates to an EBIT margin of 6.3% (2016: 7.4%).

Aviation business remained positive despite the persistently weak helicopter business. This can be attributed primarily to growing propeller shaft business. At €27.5 million, revenue in the 2017 financial year exceeded that of the previous year (€25.5 million). A slight increase could also be seen in the operating EBIT (€1.2 million compared with €1.1 million in 2016). The EBIT margin remained unchanged at 4.4% (2016: 4.4%).

### STATEMENT OF FINANCIAL POSITION ANALYSIS

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

	2017		2016	
	€ million	in %	€ million	in %
Non-current assets	782.1	53%	692.3	49%
Current assets	683.0	47%	731.5	51%
<b>Assets</b>	<b>1,465.2</b>	<b>100%</b>	<b>1,423.8</b>	<b>100%</b>
Equity	528.6	36%	454.9	32%
Non-current liabilities	461.5	31%	534.9	38%
Current liabilities	475.1	32%	433.9	30%
<b>Equity and liabilities</b>	<b>1,465.2</b>	<b>100%</b>	<b>1,423.8</b>	<b>100%</b>

The balance sheet total of the KTM Industries Group increased by €41.4 million or 3% to €1.4652 billion compared to the previous year.

On the one hand, non-current assets increased due to the investment level still in excess of amortization (+ 13.0%), while on the other hand, the current assets decreased in the main as a result of the scheduled repayments of loans issued by KTM AG (€85 million) in 2012 and by Pankl Racing Systems AG (€10 million) in 2013. In addition, a portion of the promissory note loan of KTM Industries AG worth €32 million was repaid early in 2017. Taking into account the growth-related rise in inventories, current assets declined by -6.6%. The balance sheet total remained above the previous year overall.

Equity increased in the financial year by €73.6 million from €454.9 million to €528.6 million. On the one hand, the equity was boosted by the net result for the period of €83.9 million and the issue of a perpetual bond recognized in equity in Pankl Racing Systems AG of €10 million, while on the other hand dividend payments resulted in a reduction of equity. In spite of the extension of the statement of financial position, the equity ratio rose significantly from 32% to 36.1% due to the very strong earnings position.

### LIQUIDITY ANALYSIS

In the 2017 financial year, the cash flow from operating activities amounted to €161.3 million and thus was slightly below the previous year's figure of €167.8 million.

The cash flow from investments was - €154.0 million. The proceedings that were pending for nearly four years at a German arbitration tribunal in relation to warranty claims arising from the sale of the Peguform Group in 2012 were decided in February 2017 entirely in favor of the KTM Industries Group. The remaining purchase price of around €20.4 million, which has been held in a trust account since the sale of the holding, was paid in full to KTM Industries in June. In March 2017, KTM Industries AG also sold all of its minority stake (24%) in AGM Durmont Austria GmbH to the existing majority shareholder AGM Group for the sum of €2.4 million. Both disinvestments had a positive effect on the investment cash flow.

When taking account of the cash flow from financing activities of - €118.0 million, the liquid funds decreased by €114.5 million compared with the previous year (including foreign exchange effects of - €3.8 million) to €169.1 million. The financing cash flow was negatively affected in the main as a result of the scheduled repayments of loans from KTM AG and Pankl Racing Systems AG, as well as the partial repayment of the promissory note loan from KTM Industries AG.

### INVESTMENTS

During the last financial year, €178.6 million was invested in property, plant and equipment and intangible assets within the **KTM Industries Group** (previous year: €144.4 million).

Considerable capacity and expansion investments were undertaken at **KTM AG** during the last financial year in addition to the usual large investments in series development projects and the purchase of tools. The extension of the logistics center in Munderfing was completed and the expansion of the development center and the KTM Motohall in Mattighofen are currently in progress. The construction of the "House of Brands" for sales and marketing was also commenced at the Munderfing site. At the beginning of July, KTM AG opened a new development center in Rosenheim, Germany. The specialized staff at the site will concentrate primarily on the development of electronics for the motorcycle sector. In total, €136.6 million (previous year: €107.5 million) was invested in property, plant and equipment and intangible assets during the 2017 financial year. This does not include around €80 million of development costs and tools booked as assets.

The **WP Group** invested €6.9 million (previous year: €12.8 million) in property, plant and equipment and intangible assets in the 2017 financial year. The investments essentially concerned the expansion and modernization of production and machinery, and the expansion of production capacities.

For **Pankl Racing Systems AG**, the financial year was first and foremost characterized by the successful preparation for use of the newly built, cutting-edge, high-performance drivetrain plant in Kapfenberg. Constructed within two financial years, the plant is divided into the three subdivisions of drive component production, heat treatment and additive manufacturing, and it represents the company's largest investment project in its history to date. By October 2017, the installations had been prepared for use, and sample and freely moving components had been produced. Series production started in mid-October. Start-up costs in line with the budget of just over €4 million were fully taken into account in the 2017 EBIT. Pankl Racing Systems AG therefore invested €35.7 million in property, plant and equipment and intangible assets during the 2017 financial year. Total investment therefore significantly exceeded amortization, primarily due to the investments made in the new drivetrain plant.

## 4. NON-FINANCIAL PERFORMANCE INDICATORS

The company drew up a consolidated non-financial report for the KTM Industries Group in accordance with Section 267a of the Austrian Commercial Code (UGB) for the 2017 financial year, which contains information on concepts, non-financial risks, due diligence processes, and results and performance indicators relating to environmental, social and employee interests, observance of human rights, and the tackling of corruption and bribery. This report was audited by the Supervisory Board in accordance with Section 96 of the Austrian Stock Corporations Act, and this can be found in the present annual report in “Sustainability Report”.

### RESEARCH AND DEVELOPMENT

In the 2017 financial year, the expense for research and development (before capitalization of development costs) in the **KTM Industries Group** stood at €127.8 million (previous year: €106.2 million). 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.

In the Research and Development department, **KTM AG** employed an average of 540 staff in the 2017 financial year (previous year: 487 employees), which equates to 17% of the entire workforce. About €107.2 million (previous year: €92.6 million) was invested in research and development in the 2017 financial year, which translates to 8.1% of total revenue (no change from the previous year).

The financial year just ended saw a multitude of different projects in the off-road and street segments in operative KTM. Above all, there was the transition to series production of the KTM 1290 SUPER DUKE GT, with which KTM has successfully redefined the sports touring segment. The model, which is equipped with a series of innovative safety systems and new kinds of comfort features, managed to consistently secure top marks in highly regarded comparative tests.

Worth highlighting is the introduction of the world's first series-produced 2-stroke offroad motorcycles with electronic fuel injection. In addition to the large number of benefits for the customer, this also enabled us to ensure compliance with current emission standards.

Another key project was the further development of the KTM Adventure range of models. As well as revising numerous details, these models are noted in particular for their completely redeveloped full LED headlamp unit and the new TFT dashboard, which enables the rider to be linked up to the motorcycle for the first time. Alongside this, the development of new HUSQVARNA models in the street segment was further advanced. The vehicles, which were presented during the EICMA fair in November 2016, polarize opinion in particular due to their clear design approaches focusing on the bare essentials. During the 2017 financial year, numerous R&D projects were taken forward at various stages from concept development to the start of series production and successfully completed.

The tighter integration of the **WP Group** with the KTM Group, which began in 2016 and was intensified in 2017, has resulted in close collaboration in the field of research and development. It is constantly working with KTM on new developments and improvements to the existing product range in the chassis, radiator, frame and exhaust system product segments.

Research and development also occupies a key role within the **Pankl Group**. Total expenses for the intensive research and development activities were €15.3 million in the 2017 financial year (previous year: €13.2 million).

Pankl Racing Systems AG strives at all times to fulfil stringent requirements. It is assisted in the area of 'Research & Development' by e.g. heat treatment developments and process route optimization for improved material properties; only this makes lightweight construction possible (which means reduced use of semi-finished goods and lower fuel consumption for the end-customer as a result of less mass moved).

During the 2017 financial year, Pankl continued to expand on its activities in the field of “Additive Manufacturing” (AM) and established an

“Innovation Lab”, which covers the following areas:

- The innovation lab focuses on high-performance components in AM, and establishing AM in high-performance applications (especially aviation and motorsport).
- Use of raw materials technology know-how to improve the mechanical and dynamic properties of components
- Use of HIP (Hot Isostatic Pressing) and in-house heat treatment
- Development of new powders and optimization of process parameters for these new powders, but also for existing ones
- Use of innovative design approaches for high-performance AM
- Components expertise

The complete process chain is also in house

- Pre-processing (design, topology optimization, FEM calculation)
- Printing (8 x metal printers using latest technology of EOS and ARCAM)
- Post-processing (heat treatment, HIP, surface optimization)

## 5. RISK REPORT AND FINANCIAL INSTRUMENTS

Regarding the risk report and the internal controlling and risk management system relating to the financial reporting process as well as financial instruments, please refer to the explanations in the notes to the Consolidated Financial Statements (Chapter VII and VIII) of KTM Industries AG.

## 6. DECLARATION PURSUANT TO SECTION 243A (PARA. 1) OF THE AUSTRIAN COMMERCIAL CODE (UGB)

1. The share capital is EUR 225,386,742, and is divided into 225,386,742 no-par value bearer shares with voting rights, where every ordinary share has an equal stake in the share capital. The shares grant the rights that are usually due to stockholders under the Austrian Stock Corporation Act. These include the right to payout of the dividend resolved upon at the Annual General Meeting as well as the right to vote at the Annual General Meeting. All the Company's shares are admitted for trading on the Vienna Stock Exchange. The Company's shares have also been listed on the SIX SWISS EXCHANGE (Zurich, Switzerland) since November 14, 2016.
2. The Executive Board is not aware of any restrictions in respect to voting rights or the transfer of shares.
3. As far as the Company is aware, the following had a direct or indirect equity holding of at least 10% in the share capital of KTM Industries AG as at December 31, 2017:  
Pierer Konzerngesellschaft mbH 63.61%
4. There are no shares with special control rights.
5. There is currently no employee participation scheme in place.
6. There are no additional provisions with respect to members of the Executive and Supervisory Boards above and beyond what is required by the law.
7. Authorizations to issue or repurchase shares:  
The following resolutions were adopted during the Annual General Meeting of April 27, 2017:
  - a) The authorization of the Executive Board, subject to the agreement of the Supervisory Board, until April 1, 2022 to issue financial instruments in the sense of Section 174 of the Austrian Stock Corporations Act, particularly convertible bonds, participating bonds and special dividend rights,

with a nominal total of EUR 150 million, which may also grant pre-emption rights and/or the option of exchange on the acquisition of up to a total of 25 million shares in the Company and/or are organized in such a way that they may be reported as equity, also in multiple tranches and in different combinations.

- b) The Executive Board may use the conditional capital and/or treasury shares to fulfil options of exchange and or pre-emption rights.
  - c) The issue amount and issue conditions of the financial instruments are to be set by the Executive Board, subject to the agreement of the Supervisory Board, whereby the issue amount is to be determined according to recognized mathematical methods used in finance and the price of shares in the Company in a recognized pricing procedure.
  - d) The Executive Board is authorized to exclude the pre-emption rights of shareholders to financial instruments in the sense of Section 174 AktG with the agreement of the Supervisory Board.
  - e) The conditional increase of the Company share capital in accordance with Section 159, paragraph 2, no. 1 AktG by up to EUR 25 million by issuing up to 25 million no-par value bearer shares (ordinary shares) for issue to creditors of financial instruments in accordance with Section 174 AktG, which are issued using the Company's authorization granted in this Annual General Meeting, in so far as the creditors of the financial instruments make use of their options of exchange and/or pre-emption rights on Company shares. The issue price and the conversion ratio shall be determined according to a recognized pricing procedure, following accepted financial mathematical methods and based on the share price. The newly issued shares of the conditional capital increase have the same dividend entitlement as the pre-existing shares of the Company. The Executive Board, subject to the approval of the Supervisory Board, is authorized to determine the further details of the execution of the conditional capital increase. The Supervisory Board is authorized to pass amendments to the articles of association that may arise due to the issue of shares from the conditional capital.
  - f) The Executive Board shall be authorized in accordance with Section 65, paragraph 1, no. 8 and paragraphs 1a and 1b AktG to acquire bearer shares of the Company equal to no more than 10% of the Company share capital during a validity period of 30 months from the date of the resolution, both via and outside of the stock market, whereby the lowest equivalent value must not be more than 20% below and the highest equivalent value more than 10% above the average closing price in the last 3 trading days before acquisition of the shares. The trade in treasury shares is excluded as the purpose of the acquisition. The authorization may be exercised wholly or partially, or in multiple smaller amounts and for the pursuit of one or more purposes, by the Company, by subsidiaries or for the account of the Company by third parties.
  - g) The Executive Board may decide to acquire via the stock market, but the Supervisory Board must be informed of this decision later. Acquisition outside of the stock market requires the prior agreement of the Supervisory Board.
  - h) The Executive Board shall be authorized for five years from the date of resolution in accordance with Section 65, paragraph 1b AktG, subject to the agreement of the Supervisory Board, to decide on a different type of disposal to that via the stock market or via public offering for the disposal and use of treasury shares, subject to proper application of the rules on overriding the pre-emption rights of shareholders, and to set the conditions of disposal. The authorization may be exercised wholly or partially, or in multiple smaller amounts and for the pursuit of one or more purposes, by the Company, by a subsidiary or for the account of the Company by third parties, particularly as consideration in the acquisition of companies, businesses, parts of businesses or shares in one or more companies within Austria or in other countries.
  - i) The Executive Board shall also be authorized, subject to agreement of the Supervisory Board, to reduce the share capital if necessary by redeeming these treasury shares without a further resolution adopted at the General Meeting in accordance with Section 65, paragraph 1, no. 8, last sentence in conjunction with Section 122 AktG. The Supervisory Board is authorized to pass amendments to the Articles of Association that may arise due to the redemption of shares.
8. Any agreements on the part of the Company which would take effect, change or cease to apply in the case of a change in the controlling interest in the Company as a result of a public takeover offer, or the effects thereof, will not be disclosed by the Company due to the fact that it would considerably harm the Company.
9. There are no compensation agreements between the Company and its Executive Board and Supervisory Board members or employees in the case of a public takeover bid.

## 7. OUTLOOK

In the future, the development strategy of the KTM Industries Group will continue to focus on organic growth in its core divisions, through further expansion of its market shares and global growth, while concentrating more intensively on the emerging markets. Within the Group divisions, the continued focus is on the mutual utilization of synergy potentials and on the further development and broadening of cooperative projects.

Based on the current order situation, in its assessment the Management expects a continuing positive development of business performance in the 2018 financial year. As in recent years, markets will also develop differently across the different continents in the future. For that reason, importance is attached to the continuous review and critical evaluation of the market, productivity and cost situation to allow implementation of any necessary immediate measures to stabilize the target earnings position.

Overall, a positive outlook can be given for all business segments of the KTM Industries Group for the 2018 financial year.

From a regional point of view, **KTM AG** is expecting to see the highest levels of growth in absolute terms in the Europe and North America regions. The greatest relative growth rates are expected in the ASEAN region and in India. 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. In the medium term, KTM has set itself the goal of increasing global sales to 400,000 units per year and developing Husqvarna Motorcycles into the third largest motorcycle manufacturer in Europe.

2018 will also see KTM invest heavily in motorsport once again. Alongside the well-known racing series in the offroad segment and the Dakar Rally, the emphasis will lie with our second MotoGP series. In 2018, KTM will once again line up on the grid of the MotoGP series with the riders Pol Espargaró and Bradley Smith. With the Moto2 and Moto3 series, KTM will therefore be represented in all three racing categories. KTM is also continuing its unbelievable success story in the Dakar Rally. In January 2018, Red Bull KTM factory rider, Matthias Walkner, secured a seventeenth consecutive victory in this notorious race for the Austrian manufacturer on his new KTM 450 RALLY.

The main areas of focus for investment in 2018 cover, in particular, new series development projects and investments in infrastructure and expansion. The 2018 financial year will see the completion of the expansion of the research and development center in Mattighofen, in which a total of around EUR 30 million has been invested over two years. Investing in this expansion will create around 100 new jobs in the medium term at the Mattighofen site for highly qualified employees. The completion of the "House of Brands" for the sales and marketing of the KTM, Husqvarna Motorcycles and WP brands at the Munderfing site is scheduled for the end of 2018.

Following the complete takeover of the **WP Group** by KTM AG in January 2018, it is expected that the former will be fully integrated during the 2018 financial year, resulting in increases in efficiency and greater potential for synergies. The order level in the WP Group in all areas of business is above that of the previous year, and for this reason we expect at least the same level of revenue in this year. The primary goal in this year is the consolidation of the concern at the now increased revenue level and an improvement in the operating earnings margin. The WP Group will also continue to concentrate on the expansion of strategic partnerships. The series deliveries with its Indian partner in the Suspension division, as well as those with its partner in China in the Frame division, will continue in the 2018 financial year. It will also continue to work on expanding the radiators site in Dalian (China).

During the financial year just ended, it was possible to improve the operating results in **Pankl Racing Systems AG** both in the Racing/High Performance segment and in the Aerospace segment. The preparation for use and the successful launch of series production in the new High Performance drivetrain plant were the outstanding highlights. Overall, we assume revenue growth of at least 10% in 2018, and this assumption is supported by our record order levels. Based on increases in productivity and particularly as a result of the absence of start-up costs, we assume we will see a marked improvement in results.



Because of the stable financial situation in all subsidiaries, with high equity ratios and financing with matching maturities, new market opportunities will arise for the companies of the KTM Industries Group in 2018 as well.

Wels, March 7, 2018

The Management Board of KTM Industries AG



Stefan Pierer, CEO



Friedrich Roithner, CFO



Wolfgang Plasser



Hubert Trunkenpolz



Harald Plöckinger

## CONSOLIDATED FINANCIAL STATEMENTS

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## CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR FROM 1/1/2017 THROUGH 12/31/2017

EURk	Notes No.	2017	2016
Revenue	9	1,532,998	1,342,962
Production costs of the services provided to generate the revenue	10	-1,067,495	-909,146
<b>Gross profit from sales</b>		<b>465,503</b>	<b>433,816</b>
Selling and racing expenses	11	-176,635	-169,546
Research and development expenses	12	-47,750	-39,745
Administration expenses	13	-82,967	-79,958
Other operating expenses	14	-31,896	-28,035
Other operating income	15	6,213	5,392
Earnings from at-equity holdings	16	69	393
<b>Result from operating activities</b>		<b>132,537</b>	<b>122,317</b>
Interest income	17	2,227	2,744
Interest expenses	17	-14,613	-19,505
Other financial and investment income (expenses)	17	-3,100	3,391
<b>Result before taxes</b>		<b>117,051</b>	<b>108,947</b>
Income taxes	18	-33,149	-19,935
<b>Profit or loss for the financial year</b>		<b>83,902</b>	<b>89,012</b>
thereof owners of the parent company		44,686	52,080
thereof non-controlling shareholders		39,216	36,932
<b>Undiluted (=diluted) earnings per share (EUR)</b>	<b>19</b>	<b>0.20</b>	<b>0.23</b>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR FROM 1/1/2017 THROUGH 12/31/2017

EURk	Notes No	2017	2016
<b>Profit or loss for the financial year</b>		<b>83,902</b>	<b>89,012</b>
<b>Items reclassified to profit or loss or which can be subsequently reclassified</b>			
Foreign currency translation re foreign subsidiaries		-5,267	853
Foreign currency translation re investments accounted for using the equity method	25	-141	11
Foreign currency translation re net investments in foreign operations	32	-1,174	-415
Deferred tax on foreign currency translation re net investments in foreign operations		201	-29
Valuation of cash flow hedges	32	8,692	-4,156
Deferred tax on valuation of cash flow hedges		-2,173	1,039
		<b>138</b>	<b>-2,697</b>
<b>Items not reclassified to profit or loss</b>			
Revaluation of net debt from defined benefit plans	34	363	-1,055
Tax effect		-91	264
		<b>272</b>	<b>-791</b>
<b>Other net result after tax</b>		<b>410</b>	<b>-3,488</b>
<b>Total comprehensive income</b>		<b>84,312</b>	<b>85,524</b>
thereof owners of the parent company		43,738	48,871
thereof non-controlling shareholders		40,574	36,653

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT DECEMBER 31, 2017

EURk	Notes No	12/31/2017	12/31/2016 <sup>1)</sup>
<b>Assets:</b>			
<b>Non-current assets:</b>			
Property, plant, and equipment	22	357,324	303,217
Goodwill	24	117,125	117,732
Intangible assets	23	279,589	244,274
Investments accounted for using the equity method	25	15,050	6,312
Deferred tax assets	26	7,483	9,836
Other non-current assets	27	5,554	10,894
		<b>782,125</b>	<b>692,265</b>
<b>Current assets:</b>			
Inventories	28	296,950	251,986
Trade receivables	29	120,305	121,873
Receivables and other assets	30	95,255	72,593
Tax refund claims		1,450	1,464
Cash and cash equivalents	31	169,068	283,578
		<b>683,028</b>	<b>731,494</b>
		<b>1,465,153</b>	<b>1,423,759</b>

1) adjusted, see notes, item 3.

EURk	Notes No	12/31/2017	12/31/2016 <sup>1)</sup>
<b>Equity and liabilities:</b>			
<b>Equity:</b>			
Share capital	32	225,387	225,387
Capital reserves	32	9,949	9,949
Perpetual bond	32	69,453	60,000
Other reserves including retained earnings	32	13,176	-21,050
<b>Equity of the owners of the parent company</b>		<b>317,965</b>	<b>274,286</b>
Non-controlling interests	32	210,614	180,651
		<b>528,579</b>	<b>454,937</b>
<b>Non-current liabilities:</b>			
Financial liabilities	33	372,541	457,475
Liabilities for employee benefits	34	24,001	23,536
Deferred tax liabilities	26	53,455	42,741
Other non-current liabilities	35	11,479	11,142
		<b>461,476</b>	<b>534,894</b>
<b>Current liabilities:</b>			
Financial liabilities	33	171,494	190,700
Trade payables		178,464	130,864
Provisions	36	11,996	16,799
Tax liabilities		14,153	746
Other current liabilities	35	98,991	94,819
		<b>475,098</b>	<b>433,928</b>
		<b>1,465,153</b>	<b>1,423,759</b>

1) adjusted, see notes, item 3.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR 1/1/2017 THROUGH 12/31/2017

EURK	Notes No	2017	2016 <sup>1)</sup>
<b>Operations</b>			
<b>Profit or loss for the financial year</b>		<b>83,902</b>	<b>89,012</b>
+ (-) Interest expenses / interest income	17	12,386	16,761
+ Tax expenses	18	33,149	19,935
+ Depreciation/amortization of property, plant and equipment and intangible assets	22,23	86,400	76,362
+ (-) Addition (reversal) of non-current liabilities for employee benefits		554	1,136
(-) + Profit (loss) from equity consolidation	16	-69	-393
(-) + Profit (loss) from the sale of fixed assets		-83	-3,419
+ (-) Other non-cash expenses (income)	VI	-8,290	-2,092
+ Interest received		2,204	2,373
- Interest payments		-15,378	-18,163
- Tax payments		-10,260	-17,646
+ Dividends received		156	116
<b>Gross cash flow</b>		<b>184,671</b>	<b>163,982</b>
- (+) Increase (decrease) in inventories		-35,665	12,698
- (+) Increase (decrease) in trade receivables, advance payments, other current and non-current assets		-43,883	-24,543
+ (-) Increase (decrease) in trade payables, advance payments and other current and non-current liabilities		56,152	15,670
<b>Increase (decrease) in the net current assets</b>		<b>-23,396</b>	<b>3,825</b>
<b>Cash flow from operations</b>		<b>161,275</b>	<b>167,807</b>

1) adjusted, see notes, item 3.



EURK	Notes No	2017	2016 <sup>1)</sup>
<b>Investing activity</b>			
- Payments for the acquisition of intangible assets and property, plant and equipment	22, 23	-172,991	-166,379
- Payments for the acquisition of financial assets	25	-9,481	-824
+ Receipts from the sale of intangible assets and property, plant and equipment		2,144	6,216
+ Receipts from the disposal of financial assets	27, 30	25,064	329
+ Dividends received		183	3,100
+ (-) Changes to the scope of consolidation	8	1,070	241
+ (-) Payments/receipts from other assets		0	-1,464
<b>Cash flow from investing activity</b>		<b>-154,011</b>	<b>-158,781</b>
<b>Free cash flow</b>		<b>7,264</b>	<b>9,026</b>
<b>Financing activity</b>			
- Dividend payments to third parties		-20,489	-17,950
+ (-) Disposal/acquisition of treasury shares		0	252
+ (-) Disposal/acquisition of non-controlling interests		-151	-48,794
+ Taking out a promissory note loan	33	0	119,540
+ Taking out a perpetual bond	32	10,000	60,000
+ Taking out non-current interest-bearing liabilities	VI	49,969	51,900
+ Change in other current financial liabilities	VI	1,488	10,928
+ Receipt from repayment of own bond	VI	1,900	0
- Repayment of bond	VI	-95,000	0
- Repurchase of own bonds		0	-19,143
- Repayment of perpetual bond		0	-1,010
- Repayment of promissory note loan	VI	-32,000	0
- Repayment of research loan	VI	-13,125	0
- Repayment of non-current interest-bearing liabilities	VI	-17,922	-14,890
- Repayment of finance lease liability	VI	-833	-966
- Decrease from other financing activities		-1,792	-673
<b>Cash flow from financing activity</b>		<b>-117,955</b>	<b>139,194</b>
<b>Total cash flow</b>		<b>-110,691</b>	<b>148,220</b>
+ Opening balance of liquid funds within the Group		283,578	135,124
+ Effect of foreign currency fluctuations		-3,819	234
<b>Closing balance of liquid funds within the Group</b>	<b>VI</b>	<b>169,068</b>	<b>283,578</b>

1) adjusted, see notes, item 3.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EURk	Notes No	Share capital	Capital reserves	Perpetual bond
<b>Balance as of January 1, 2017</b>		<b>225,387</b>	<b>9,949</b>	<b>60,000</b>
<b>Total comprehensive income</b>				
Profit or loss for the financial year		0	0	0
Other comprehensive income	32	0	0	0
<b>Total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>Transactions with shareholders</b>				
Dividends to third parties		0	0	0
Perpetual bond	32	0	0	9,453
Acquisition/disposal of shares to subsidiaries	32	0	0	0
Miscellaneous		0	0	0
<b>Balance as of December 31, 2017</b>		<b>225,387</b>	<b>9,949</b>	<b>69,453</b>
<b>Balance as of January 1, 2016</b>				
		<b>225,387</b>	<b>9,798</b>	<b>0</b>
<b>Total comprehensive income</b>				
Profit or loss for the financial year		0	0	0
Other comprehensive income	32	0	0	0
<b>Total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>Transactions with shareholders</b>				
Dividends to third parties		0	0	0
Perpetual bond	32	0	0	60,000
Acquisition/disposal of shares to subsidiaries	32	0	0	0
Capital measures		0	0	0
Disposal of treasury shares		0	151	0
<b>Balance as of December 31, 2016</b>		<b>225,387</b>	<b>9,949</b>	<b>60,000</b>

Reserves including total earnings	Provision as per IAS 39	IAS 19 provision for actuarial losses	Adjustment items currency translation	Provision for treasury shares	Total	Shares of non-controlling shareholders	Total consolidated equity
-16,215	-1,588	-3,968	721	0	274,286	180,651	454,937
44,686	0	0	0	0	44,686	39,216	83,902
0	3,357	175	-4,480	0	-948	1,358	410
<b>44,686</b>	<b>3,357</b>	<b>175</b>	<b>-4,480</b>	<b>0</b>	<b>43,738</b>	<b>40,574</b>	<b>84,312</b>
-9,762	0	0	0	0	-9,762	-10,727	-20,489
0	0	0	0	0	9,453	547	10,000
-110	0	0	0	0	-110	-41	-151
359	0	0	0	0	359	-390	-31
<b>18,959</b>	<b>1,769</b>	<b>-3,793</b>	<b>-3,759</b>	<b>0</b>	<b>317,965</b>	<b>210,614</b>	<b>528,579</b>
-36,789	14	-3,401	1,761	-101	196,669	189,947	386,616
52,080	0	0	0	0	52,080	36,932	89,012
0	-1,602	-567	-1,040	0	-3,209	-279	-3,488
<b>52,080</b>	<b>-1,602</b>	<b>-567</b>	<b>-1,040</b>	<b>0</b>	<b>48,871</b>	<b>36,653</b>	<b>85,524</b>
-6,760	0	0	0	0	-6,760	-11,190	-17,950
0	0	0	0	0	60,000	0	60,000
-24,236	0	0	0	0	-24,236	-34,759	-58,995
-510	0	0	0	0	-510	0	-510
0	0	0	0	101	252	0	252
<b>-16,215</b>	<b>-1,588</b>	<b>-3,968</b>	<b>721</b>	<b>0</b>	<b>274,286</b>	<b>180,651</b>	<b>454,937</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE 2017 FINANCIAL YEAR

### I. GENERAL INFORMATION

#### 1. COMPANY INFORMATION

The KTM Industries Group is a leading European vehicle group with a strategic focus on niche areas of the global automotive sector. Its globally recognized brands KTM, Husqvarna Motorcycles, WP and Pankl make it a technology and market leader in its respective segments.

KTM Industries AG has its headquarters in 4600 Wels, Edisonstraße 1, and is registered with the commercial register at the Provincial Court Wels as Commercial Court, under the registration number FN 78112 x. The company is part of the same group as Pierer Konzerngesellschaft mbH, Wels (ultimate parent company) and its affiliates, and is included within the consolidated financial statements of that group. These consolidated financial statements are filed with the Provincial Court of Wels in its capacity as Commercial Court under file number FN 134766 k and are the consolidated financial statements for the largest scope of consolidation.

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.

As of December 31, 2017, equity interests in the major shareholdings remained unchanged compared with the previous year:

As of December 31, 2017 the major shareholdings are

- KTM AG, Mattighofen, with 51,7%
- WP Performance Systems GmbH, Munderfing, with 88,3% (of which 75,9% directly) and
- Pankl Racing Systems AG, Kapfenberg, with 94,5%,

Further information on the individual shareholdings can be found in the segment report in Section III.

#### 2. PRINCIPLES OF FINANCIAL REPORTING

The consolidated financial statements for the period from January 1 to December 31, 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and in accordance with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), insofar as they are applied within the European Union. The additional requirements stipulated by sec. 245a para. 1 of the Austrian Commercial Code (UGB) were also met in this context.

The financial reporting of the entities included within the consolidated financial statements is based on uniform financial reporting rules. These rules were applied by all consolidated entities. The consolidated entities prepared their annual financial statements as at the consolidated balance sheet reporting date of December 31.

The figures in the consolidated financial statements are reported in the functional currency of the group parent, the euro. Unless specifically indicated, all amounts are rounded to the nearest 1,000 euros (EUR k), which may give rise to rounding differences.

In view of the IASB's disclosure initiative, some individual items in the consolidated financial statements were reclassified during the current financial year and during the prior year. Additionally, the Notes have been partly reordered and disclosures in the Notes have been adapted and/or enhanced. Non-essential information in the consolidated statement of financial position is no longer presented as a separate item. Accordingly, from 2017 onwards, “receivables from affiliated companies” will be presented in the non-current item “other non-current assets” or in the current item “receivable and other assets”. The previous year's figures have been adjusted accordingly. A new statement of financial position item “current tax assets” was already added during the previous year as part of revising the balance sheet structure and in 2017 renamed to “tax refund claims”.

### 3. CHANGES RESULTING FROM ERRORS

In July 2015, KTM Industries AG issued a promissory note loan with a value of EUR 56,5 million. A part of the promissory note loan in the amount of EUR 32,0 million was terminated by letter of termination of December 13, 2016. Set-off agreements with the creditors were signed on December 21, 2016. The promissory note loan was paid back in its entirety on January 16, 2017. The terminated part of the promissory note loan provided with set-off agreements, with a value of EUR 32,0 million, was presented in the balance sheet of the previous year's financial statements as being offset against existing cash in banks as of December 31, 2016 in the amount of EUR 32,0 million and the cash outflow was shown in the financing cash flow.

According to IAS 32.42, financial assets and liabilities should be offset only when there is also a legally enforceable right to set off the amounts in addition to an intention to offset as of the reporting date.

During the prior year, the economic conditions for the intention and right of set-off were considered to have been met on the basis of the set-off agreements concluded with the banks on December 21, 2016. This was done with reference to IAS 32 BC 83, which we interpreted to the effect that it was not necessary for settlement to actually be enforceable as of the reporting date in order for offsetting to occur. After reassessing the circumstances, we now conclude that the lack of full legal enforceability of the right of set-off as of December 31, 2016 meant that offsetting as per IAS 32.42 was not possible. Consequently, the terminated promissory note loan amounting to EUR 32,0 million should not have been offset against cash in banks in the statement of financial position of the 2016 consolidated financial statements. This correction of the financial reporting also means that no cash outflow should have been presented in the financing cash flow. This is the case in particular because the criteria for derecognition of the promissory note loan in accordance with IAS 39.39 were not met as of the reporting date and, at the same time, the liquid funds reserved for this purpose, although restricted, were still controlled by KTM Industries AG. Pursuant to IAS 8.42, this misstatement will be retrospectively corrected in the 2016 financial year. The table below contains a summary of the adjustments in the statement of financial position and in the cash flow statement:

EURk	Cash and cash equivalents	Financial liabilities	Cash flow from financing activity
Balance 12/31/2016	251,578	616,175	107,194
Reversal of derecognition of promissory note loan	32,000	32,000	32,000
<b>Adjusted balance as at 12/31/2016</b>	<b>283,578</b>	<b>648,175</b>	<b>139,194</b>

### 4. NEWLY APPLIED STANDARDS AND INTERPRETATIONS

The table below shows the standards and interpretations mandatorily applied for the first time that had also already been endorsed by the European Commission as of December 31, 2017:

First-time application	New standards and interpretations	Published by the IASB
January 1, 2017	Amendments to IAS 7: Disclosure Initiative	January 29, 2016
	Amendments to IAS 12: Recognition of deferred tax assets for unrealized losses	January 19, 2016
	Annual Improvements to IFRS 2014-2016: Amendments to IFRS 12	December 8, 2016

The **amendments to IAS 7** aim to improve information about changes in the company's debt level. In order to achieve this aim, information should be disclosed regarding changes in financial liabilities in respect of which the payment transactions are classified in the statement of cash flows under cash flow arising from financing activities. Changes arising from cash flows, changes arising from obtaining or losing control of companies, the effect of changes in foreign exchange rates, changes in fair values and other changes are to be disclosed. To this end, the KTM Industries Group reconciles the change in accounting for financial liabilities and the values shown in the statement of cash flows accordingly.

The first-time application of the further IFRSs mentioned did not lead to any material changes compared to the prior year. They did not result in any changes to the accounting policies.

## 5. STANDARDS AND INTERPRETATIONS TO BE APPLIED IN THE FUTURE

The table below shows the changes to standards and interpretations which have already been **endorsed by the European Commission**, but the application of which was not yet mandatory as of the reporting date and which were also not applied ahead of schedule:

First-time application	New or amended standards and interpretations	Published by the IASB
January 1, 2018	IFRS 15 Revenue from Contracts with Customers	May 28, 2014
	IFRS 9 Financial Instruments	July 24, 2014
	Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 12, 2016
	Amendments to IFRS 15: Clarification of IFRS 15 Revenue from Contracts with Customers	April 12, 2016
	Annual Improvements to IFRS 2014 -2016: Amendments to IFRS 1 and IAS 28	December 8, 2016
January 1, 2019	IFRS 16 Leasing	January 13, 2016

The IASB and the IFRIC have passed further standards and interpretations, application of which was not mandatory during the 2017 financial year and/or which have **not yet been endorsed by the European Commission**. These are the following standards and interpretations:

New or amended standards and interpretations	IASB date of application	Published by the IASB	EU-Endorsement?
Amendments to IFRS 2: Classification and measurement of share based payment transactions	1/1/2018	June 20, 2016	No
Amendments to IFRS 9: Financial assets with Negative Compensation	1/1/2019	October 12, 2017	No
Amendments to IAS 28: Amended by Long-term Investment in Associates and Joint Ventures	1/1/2019	October 12, 2017	No
Amendments to IAS 40: Amended by Transfers of Investment Property	1/1/2018	December 8, 2016	No
IFRIC 22: Foreign Currency Transactions and Advance Consideration	1/1/2018	December 8, 2016	No
IFRIC 23: Uncertainty over Income Tax Treatments	1/1/2019	June 7, 2017	No
Annual Improvements to IFRS 2015 -2017: Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23:	1/1/2019	December 12, 2017	No
IFRS 17 Insurance Contracts	1/1/2021	May 18, 2017	No
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed indefinitely	September 11, 2014	No

The following representation is a summary of the estimated **effects** of the standards **IFRS 9 and IFRS 15** to be mandatorily applied as of January 1, 2018 on the consolidated equity of the KTM Industries Group:

EURk	12/31/2017	Expected effects of IFRS 9	Expected effects of IFRS 15	Adjusted as at 1/1/2018
Share capital	225,387	0	0	225,387
Capital reserves	9,949	0	0	9,949
Perpetual bond	69,453	0	0	69,453
Other reserves including retained earnings	13,176	0	596	13,772
Non-controlling interests	210,614	-34	53	210,633
<b>Consolidated equity</b>	<b>528,579</b>	<b>-34</b>	<b>649</b>	<b>529,194</b>

The standards IFRS 15, IFRS 9 and IFRS 16 with effects on the KTM Industries Group will be explained once more in detail below. All other amended standards and interpretations are either irrelevant to the KTM Industries Group or have no material impact.

### 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 the previous standards IAS 18 Revenue and IAS 11 Construction Contracts, as well as IFRIC 13 Customer Loyalty Programs.

Contracts for all of the group's key product groups (revenue streams) were analyzed with a view to identifying any need for adjustment. The following important accounting topics were identified during the evaluation of IFRS 15:

- In the KTM Industries Group, revenues for the sale of Pankl and WP products are currently recognized on delivery of the goods to the customer's company premises. This is defined as the time at which the customer accepts the goods, as well as the associated risks and opportunities connected with the transfer of ownership. Revenues are recognized at this time provided that the revenues and costs can be measured reliably, it is probable that the consideration will be collected, and no other right to dispose of the goods exists. According to IFRS 15, revenues are recognized as soon as control passes to the customer. According to the group's assessment, this means that revenues and any associated costs for these contracts are recognized over a period, in other words before the goods are delivered to the customer's company premises.
- The KTM Industries Group sometimes provides development services for its customers. If the services are provided in different reporting periods under a single agreement, the payment is divided between the services on the basis of the relative fair values. Revenues are to be recognized in accordance with the stage-of-completion method. According to the group's assessment, no material differences are expected with regard to the time of recognition of the revenues for these services.
- Variable considerations, such as price rebates, sales bonuses, and cash discounts were identified. As these are now being accounted for as revenue reductions, it can be expected that there will be no material effects on the assets and earnings position.
- Warranties are not sold separately, but 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 recognized in accordance with IAS 37.

The KTM Industries Group expects an equity increase of **EUR 649k** at the time of first application. In addition to an increase in equity, the switchover to IFRS 15 will lead to a reduction of inventories and an increase of assets (Contract Assets), which represent receivables from customers before settlement. The KTM Industries Group will apply the standard on January 1, 2018 with full retroactive effect.

The table below contains a summary of the effects on accounting as of January 1, 2018:

EURk	Effects as of January 1, 2018
<b>Assets</b>	
Inventories	-1,811
Receivables and other assets	2,677
Deferred tax assets	-217
	<b>649</b>
<b>Equity and liabilities</b>	
Equity	649
	<b>649</b>

## IFRS 9 Financial Instruments

IFRS 9 deals with the requirements for the recognition, measurement, derecognition, and classification of financial assets and financial liabilities; impairment requirements, and requirements relating to hedge transaction. It replaces IAS 39 in full. IFRS 9 brings with it a comprehensive range of disclosure requirements for the transfer and for the ongoing application. When compared with the previous regulations under IFRS 7, new declarations will need to be made with regard to impairment losses in particular.

On the basis of an analysis of the financial assets and financial liabilities of the group as at December 31, 2017, together with the facts and circumstances existing at that time, the anticipated effects on the consolidated financial statements of KTM Industries AG are described below.

### ▪ Application and declarations:

IFRS 9 will be applied with retroactive effect to January 1, 2018. The effects of first-time application will be recorded at the beginning of the 2018 financial year in the opening balance of retained earnings. First-time application will lead to adjustments in internal processes and documentation. Furthermore, it is expected that additional notes will need to be provided, which will primarily concern the transition of categorization and impairment losses for financial assets during the first year of application, together with annual declarations concerning impairment losses.

### ▪ Classification and measurement:

When compared with IAS 39, the regulations included under IFRS 9 provide for a new classification model for financial assets, which will impact upon the measurement of those assets. Categorization will take place in connection with the contractual cash flows and the business models on which they are based. The three measuring categories are “amortized cost (AC)”, “fair value through other comprehensive income (FVOCI)” and “fair value through profit or loss (FVTPL)”. These categories replace the IAS 39 categories. For the most part, the existing provisions will be adopted for the recognition and measurement of financial liabilities.

Investigations have been carried out within the KTM Industries Group with regard to the assignment of the debt instruments to business models. Financial assets have been analyzed with regard to compliance with the SPPI criterion. Subsequently, the new measurement categories were established. 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 can be exercised in the future. 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. Insofar as this option is not exercised, these will be assigned to the FVTPL category, under which all changes to the fair value will be recorded in the income statement. The KTM Industries Group currently plans to take advantage of its right to choose the FVOCI option for carrying amounts of EUR 10k (other non-current financial assets). Otherwise, no significant changes are expected with regard to the measurement categories in connection with the new classification provisions; likewise, no equity effects are expected.

### ▪ 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:

- Level 1: Recording of the expected losses in the amount of the cash value of an expected 12-month loss on acquisition
- Level 2: Recording of the expected losses over the entire term to maturity by means of an increase to the default risk since acquisition
- Level 3: All receivables with objective evidence of impairment losses are assigned to this level and expected losses are taken into account over the entire term to maturity.

In the KTM Industries Group, 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.

The KTM Industries Group estimates that applying the impairment loss provisions of IFRS 9 as of January 1, 2018 will lead to an increase in recognized impairment losses of **EUR 44k** compared to the impairment losses recognized under IAS 39. Taking into account deferred tax assets, this therefore results in a negative effect on equity amounting to **EUR 34k**. The increase in impairment losses in respect of trade receivables was identified in the two business areas KTM and Pankl. The procedure and effects will be discussed below in relation to the business areas mentioned:



- In the KTM Group, historic default data were collected for receivables over the last eight to ten years and split into geographic regions. Current economic factors and forecasts were also taken into account. In that regard, an expected credit loss in the KTM Group of 0.06% of trade receivables was determined for 2017. The application of the new impairment loss model will therefore lead to the earlier recording of expected losses and, as a result, to higher impairment loss figures in the KTM Group. For the 2017 financial year, an additional impairment loss of EUR 100k was expected for trade receivables.
- The Pankl Group expects the IFRS 9 model to lead to higher volatility of impairment losses. The increase in trade receivables is due to the fact that the Pankl Group has already recorded impairment losses for trade receivables previously. The application of IFRS 9 results in a positive difference of EUR 56k. In accordance with standard requirements, the Pankl Group initially analyzed historic default data which, however, were not statistically valid on account of the low incidence of defaults. The probability of default was therefore assessed 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 in the KTM Industries Group are mainly comprised of 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, only insignificant impairment losses are expected.

There are no indications of any additional impairment loss requirements for financial assets.

- **Hedge accounting:**

The most significant changes to hedge accounting are the expanded range of possible hedged items and hedging transactions, as well as the new requirements concerning the effectiveness of hedge accounting, particularly the removal of the previous 80-125% corridor.

The requirements set out in IFRS 9 will be applied in the KTM Industries Group with effect from the 2018 financial year. 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. KTM Industries plans to implement this concept during the 2018 financial year. Overall, as at January 1, 2018, no changes are expected with regard to the reserves under equity as a result of the application of the accounting provisions 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. We will not be taking advantage of our right to choose to continue recording hedging in accordance with the provisions of IAS 39 until further notice.

## IFRS 16 Leasing

IFRS 16 governs the identification, recognition, measurement, reporting, and disclosure requirements for leasing agreements. The standard specifies a single accounting treatment for lessees. This model requires the lessee to record all assets and liabilities under lease arrangements in the statement of financial position, except where the lease is for a term of twelve months or fewer or the asset is of low value (in which cases application is optional).

KTM Industries AG intends to apply the standard IFRS 16 to its consolidated financial statements with effect from January 1, 2019. Modified retrospective recognition will be applied to ensure that the cumulative effect of the restatement is reflected in the equity as at January 1, 2019. The use of modified retrospective recognition will enable the following concessions to be applied:

- All leasing contracts that are due to expire within 12 months from the date of first-time application (i.e. until December 31, 2019) can be reported in accordance with the old regulations under IAS 17. This option can be applied to each individual lease. At present, KTM Industries AG intends to avail itself of this option for the purposes of its consolidated financial statements.
- The marginal capital interest rate as at January 1, 2019 can be used to determine leasing liabilities. The following options are available with regard to the determination of the right of use asset, and can be selected for each individual lease:

1. Accounting will be performed as if IFRS 16 were still being applied. However, the marginal capital interest rate as at January 1, 2019 will be used. Since the right of use asset is amortized on a straight-line basis, with the leasing liability being calculated in accordance with the effective interest method, a difference arises, which is to be recorded in the equity. Or:
2. The right of use asset is capitalized in the amount of the leasing liability to ensure that the leasing liability as at January 1, 2019 corresponds to the right of use asset, meaning that no equity amendments are required.

At present, KTM Industries AG intends to apply the second option for its consolidated financial statements to ensure that the right of use asset corresponds to the leasing liability as at January 1, 2019.

As at December 31, 2017, the group has payment obligations associated with irredeemable operating leases that amount to EUR 77.2 million. A preliminary assessment has shown that these agreements fall under the definition of a leasing agreement under IFRS 16 and the group must therefore account for the corresponding right of use assets and leasing liabilities under the application of IFRS 16. However, it is expected that advantage will be taken of the exemptions for short-term leases and low-value assets. It can be expected that the capitalization of leases will bring about an increase in the carrying amount of property, plant, and equipment, as well as an increase in financial liabilities. In addition, the lease expenses which have previously been recorded on a straight-line basis will be replaced by an amortization of the right of use and interest expenses of the leasing liability. It is also expected that EBITDA, EBIT and cash flow from operations will improve on account of the amended presentation requirements.

Lease obligations exist in the following areas in particular: Vehicle-fleet leasing, rental of business premises and offices, rental of movable property, etc.

In the case of finance leases where KTM Industries is the lessee, assets and liabilities are already being accounted for today.

## 6. ESTIMATES AND UNCERTAINTIES IN JUDGMENTS AND ASSUMPTIONS

In the 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 financial year. 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.

- Assumptions are made in particular to assess the recoverability of goodwill and intangible assets of indeterminate useful life. Goodwill of EUR 117,125k (prior year: EUR 117,732k) was recognized at the reporting date, along with the "KTM" brand, which is valued at EUR 61,103k (prior year: EUR 61,103k). For further information on the impairment tests, see Note 24 "Goodwill".
- Deferred tax assets on tax loss carryforwards not subject to expiration are recognized based on the assumption that sufficient taxable income will be generated in the future to allow them to be utilized. Suitable allowances are made in the event of uncertainties in the assumptions. As of December 31, 2017, deferred tax assets on loss carryforwards of EUR 5,316k (prior year: EUR 7,479k) were capitalized. Based on current tax planning, the management expects that the loss carryforwards recognized as of December 31, 2017 will be utilized over the next five years. For further details on deferred taxes, see the explanations in Note 26 "Deferred tax assets".
- In cash flow hedge accounting, assessments are made regarding the occurrence of future cash flows. The planning of future cash flows is derived from sales planning and order volume planning, reviewed against actual figures on a monthly basis and checked for plausibility based on past experience. In line with the internal guideline on currency hedges, foreign currency hedges are generally entered into on a rolling basis and cover a period of up to eighteen months. The hedge ratio of the individual currencies is determined based on uncertainty in the planning for the relevant market, on the volatility of the currency and on the hedging costs. Currencies are aggregated by type based on their significance (volume, relevance to results) and different methods are applied accordingly. However, the hedge ratio per currency must not exceed 80 % of the foreign currency exposure. For details on sensitivities to currency and interest rate risks, please refer to the explanations provided in Note 41 of the risk report "Financial risks".

- Furthermore, estimation uncertainty exists with the recognition and measurement of liabilities for employee benefits. Assumptions are made concerning the following factors: Empirical values and demographic assumptions such as the retirement age of women/men and staff turnover, as well as financial assumptions such as the discount rate and future wage and salary trends. As at the reporting date, liabilities for employee benefits of EUR 24,001k (prior year: EUR 23,536k) were recorded. For further explanations, see Note 34 “Liabilities for employee benefits”.
- Regarding provisions, estimates have been made in order to assess probabilities and determine the expected amount for measuring the obligation. These assumptions essentially concern provisions relating to guarantees and warranties. Based on past experience, a direct relationship has been established for each product group between revenues and the guarantee and warranty expenses incurred. On the basis of longstanding experience, the Executive Board expects this relationship to remain stable. The average percentage value of guarantee and warranty expenses in terms of revenue is checked several times a year and adjusted if necessary. The amount recognized as a provision is calculated from the average percentage of revenue accounted for by guarantee and warranty expenses over a three-year observation period. As at December 31, 2017 provisions relating to guarantees and warranties of EUR 11,173k (prior year: EUR 10,134k) were recorded. For movements in the provisions, see Note 36 “Provisions”.

The following **judgments** were made in respect of the application of accounting policies within the KTM Industries Group:

- **Finance leases**  
Evaluations were made with respect to the criteria for classification as a finance lease. Further details are provided under Note 22, “Property, plant, and equipment” and Note 48, “Finance leases”.
- **Derecognition of receivables in connection with ABS agreements**  
Evaluations were made with respect to the conditions for derecognition under IAS 39. For further details, see Chapter VIII “Financial instruments and capital management”.
- **Investment property**  
The KTM logistics center is predominantly used by the KTM Group itself. A small portion is let to third parties outside the group. These subleases to non-group tenants concern companies which have long-term relationships with the KTM Group for the supply of goods or services, and represent an outsourced part of the KTM value chain. As the subleasing does not serve the purpose of earning rental income, but is instead carried out in the interests of the operating business, the section that is let to non-group third parties is disclosed under property, plant and equipment and is not regarded as investment property.
- **Supplier finance**  
Assessments were made regarding the disclosure of liabilities in relation to the supplier finance program. KTM AG has entered into a supplier finance program (a revolving facility for the financing of trade payables) with an Austrian credit institution. Under this program, the credit institution offers suppliers the option to have their accounts receivable from KTM AG discounted at the credit institution and paid out in advance of the due date. KTM AG settles the liability on the due date by paying the invoiced amount to the credit institution.

In addition to non group suppliers, the two group companies WP Performance Systems GmbH and Pankl Racing Systems AG have also entered into such a program with KTM AG. The program has been reviewed for compliance with civil law and with the stipulations of IAS 39. While trade payables continue to exist at subgroup level, no exchange of services took place from KTM Industries Group’s point of view; it merely made use of external financing, which is reported under current financial liabilities. As of December 31, 2017, the liabilities from this program amount to a total of EUR 82,569k (prior year: EUR 64,949k), of which, as of December 31, 2017 in the KTM Industries Group, the dealings between the group companies in the amount of EUR 51,954k (prior year: EUR 47,527k) are presented as current financial liabilities.

## II. SCOPE OF CONSOLIDATION

### 7. CONSOLIDATION PRINCIPLES AND METHODS

All subsidiaries are included in the consolidated financial statements of KTM Industries AG by way of **full consolidation**. Subsidiaries are companies controlled by the group. The financial statements of subsidiaries are included in the consolidated financial statements from the moment control begins until the moment control ends.

Initial consolidation takes place under IFRS 3 using the acquisition method. This means that at the acquisition date, i.e. the date when the power to exercise control is obtained, the remeasured identifiable assets and liabilities of the acquired business entity are compared with the consideration paid and, if applicable, with the amount reported for the non-controlling interests and the fair value of the interests already held at the acquisition date. Any positive balance is capitalized as goodwill; any negative balance is recognized as an income item ("Gain on a bargain purchase") in the income statement after reassessing the values reported. Any acquisition related costs are recognized as an expense. Unless otherwise stated, the amount for the non controlling interests is recognized with the pro rata net assets of the acquired company without goodwill.

The interests of KTM Industries Group in holdings accounted for using the **equity method** including interests in associates. An associate is an entity over which the group has significant influence. With the equity method, the interests in associates are recognized in the consolidated statement of financial position at their cost of acquisition plus any changes in the group's portion of the net assets of the associate after the acquisition. The goodwill related to an entity measured by the equity method is contained within the carrying amount of the investment and is not amortized separately.

The **reporting currency** of the KTM Industries Group is the euro. The subsidiaries and the holdings accounted for using the equity method prepare the annual financial statements in their functional currency. This means that assets and liabilities shown in the financial statements to be consolidated are translated at the mean rate of exchange valid on the reporting date and items in the income statement are translated using the average exchange rate for the financial year. Any foreign exchange gains or losses resulting from such currency translation are recognized in other comprehensive income. Foreign exchange differences arising on non-current financial receivables that represent net investments in foreign operations are recognized in other comprehensive income. The following exchange rates of significance to the KTM Industries Group were used for the currency translation into the reporting currency:

	Closing rate		Average rate	
	12/31/2017	12/31/2016	2017	2016
US dollar	1,1993	1,0541	1,1293	1,1066
UK pound sterling	0,8872	0,8562	0,8761	0,8189
Swiss franc	1,1702	1,0739	1,1115	1,0902
Japanese yen	135,0100	123,4000	126,6546	120,3138
South African rand	14,8054	14,4570	15,0434	16,2772
Mexican peso	23,6612	21,7719	21,3278	20,6550
Chinese renminbi	7,8044	7,3202	7,6264	7,3496

## 8. CHANGES IN THE SCOPE OF CONSOLIDATION

The number of entities in the scope of consolidation changed as follows in the 2017 financial year:

	FULLY CONSOLIDATED COMPANIES	AT-EQUITY COMPANIES
Balance as of 12/31/2016	63	5
Additions to the scope of consolidation	4	7
Eliminations from the scope of consolidation	0	-1
Disposals from contribution	-3	0
Eliminations due to mergers	-2	-1
<b>Balance as of 12/31/2017</b>	<b>62</b>	<b>10</b>
Foreign companies	44	5

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

The entities included in the consolidated financial statements and the time of their initial consolidation are listed in Chapter XII “Group companies (schedule of equity holdings)”.

### Changes in the fully consolidated entities

The entities WP Suspension North America Inc., KTM do Brasil Ltda., WP Cooling Systems (Dalian) Co., Ltd. and Pankl Japan Inc. which were not fully consolidated in the prior year on account of materiality considerations were included in the scope of consolidation of the KTM Industries Group for the first time in the 2017 financial year. The individual assets and liabilities acquired are not considered to be material on an individual basis, and the four entities are therefore presented in a totalized manner. The following assets and liabilities were absorbed into the group:

EURk	
Fixed assets	1,442
Cash and other current assets	1,756
Trade receivables due from third parties	368
Inventories	2,211
Trade payables	-3,202
Other current liabilities	-535
Negative difference	-913
<b>Book value of investment</b>	<b>1,127</b>
Cash taken over	1,070

The difference (credit item) of EUR 913k arising on initial consolidation was recognized in operating income.

In addition, as part of streamlining the company’s organizational structure within the Pankl Group during the current financial year, the operations of Pankl Drivetrain Systems GmbH & Co KG, Pankl Engine Systems GmbH & Co KG and Pankl Schmiedetechnik GmbH & Co KG were incorporated into Pankl Systems Austria GmbH. Pankl Emission Control Systems GmbH and Capital Technology Bruck GmbH were merged with Pankl Racing Systems AG in 2017.

### Changes in entities accounted for at equity

In September 2017, KTM Industries AG acquired an equity holding of 49.9% in PEXCO GmbH, Germany, which was established in July 2017. As at the reporting date, the entity has not yet begun any sales activities and is included in the consolidated financial statements as a joint venture according to the equity method.

In July 2017, KTM Sportmotorcycle GmbH acquired a 26 % share of Motorcycle Distributors Australia Pty Ltd., Australia. In the consolidated financial statements, the company is recognized as an entity accounted for using the equity method. During the course of the acquisition of the 26% share in Motorcycle Distributors Australia Pty Ltd., Australia, a call option, which is not exercisable as at the reporting date, for the purchase of 25% shares was agreed with the other shareholder. It is exercised on the basis of set multipliers and other variables. The options are accounted for on the reporting date at their cost of acquisition, which is EUR 0.00.

On December 31, 2017, the holdings in four flagship stores and in the design company Cero Design Studio S.L. were taken into account for the first time; these had all previously been accounted for as other non-current assets. There was therefore a reclassification adjustment of the other non-current assets to investments accounted for using the equity method.

The disposal of "at-equity" consolidated entities relates to KTM New Zealand Ltd., which was merged into a subsidiary of Motorcycle Distributors Australia Pty Ltd. on July 4, 2017. The holding in KTM MIDDLE EAST AL SHAFAR LLC was also sold during the 2017 financial year.

### Other changes

In March 2017, KTM Industries AG sold its minority interest (24%) in AGM Durmont GmbH to the AGM Group, Troy Michigan, USA.

In June 2017 KTM Industries AG acquired 74% of KTM Technologies GmbH and 26% of Kiska GmbH from KTM AG within the Group. This transaction resulted in an increase in the holding within the KTM Industries Group in KTM Technologies GmbH from 38.2% (74% indirectly via KTM AG) to 74% and the holding in Kiska GmbH from 13.4% (26% indirectly via KTM AG) to 26% as of December 31, 2017.

## III. SEGMENT REPORTING

The business activities of KTM Industries AG are coordinated according to the individual groups (KTM Group, WP Group, PANKL Group). The individual groups are managed separately and report to KTM Industries AG in accordance with the IFRS accounting rules. The main decision-maker for the segment report is the Executive Board of KTM Industries AG. The segment reporting is made with the segments KTM, Pankl, WP and others, according to the internal reporting.

### KTM:

KTM Group engages in the development, production and distribution of motorized vehicles for recreational purposes (power sports), in particular under the KTM and Husqvarna brands, and holds equity interests in entities engaging in the development, production and distribution of such equipment. As of December 31, 2017, the KTM Group includes in its consolidated financial statements 43 subsidiaries, located in Austria, the United States, Japan, South Africa, Mexico, India, and Brazil, as well as in various other European and Asian countries. Furthermore, the KTM Group has equity holdings in general importers and assembly companies based in important distribution markets (Australia and the Philippines), as well as in various flagship stores in Austria and Germany. Major sales markets include the USA, Germany, France, Australia, the UK, Italy, Spain, Canada, Austria, Argentina, and other European countries.

### WP:

The WP Performance Group operates in the motorcycle supplier segment. The corporate purpose is the development, manufacture and distribution of motor vehicle components, in particular for motorcycles, ATVs/quad bikes and their spare parts, including supplying racing factory teams and retailing accessories. At its headquarters in Munderfing, WP Performance Group develops, produces and distributes suspension elements, frames, radiators and exhaust systems.

**PANKL:**

The Pankl-Group is a global 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. In order to be able to react more effectively to the challenges of these markets, Pankl places particular importance on, above all, technology development but also product improvement and testing. Through broad diversification in its sites, Pankl is able to serve its customers optimally using its global network of companies. The sites are spread across Austria, Germany, the UK, Slovakia, Japan and the USA.

**Others:**

The "Others" segment represents KTM Industries AG, K KraftFahrZeug Holding GmbH, W Verwaltungs AG and PF Beteiligungsverwaltungs GmbH. KTM Technologies GmbH was previously included in the KTM Group and from June 30, 2017 is presented under Others due to Group-internal restructuring (see Note 8). The prior-year amounts were not adjusted as they were not material.

None of the segments are reliant on external customers as defined in IFRS 8.34. Trade between the segments takes place under the usual market conditions.

The segment key performance indicator EBIT represents operating earnings before financial results and income taxes. The investments relate to additions from property, plant and equipment and intangible assets. The earnings accounted for using the equity method are included in the EBIT pursuant to the structure of the consolidated income statement.

Segment information for the financial year 2017 and financial year 2016 can be divided into the described segments as follows:

<b>2017</b>						
<b>EURk</b>	<b>KTM</b>	<b>WP</b>	<b>PANKL</b>	<b>Other</b>	<b>Consolidation</b>	<b>GROUP</b>
Revenues (including revenues within the segments)	1,331,717	179,738	195,388	13,703	-187,548	<b>1,532,998</b>
External revenues	1,331,145	19,952	178,942	2,959	0	<b>1,532,998</b>
Result from operating activities	113,060	10,237	11,791	934	-3,485	<b>132,537</b>
Investments	136,593	6,927	35,687	405	-1,046	<b>178,566</b>
Depreciation and amortization	65,758	5,239	14,152	1,251	0	<b>86,400</b>
Share in the result of companies accounted for using the equity method	1,961	0	0	0	-1,892	<b>69</b>
Balance sheet total	1,091,928	114,528	220,232	629,991	-591,526	<b>1,465,153</b>
Equity	487,966	55,006	91,313	414,195	-519,901	<b>528,579</b>
<b>2016</b>						
<b>EURk</b>	<b>KTM</b>	<b>WP</b>	<b>PANKL</b>	<b>Other</b>	<b>Consolidation</b>	<b>GROUP</b>
Revenues (including revenues within the segments)	1,141,819	166,147	185,991	8,512	-159,507	<b>1,342,962</b>
External revenues	1,141,453	26,197	174,910	402	0	<b>1,342,962</b>
Result from operating activities	102,795	11,831	13,210	-3,555	-1,964	<b>122,317</b>
Investments	107,526	12,828	23,979	79	0	<b>144,412</b>
Depreciation and amortization	57,215	4,549	13,011	1,345	0	<b>76,120</b>
Share in the result of companies accounted for using the equity method	2,357	0	0	0	-1,964	<b>393</b>
Balance sheet total	1,056,523	103,229	195,628	654,056	-585,677	<b>1,423,759</b>
Equity	427,978	49,531	80,229	427,960	-530,760	<b>454,937</b>

## IV. NOTES TO THE CONSOLIDATED INCOME STATEMENT

The consolidated income statement is prepared according to the cost of sales method. Revenues, minus cash discounts, customer bonuses, and rebates, are recognized upon the passing of the risk as per the terms of the transaction (Incoterms) or, as the case may be, at the time when performance was rendered.

### 9. REVENUE

The breakdown of external revenue by geographical region is based on the location of the customers. The revenue by geographical region is made up as follows:

EURk	2017	2016
Europe	835,952	742,720
North America	431,604	376,048
Other	265,442	224,194
	<b>1,532,998</b>	<b>1,342,962</b>

### 10. COST OF SALES

EURk	2017	2016
Cost of materials and purchased services	819,561	696,133
Personnel expenses	153,706	128,091
Amortization charged to capitalized development costs	28,520	25,851
Depreciation/amortization of property, plant and equipment and other intangible assets	34,331	29,752
Other operating expenses	31,377	29,319
	<b>1,067,495</b>	<b>909,146</b>

### 11. SELLING AND RACING EXPENSES

EURk	2017	2016
Cost of materials and purchased services	40,258	22,306
Personnel expenses	71,657	61,117
Depreciation/amortization of property, plant and equipment and intangible assets	5,794	5,813
Other operating expenses	86,977	99,152
Sponsorship money and other operating income	-28,051	-18,842
	<b>176,635</b>	<b>169,546</b>

### 12. RESEARCH AND DEVELOPMENT EXPENSES

EURk	2017	2016
Cost of materials and purchased services	9,462	6,261
Personnel expenses	27,442	23,993
Depreciation/amortization of property, plant and equipment and intangible assets	4,622	4,448
Other operating expenses	21,338	14,650
Subsidies and other operating income	-15,114	-9,607
	<b>47,750</b>	<b>39,745</b>

Expenses disclosed under research and development expenses comprise research costs and non capitalizable development costs.

Personnel expenses before the effects of capitalizing development costs were EUR 57,349k (prior year: EUR 48,343k).



The total research and development expenses (before capitalizing development costs) amounted to EUR 127,809k (prior year: EUR 106,248k) and therefore approximately 8.0% (prior year: 7.9%) of revenue.

### 13. ADMINISTRATION EXPENSES

EURk	2017	2016
Cost of materials and purchased services	4,602	5,039
Personnel expenses	35,411	33,389
Depreciation/amortization of property, plant and equipment and intangible assets	12,553	9,743
Other operating expenses	32,234	37,920
Other operating income	-1,833	-6,133
	<b>82,967</b>	<b>79,958</b>

### 14. OTHER OPERATING EXPENSES

EURk	2017	2016
Warranty expenses	31,839	27,874
Miscellaneous expenses	57	161
	<b>31,896</b>	<b>28,035</b>

Amortizations in the amount of EUR 580k (prior year: EUR 513k) are included in warranty expenses.

### 15. OTHER OPERATING INCOME

Other operating income is realized when economic benefit is likely to arise from the underlying contract and a reliable determination of the income has been made.

Other operating income is made up as follows:

EURk	2017	2016
Subsidies	2,355	859
Revenue from disposal of assets	83	3,419
Initial consolidations	941	0
Other remaining income	2,834	1,114
	<b>6,213</b>	<b>5,392</b>

### 16. EARNINGS FROM AT-EQUITY HOLDINGS

In the income statement, the share of the profit or loss of associates accounted for using the equity method has been disclosed as a separate line item in the result from operating activities. Essentially there are holdings that are integrated into the operating activities of the KTM Industries Group as material suppliers or customers.

The earnings from the companies accounted for using the equity method are made up as follows:

EURk	2017	2016
Kiska GmbH	640	357
KTM New Zealand Ltd.	39	36
KTM Asia Motorcycle Manufacturing Inc.	-221	0
Motorcycle Distributors Australia Pty Ltd.	352	0
PEXCO GmbH	-679	0
Four flagship stores and miscellaneous	-62	0
	<b>69</b>	<b>393</b>

## 17. FINANCIAL AND INVESTMENT EARNINGS

Financial and investment income is made up as follows:

EURk	2017	2016
Interest income	2,227	2,744
Interest expenses	-14,613	-19,505
Other financial and investment income (expenses)	-3,100	3,391
	<b>-15,486</b>	<b>-13,370</b>

In the 2017 financial year, the other financial and investment income mainly includes income from the valuation of financial instruments in the amount of EUR 405k (prior year: expenses in the amount of EUR 274k), expenses associated with financial investments in the amount of EUR 2,619k (prior year: EUR 3,881k) and foreign exchange losses of EUR 1,309k (prior year: EUR 53k). The dividend income of unconsolidated companies in the amount of EUR 180k (prior year: EUR 2,959k), and earnings from other participations in the amount of EUR 243k (prior year: EUR 68k) are also included. The previous year's figures were also influenced by the positive effect of the initial consolidation of PF Beteiligungsverwaltungs GmbH in the amount of EUR 4,572k.

## 18. INCOME TAXES

The group's income tax expense and income tax income are attributable to current taxes and deferred taxes as follows:

EURk	2017	2016
Current tax	-22,507	-16,745
Deferred tax	-10,642	-3,190
	<b>-33,149</b>	<b>-19,935</b>

The income taxes shown are the taxes on income and earnings paid and/or owed in the individual countries as well as the deferred taxes. The Austrian companies of the KTM Industries Group are subject to a corporate income tax rate of 25.0%. The calculation of foreign income taxes is based on the laws and regulations that are in force or have been adopted in the individual countries. The income tax rates applicable to foreign entities vary from 8.7% to 38.0%.

The expected tax expense for the financial year (derived from applying the group tax rate of 25.0% to the profit before tax) and the actual tax expense disclosed are reconciled as follows:

EURk	2017	2016
Profit before income taxes	117,051	108,947
Expected tax expenses/income	-29,263	-27,237
Non-temporary differences	2,565	1,851
Recognition/allowances/utilization of loss carryforwards	-3,293	2,436
Loss carryforwards of foreign subsidiaries not recognized as deferred tax assets	-307	0
Taxes in relation to prior periods	-2,366	453
Effects of foreign tax rates	-920	-1,109
Changes to the tax rate	-1,256	0
Earnings from equity holdings	17	99
Investment benefits	3,161	2,090
Miscellaneous	-1,487	1,482
	<b>-33,149</b>	<b>-19,935</b>

## 19. EARNINGS PER SHARE AND PROPOSAL ON THE APPROPRIATION OF EARNINGS

The number of shares of KTM Industries AG is 225,386,742. KTM Industries AG holds no treasury shares as of the reporting date December 31, 2017. The earnings per share were EUR 0.20 in the current financial year 2017 (prior year: EUR 0.23).

	12/31/2017	12/31/2016
Earnings - owner of parent company (EURk)	44,686	52,080
Total number of shares (units)	225,386,742	225,386,742
Deducting treasury shares (units)	0	0
	<b>225,386,742</b>	<b>225,386,742</b>
<b>Undiluted (=diluted) earnings per share (EUR)</b>	<b>0,20</b>	<b>0,23</b>

According to the Austrian Stock Corporation Act, the separate financial statement issued by KTM Industries AG in accordance with the Austrian accounting regulations on December 31, 2017 forms the basis for the payment of dividends.

For the financial year 2017, it is proposed that from the net profit of KTM Industries AG amounting to EUR 25,139k, a dividend of EUR 0.03 per share (in total EUR 6,762k) is paid out and the remaining carried forward. A dividend of EUR 0.03 per share was also paid from the net profit in 2016.

## 20. EXPENSES FOR THE AUDITOR OF THE FINANCIAL STATEMENTS

The expenses attributable to the reporting period for the auditor of the financial statements, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, are composed as follows:

EURk	2017	2016
Annual audit for each individual company	351	338
Consolidate audit	320	318
Other assurance services	31	198
Other services	150	66
	<b>852</b>	<b>920</b>

**21. EMPLOYEES**

Employee numbers as stated include agency and external staff:

Balance as of 1/1/2017	5,069
Changes in financial year	818
<b>Balance as of 12/31/2017</b>	<b>5,887</b>
Blue-collar employees	3,238
White-collar employees	2,649

As of December 31, 2017, 4,568 employees (prior year: 3,916) are employed in Austria and 1,319 (prior year: 1,153) abroad.

During the 2017 financial year, total personnel expenses before the effects of capitalizing development costs were EUR 323,458k (prior year: EUR 275,414k).

## V. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**22. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are recognized at cost less depreciation. Amortization is determined by the straight line method and is based on the following expected useful lives:

	Useful life in years
Buildings	10 - 50
Technical plant and machinery	2 - 25
Fixtures and fittings, tools and equipment	2 - 10

The production costs of self constructed property, plant and equipment represent the direct costs, including an allocation of production overheads (indirect materials and indirect labor). Financing costs resulting from the direct attribution of borrowings and/or from the application of an average capitalization rate to the expenses incurred are capitalized pursuant to IAS 23.

Property, plant, and equipment held under leasing contracts in which the material opportunities and risks devolve to the lessee are recognized as finance leases. Such assets are recognized at the lower of the fair value or present value of the future expected minimum lease payments. Amortization is charged on a straight-line basis over the useful economic life, or over the term of the lease if shorter. Lease payments are divided into interest and repayment components. They are reported under property, plant, and equipment; the corresponding payment obligations are reported under financial liabilities. The interest component of lease obligations is recognized directly in the consolidated income statement.

The tables below provide a breakdown of property, plant, and equipment along with movements during the 2017 and 2016 financial years:

EURk	Real estate	Buildings	Technical plant and Machinery	operational and business equipment	Advance payments and investments in construction	Total
<b>Acquisition and production costs:</b>						
<b>Balance as of 1/1/2017</b>	22,375	196,154	294,589	91,261	21,285	<b>625,664</b>
Additions	1,692	18,511	28,426	16,125	39,963	<b>104,717</b>
Disposals	-135	-150	-8,010	-4,948	-1,526	<b>-14,769</b>
Changes in the scope of consolidation	0	0	1,218	1,591	50	<b>2,859</b>
Currency translation	-14	-1,338	-2,130	-2,090	-110	<b>-5,682</b>
Transfers	0	3,783	25,015	1,202	-30,036	<b>-36</b>
<b>Balance as of 12/31/2017</b>	23,918	216,960	339,108	103,141	29,626	<b>712,753</b>
<b>Accumulated depreciation and amortization:</b>						
<b>Balance as of 1/1/2017</b>	66	48,929	211,886	61,566	0	<b>322,447</b>
Additions	0	7,648	28,888	11,436	0	<b>47,972</b>
Disposals	0	-71	-7,710	-4,700	0	<b>-12,481</b>
Changes in the scope of consolidation	0	0	575	901	0	<b>1,476</b>
Currency translation	-2	-559	-1,800	-1,624	0	<b>-3,985</b>
<b>Balance as of 12/31/2017</b>	64	55,947	231,839	67,579	0	<b>355,429</b>
<b>Carrying amount:</b>						
<b>Balance as of 12/31/2017</b>	<b>23,854</b>	<b>161,013</b>	<b>107,269</b>	<b>35,562</b>	<b>29,626</b>	<b>357,324</b>
Balance as of 12/31/2016	22,309	147,225	82,703	29,695	21,285	303,217
<b>Acquisition and production costs:</b>						
<b>Balance as of 1/1/2016</b>	18,296	177,072	270,780	80,742	22,765	<b>569,655</b>
Additions	1,038	10,224	18,811	12,364	32,285	<b>74,722</b>
Disposals	-1,029	-33,645	-5,803	-5,027	-486	<b>-45,990</b>
Changes in the scope of consolidation	4,066	22,800	27	291	0	<b>27,184</b>
Currency translation	4	48	-274	426	13	<b>217</b>
Transfers	0	19,655	11,048	2,465	-33,292	<b>-124</b>
<b>Balance as of 12/31/2016</b>	22,375	196,154	294,589	91,261	21,285	<b>625,664</b>
<b>Accumulated depreciation and amortization:</b>						
<b>Balance as of 1/1/2016</b>	64	47,760	191,823	55,552	0	<b>295,199</b>
Additions	0	6,799	25,662	10,218	0	<b>42,679</b>
Disposals	0	-6,395	-5,527	-4,656	0	<b>-16,578</b>
Changes in the scope of consolidation	0	798	23	128	0	<b>949</b>
Currency translation	2	-33	-164	395	0	<b>200</b>
Transfers	0	0	69	-71	0	<b>-2</b>
<b>Balance as of 12/31/2016</b>	66	48,929	211,886	61,566	0	<b>322,447</b>
<b>Carrying amount:</b>						
<b>Balance as of 12/31/2016</b>	<b>22,309</b>	<b>147,225</b>	<b>82,703</b>	<b>29,695</b>	<b>21,285</b>	<b>303,217</b>
Balance as of 12/31/2015	18,232	129,312	78,957	25,190	22,765	274,456

Additions to technical plant and machinery include an amount of EUR 2,286k (prior year: EUR 1,291k) in relation to assets held under finance leases, which had no cash flow effect as at the reporting date. For more details, please refer to Note 48, "Finance leases".

Other additions include investments of EUR 3,289k (prior year: EUR 7,674k), which had no cash flow effect as at the end of the reporting period.

The disposals under buildings in the prior year 2016 essentially relate to the cancellation of the finance lease relating to the KTM logistics center in the amount of EUR 26,043k. This is offset by net additions of EUR 26,068k from changes in the scope of consolidation, which are due to the initial consolidation of KTM Logistikzentrum GmbH.

As at the reporting date, property, plant and equipment amounting to EUR 92,563k (prior year: EUR 82,750k) are secured by pledge agreements recorded in the land register and duly filed above all for liabilities owed to credit institutions.

For the purchase of property, plant and equipment, there are future payment obligations amounting to EUR 11,279k (prior year: EUR 14,082k).

### 23. INTANGIBLE ASSETS

Similarly to property, plant and equipment, intangible assets are capitalized at cost and measured at cost less amortization. Amortization is determined by the straight line method and is based on the following expected useful lives:

	Useful life in years
Software	2 - 5
Intangible assets generated internally	5
Other intangible assets	2 - 15

For intangible assets generated internally, the production period is subdivided into research, development, and model update phases. Costs incurred during the research and model update phases are immediately recognized in profit or loss. Expenditure incurred during the development phase is capitalized as an intangible asset if the developed product or process meets certain requirements confirming the future benefit of such expenditure, i.e. primarily if technical feasibility and marketability have been achieved. Intangible assets generated internally are measured at cost less amortization and impairments. The amortization of capitalized development costs that are clearly attributable to projects starts upon the commencement of series production.

In the 2017 financial year, development costs of EUR 64,971k (prior year: EUR 57,840k) were capitalized and a total of EUR 28,520k (prior year: EUR 25,851k) was amortized. As at December 31, 2017, development costs with a carrying amount of EUR 181,737k (prior year: EUR 145,286k) are included in the intangible assets.

Intangible assets of indeterminate useful life, such as the "KTM" brand (recognized at a value of EUR 61,103k in the course of the initial purchase price allocation), are not amortized but are instead subjected to an annual impairment test. Any necessary impairment is accounted for in profit and loss. The Executive Board assumes an indeterminate useful life for the "KTM" brand because the rights are not subject to any restrictions as to time, in law or by contract in the relevant markets and because the sustained public awareness of the brand indicates that there has been no loss of economic value. The "KTM" brand is attributed to the "KTM" cash-generating unit. Brand measurement is based on fair value less costs of disposal. Measurement is performed in accordance with the relief from royalty approach. The royalty rate of 1.5% of revenue, which forms the basis for measurement, has been derived from comparable publicly available license agreements.

The impairment test as at December 31, 2017 was performed on the basis of the current four-year planning figures (prior year: five-year planning figures). As the discount rate, the asset-specific costs of capital in the amount of 12.9% (prior year: 12.5%), comprised of the consolidated input tax for WACC of 9.9% (prior year: 9.5%) and a risk premium for the brand in the amount of 3.0% (prior year: 3.0%), were used. The risk premium was derived on the basis of the WACC-to-WARA concept. The parameters that are material to the measurement of the "KTM" brand are the discount rate, royalty, and budgeted revenues. A sensitivity analysis regarding these parameters shows that, all other conditions being equal, barely sufficient coverage is provided for the carrying amount if a consolidated input tax for WACC of 24.2% (prior year: 24.0%) is applied and, all other conditions being equal, at a royalty of 0.7% (prior year: 0.7%). All other conditions being equal, sufficient coverage is provided for the carrying amount in the event of a decline in the budgeted future revenues by up to 55.8% (prior year: 57.1%).

The breakdown of intangible assets and the development of that item over the 2017 financial year as well as over the 2016 financial year are shown in the following tables:

EURk	Concessions, industrial property rights and similar rights and benefits as well as resulting licenses	Customers, Brand values, Development costs	Advance payments	Total
<b>Acquisition and production costs:</b>				
<b>Balance as of 1/1/2017</b>	54,610	254,770	1,444	<b>310,824</b>
Additions	5,052	64,971	3,826	<b>73,849</b>
Disposals	-690	-2,369	0	<b>-3,059</b>
Changes in the scope of consolidation	373	0	0	<b>373</b>
Currency translation	-338	-14	0	<b>-352</b>
Transfers	122	0	-86	<b>36</b>
<b>Balance as of 12/31/2017</b>	<b>59,129</b>	<b>317,358</b>	<b>5,184</b>	<b>381,671</b>
<b>Accumulated depreciation and amortization:</b>				
<b>Balance as of 1/1/2017</b>	21,052	45,498	0	<b>66,550</b>
Additions	8,932	29,496	0	<b>38,428</b>
Disposals	-673	-2,369	0	<b>-3,042</b>
Changes in the scope of consolidation	350	0	0	<b>350</b>
Currency translation	-190	-14	0	<b>-204</b>
Transfers	0	0	0	<b>0</b>
<b>Balance as of 12/31/2017</b>	<b>29,471</b>	<b>72,611</b>	<b>0</b>	<b>102,082</b>
<b>Carrying amount:</b>				
<b>Balance as of 12/31/2017</b>	<b>29,658</b>	<b>244,747</b>	<b>5,184</b>	<b>279,589</b>
Balance as of 12/31/2016	33,558	209,272	1,444	244,274
<b>Acquisition and production costs:</b>				
<b>Balance as of 1/1/2016</b>	40,134	234,730	11,592	<b>286,456</b>
Additions	10,166	57,840	1,442	<b>69,448</b>
Disposals	-7,862	-37,743	0	<b>-45,605</b>
Changes in the scope of consolidation	311	0	0	<b>311</b>
Currency translation	145	-57	0	<b>88</b>
Transfers	11,716	0	-11,590	<b>126</b>
<b>Balance as of 12/31/2016</b>	<b>54,610</b>	<b>254,770</b>	<b>1,444</b>	<b>310,824</b>
<b>Accumulated depreciation and amortization:</b>				
<b>Balance as of 1/1/2016</b>	22,176	56,475	0	<b>78,651</b>
Additions	6,619	26,822	0	<b>33,441</b>
Disposals	-7,854	-37,743	0	<b>-45,597</b>
Changes in the scope of consolidation	0	0	0	<b>0</b>
Currency translation	111	-56	0	<b>55</b>
Transfers	0	0	0	<b>0</b>
<b>Balance as of 12/31/2016</b>	<b>21,052</b>	<b>45,498</b>	<b>0</b>	<b>66,550</b>
<b>Carrying amount:</b>				
<b>Balance as of 12/31/2016</b>	<b>33,558</b>	<b>209,272</b>	<b>1,444</b>	<b>244,274</b>
Balance as of 12/31/2015	17,958	178,255	11,592	207,805

By means of an assignment agreement dated September 17, 2013, KTM AG acquired the license right for the use of the Husqvarna brand from Pierer Industrie AG for EUR 10,000k. The license right is being amortized over its remaining useful life of 10 years.

An impairment charge of EUR 1,650k (prior year: EUR 214k) was recorded against development costs in relation to an asset which was not available for use, due to the termination of the project. In addition, one project available for use was subjected to an impairment charge of EUR 15k (prior year: EUR 2,663k) owing to changes in the assumptions made regarding future sales and the resultant impairment to value.

Additions to intangible assets include investments of EUR 0k that had no cash flow effect as of the end of the reporting period (prior year: EUR 1,051k).

#### 24. GOODWILL

Goodwill is not amortized but subjected to an annual impairment test and a corresponding write down is accounted for in profit and loss where required. When carrying out impairment tests, goodwill is allocated to "cash generating units (CGUs)". The impairment loss of the CGUs is calculated by comparing the hitherto carrying amount (including allocated goodwill) and the value in use, which represents the present value of the expected future cash flows before tax. If the value in use falls below the carrying amount, value adjustments in the amount of the difference must be made to the goodwill. Any further need for a write down is allocated to the other assets in the CGUs in proportion to their carrying amount.

The cash flows used in the impairment test are based on the most recent medium-term planning figures, which entail a planning horizon of four years (prior year: five years). Beyond the detailed planning horizon, cash flows for the final financial period planned in detail are used as the basis for calculating a perpetuity value. The assumption is made that the business will be a going concern and no growth discount is applied. The determination of the discount rate (WACC) takes place on the basis of externally available capital market data. Medium-term planning is based on internal assumptions concerning the future development of sales, prices, and costs, the future development of new markets and the composition of the product mix. The assumptions are based mainly on the wealth of experience gained over many years and management assessments.

The calculation was based on the application of the following discount rates before tax for the respective CGUs:

	12/31/2017	12/31/2016
KTM	11.0%	10.4%
PANKL	10.4%	9.0%
WP	11.1%	10.5%

The values in use calculated are checked for plausibility using the multiples method and scenarios are computed regarding the discount rate and budgeted future EBIT.

All other conditions being equal, any increase in input tax for WACC or decline in budgeted future EBIT by up to the extent below would continue to provide sufficient coverage for the carrying amount of the respective cash-generating units.

	Increase in WACC		Decline in EBIT	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
KTM	16.9%	11.6%	-35.1%	-10.0%
PANKL	11.8%	11.9%	-12.4%	-26.3%
WP	18.4%	14.1%	-39.8%	-26.1%



The breakdown of goodwill and its development and division between the respective CGUs is as follows:

EURk	2017	2016
<b>Acquisition and production costs:</b>		
<b>Balance as of 1/1</b>	<b>140,770</b>	<b>140,545</b>
Additions	0	242
Changes in the scope of consolidation	0	269
Currency translation	-599	-286
<b>Balance as of 12/31</b>	<b>140,171</b>	<b>140,770</b>
<b>Accumulated depreciation and amortization:</b>		
<b>Balance as of 1/1</b>	<b>23,038</b>	<b>22,821</b>
Additions	0	242
Currency translation	8	-25
<b>Balance as of 12/31</b>	<b>0</b>	<b>0</b>
	<b>23,046</b>	<b>23,038</b>
<b>Carrying amount as of 12/31</b>	<b>117,125</b>	<b>117,732</b>
KTM	94,118	94,142
PANKL	22,047	22,630
WP	960	960

## 25. Investments accounted for using the equity method

The investments in associates accounted for under the equity method are regarded individually as immaterial. The most important investments accounted for using the equity method are Motorcycle Distributors Australia Pty Ltd., Kiska GmbH, KTM MOTOHALL GmbH (previously: Mattighofen Museums-Immobilien GmbH), PEXCO GmbH and KTM Asia Motorcycle Manufacturing Inc.

At the beginning of July 2017, KTM Sportmotorcycle GmbH acquired an equity holding of 26% in Motorcycle Distributors Australia Pty Ltd. KTM and Husqvarna products will be imported into the Australian market via this company.

Kiska GmbH is a design business that provides development and design services. The reporting date of Kiska GmbH is March 31, which was set before the acquisition of the equity holding. A change in the accounting date is not sought on account of materiality considerations. For the purposes of accounting under the equity method, unaudited interim financial statements as at December 31 were used.

The equity holding of EUR 2,349k (prior year: EUR 2,349k) in KTM MOTOHALL GmbH makes no operating profit or loss on account of its function purely as a project company (for the construction of the KTM world).

In September 2017, KTM Industries AG entered into a strategic partnership with PEXCO GmbH, established in July 2017 by the German entrepreneurial family Puello. KTM Industries holds 49.9% of the company, which focuses on e-mobility.

KTM Asia Motorcycle Manufacturing Inc. was jointly founded in June 2016 in partnership with Ayala Corp. The company began assembling KTM motorcycles in the Philippines from CKD (completely knocked down) kits in mid-2017.

Movements in the carrying amounts of the investments accounted for using the equity method were as follows:

EURk	2017	2016
<b>Book value of investments on 1/1</b>	<b>6,312</b>	<b>3,968</b>
Acquisition of holdings	8,765	2,959
Consolidation changes	372	0
Disposal of holdings	-171	-903
Proportionate net income	69	393
Foreign currency translation in other comprehensive income	-141	11
Dividend	-156	-116
<b>Book value of investments on 12/31</b>	<b>15,050</b>	<b>6,312</b>

## 26. DEFERRED TAX ASSETS

Deferred tax items are included to account for future tax effects expected to result from business transactions that have already been recorded either in the consolidated financial statements or in the tax accounts (temporary differences). Deferred tax assets relating to tax loss carryforwards are recognized insofar as they can be realized within a reasonable period. Deferred tax assets and deferred tax liabilities are reported on a net basis if they are subject to the same tax jurisdiction. Deferred tax items for differences between the tax base of fully consolidated interests or interests measured at equity and the corresponding consolidated equity are recognized only if realization is probable within the foreseeable future. The calculation is based on the income tax rate customary in the relevant country at the time when the difference in value is expected to reverse.

On December 22, 2017, the "H.R. 1 – Tax Cuts and Jobs Act" was signed in the USA. This had an impact on the way in which taxes are accounted for in consolidated financial statements. IAS 12.47 stipulates that deferred taxes are to be measured using the tax rate that is valid or anticipated at the end of the reporting period. The new regulations, which provide for an adjustment of the federal corporate income tax rate from 35% to 21%, have therefore already been taken into account within the scope of accounting as at December 31, 2017. The calculation of deferred tax assets therefore results in a deferred tax expense of EUR 1,256k as a result of the changes to the tax rate.

Total deferred tax assets and liabilities were calculated from the following statement of financial position items:

EURk	12/31/2017	12/31/2016
<b>Deferred tax assets:</b>		
Current assets		
Receivables and other assets	4	0
Inventories	5,558	6,380
Non-current assets:		
Fixed assets	1,380	338
Loss carryforwards	5,316	7,479
Employee benefits	4,380	4,278
Provisions	2,709	2,447
Liabilities	1,262	2,210
Other	132	0
	<b>20,741</b>	<b>23,132</b>
Offsetting:	-13,258	-13,296
	<b>7,483</b>	<b>9,836</b>

EURk	12/31/2017	12/31/2016
<b>Deferred tax liabilities:</b>		
Current assets	-2,471	-1,593
Non-current assets		
Intangible assets	-62,651	-51,612
Property, plant, and equipment	-1,520	-2,577
Other	-71	-255
	<b>-66,713</b>	<b>-56,037</b>
Offsetting:	13,258	13,296
	<b>-53,455</b>	<b>-42,741</b>

Deferred tax assets in relation to non-current assets include EUR 2,177k (prior year: EUR 2,309k) in relation to the remaining sevenths of write-downs of equity holdings to going concern value pursuant to sec. 12 para. 3 no. 2 of the Austrian Corporate Tax Act (KStG).

Temporary differences in the item "Intangible assets" result mainly from the development costs that cannot be capitalized for tax purposes and from quasi permanent differences that result from the recognition of the "KTM" brand as an asset.

As at December 31, 2017 (as at the previous year end), it was to be assumed either that under current tax regulations the differences between the value for tax purposes of the carrying amount of investments in consolidated subsidiaries and the proportion of equity recognized in the consolidated IFRS financial statements (outside-basis differences), which arise largely from retained profits/uncovered losses, will remain untaxed in the foreseeable future, or that their reversal can be controlled by the Group.

It was also to be assumed either that the differences between the value for tax purposes of the carrying amount of investments in holdings accounted for using the equity method and the carrying value of those holdings (outside-basis differences) will remain untaxed in the foreseeable future, or that their reversal can be controlled by the Group.

In accordance with IAS 12.39, no deferred tax was recognized in connection with the taxable temporary differences of EUR 288,237k (prior year: EUR 244,549k) arising in connection with holdings in subsidiaries and financial investments accounted for using the equity method.

Movements in deferred taxes during the financial year were as follows:

EURk	2017	2016
Deferred tax (net) at 1/1	-32,905	-31,153
Change in scope of consolidation	0	-78
Deferred taxes recognized in the income statement	-10,642	-3,190
Deferred taxes recognized in other comprehensive income	-2,063	1,274
Foreign currency	-362	242
<b>Deferred tax (net) at 12/31</b>	<b>-45,972</b>	<b>-32,905</b>

The tax loss carryforwards that exist in the KTM Industries Group and have been capitalized can be summed up as follows:

EURk	Loss carryforward 12/31/2017	Allowance 12/31/2017	Remaining loss carryforward 12/31/2017	Deferred tax asset 12/31/2017
KTM Industries AG, Wels	102,724	-102,724	0	0
K KraftFahrZeug Holding GmbH, Wels	4,354	-4,354	0	0
PF Beteiligungsverwaltungs GmbH, Wels	9,855	-9,855	0	0
WP Group, Munderfing	5,398	-1,984	3,414	3,414
Pankl Group, Kapfenberg	7,720	0	7,720	1,902
	<b>130,051</b>	<b>-118,917</b>	<b>11,134</b>	<b>5,316</b>

EURk	Loss carryforward 12/31/2016	Allowance 12/31/2016	Remaining loss carryforward 12/31/2016	Deferred tax asset 12/31/2016
KTM Industries AG, Wels	89,007	-89,007	0	0
K KraftFahrZeug Holding GmbH, Wels	3,595	-3,595	0	0
PF Beteiligungsverwaltungs GmbH, Wels	9,984	-9,984	0	0
WP Group, Munderfing	4,661	-670	3,991	3,991
Pankl Group, Kapfenberg	9,559	-85	9,474	3,483
	<b>116,806</b>	<b>-103,341</b>	<b>13,465</b>	<b>7,474</b>

The deferred tax assets of the WP Group of EUR 3,414k (prior year: EUR 3,991k) arose from a future tax benefit resulting from the liquidation loss of WP Suspension B.V. This can be claimed over seven years as from the point of liquidation.

Deductible temporary differences and unused tax losses (including outstanding sevenths of write downs to going concern value) for which deferred tax assets were not capitalized amount to EUR 133,118k (prior year: EUR 122,372k). Value adjustment to loss carryforwards and temporary differences have been carried out to the extent to which a medium term realization of deferred tax assets cannot be assumed with sufficient certainty from today's perspective.

## 27. OTHER NON-CURRENT ASSETS

EURk	12/31/2017	12/31/2016
Non-consolidated subsidiaries and financial investments not accounted for using the equity method	166	2,236
Lendings	1,606	1,970
Other non-current assets	3,782	6,688
	<b>5,554</b>	<b>10,894</b>

Movements in the carrying amounts of the unconsolidated subsidiaries and loans were as follows in the 2017 and 2016 financial years:

EURk	Balance as of 1/1/2017	Additions	Foreign currency translation	Allowance	Disposals	Changes in the scope of consolidation	Balance as of 12/31/2017
Non-consolidated subsidiaries and financial investments not accounted for using the equity method	2,236	50	0	-1,341	-157	-622	166
Lendings	1,970	65	-238	0	-195	4	1,606
	<b>4,206</b>	115	-238	-1,341	-352	-618	<b>1,772</b>

EURk	Balance as of 1/1/2016	Additions	Foreign currency translation	Allowance	Disposals	Changes in the scope of consolidation	Balance as of 12/31/2016
Non-consolidated subsidiaries and financial investments not accounted for using the equity method	17,906	1,239	0	-2,885	-14,024	0	2,236
Lendings	2,045	76	67	0	-218	0	1,970
	<b>19,951</b>	1,315	67	-2,885	-14,242	0	<b>4,206</b>

The other non current assets mainly relate to changes on account of subsequent business transactions.

In 2015, when the interest in AGM Durmont Austria GmbH was sold, a put/call option was also entered into regarding the remaining 24% of the shares with KTM Industries AG. The company was sold in full in March 2017.

As part of the shareholders agreement of August 11, 2014, KTM Industries AG entered into a put/call option regarding the sale of a further 23% of the shares in Wethje Carbon Composites GmbH. The put option was exercised by KTM Industries AG on October 2, 2017. In 2017, the receivable of EUR 3,680k was reclassified from non-current to current.

## 28. INVENTORIES

Inventories are measured at the lower of cost or net realizable value on the reporting date. Net realizable value is the estimated proceeds less estimated selling costs. Inventories are measured using the average cost method based on an analysis of coverage, with write-downs being made for limited usability. The economic value of existing inventories is also reviewed on a case-by-case basis and additional allowances are made as required for slow-moving items or items with limited possibilities of sale.

Costs of acquisition include all costs that were incurred in order to bring the object to its required condition and to the relevant location. Costs of conversion comprise direct material and production costs based on normal capacity usage, plus appropriate portions of materials and production overheads. Administrative overheads and selling costs, on the other hand, do not form part of the costs of conversion. Interest on borrowings is not capitalized, as the inventories do not constitute qualifying assets as defined in IAS 23.

Inventories are represented as follows:

EURk	12/31/2017	12/31/2016
Raw materials, auxiliary materials and operating materials	84,990	73,275
Unfinished products	38,301	44,353
Finished products and goods	173,659	134,358
	<b>296,950</b>	<b>251,986</b>

EURk	12/31/2017	12/31/2016
Gross inventory level	323,917	282,300
- Allowances	-26,967	-30,314
<b>Net inventory level</b>	<b>296,950</b>	<b>251,986</b>

The carrying amount of inventories recognized at the lower net realizable value amounts to EUR 84,728k (previous year: EUR 96,896k). As at the reporting date, inventories amounting to EUR 1,543k (prior year: EUR 0k) are pledged or otherwise restricted in availability.

## 29. TRADE RECEIVABLES

Movements in allowances on receivables were as follows:

EURk	Trade receivables
<b>Balance as of 1/1/2016</b>	<b>2,526</b>
Change in scope of consolidation	0
Currency translation	-18
Additions	2,523
Utilization	-572
Reversals	-281
<b>Balance as of 12/31/2016 = 1/1/2017</b>	<b>4,178</b>
Change in scope of consolidation	0
Currency translation	-108
Additions	565
Utilization	-277
Reversals	-1,480
<b>Balance as of 12/31/2017</b>	<b>2,878</b>

Expenses for the complete derecognition of trade receivables amounted to EUR 133k (prior year: EUR 299k).

## 30. CURRENT RECEIVABLES AND OTHER ASSETS

EURk	12/31/2017	12/31/2016
Receivables from derivative financial instruments	11,625	3,169
Securities	0	3,567
ABS (asset backed securities) financing	6,258	2,722
Peguform purchase price claim	0	20,318
Wethje purchase price claim	3,680	0
Receivables from related company shareholders	18,727	1,198
Other	9,618	14,295
<b>Other current financial assets</b>	<b>49,908</b>	<b>45,269</b>
Receivables	19,309	6,864
Receivables due from tax offices	12,869	6,913
Advance payments on inventory and other prepayments	9,145	10,598
Other	4,024	2,949
<b>Other current non-financial assets</b>	<b>45,347</b>	<b>27,324</b>
<b>Other current assets</b>	<b>95,255</b>	<b>72,593</b>

### 31. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and in banks, checks, and time deposits with a fixed term of not more than three months (calculated from date of acquisition) and are measured at their fair value as of the reporting date.

For further details on changes in the cash status please see the information on the cash flow statement in Chapter VI of the Notes to the Consolidated Financial Statements.

### 32. CONSOLIDATED EQUITY

Movements in the consolidated equity in the 2017 and 2016 financial years are presented on page 82-83.

As of December 31, 2017, the **share capital** amounts to EUR 225,386,742 and is divided into 225,386,742 bearer shares of no par value, each of which represents an equal interest in the share capital. The shares grant the rights that are usually due to stockholders under the Austrian Stock Corporation Act. These include the right to payout of the dividend resolved upon at the Annual General Meeting as well as the right to vote at the Annual General Meeting. All shares have been paid up in full. The share capital shown in the consolidated financial statements is equal to the figure reported in the separate financial statements of KTM Industries AG.

In October 2017, Pankl Racing Systems AG issued a **perpetual bond** in the amount of EUR 10,000k. A perpetual bond of KTM Industries AG in the amount of EUR 60,000k had already been issued in the prior year. The interest rate of the total perpetual bonds of EUR 70,000k is 5%. The bonds are reported as equity, as the capital of KTM Industries AG is available without limitation and there is also no call option on the part of the bondholder. There is no actual redemption obligation within the meaning of IAS 32.20 either. The two perpetual bonds are set up as unsecured bonds that are subordinate to all current or future unsecured, unsubordinated liabilities of the KTM Industries Group. Interest need only be paid out if a dividend or other pay out to the shareholders is resolved, other subordinated liabilities or shareholder loans are repaid or interest is paid on shareholder loans.

The reserve pursuant to IAS 39 comprises the **cash flow hedge reserve**. Movements in the cash flow hedge reserve, including interests held by non-controlling shareholders (after tax), were as follows:

EURk	
<b>Balance as of 1/1/2016</b>	<b>431</b>
Effective proportion of fair value changes in cash flow hedges	-2,356
Transfer of consolidated equity to consolidated income statement - listed in financial result	858
Transfer of consolidated equity to consolidated income statement - listed in operating income	-1,619
<b>Balance as of 12/31/2016</b>	<b>-2,686</b>
Effective proportion of fair value changes in cash flow hedges	4,277
Transfer of consolidated equity to consolidated income statement - listed in financial result	275
Transfer of consolidated equity to consolidated income statement - listed in operating income	1,967
<b>Balance as of 12/31/2017</b>	<b>3,833</b>

The **IAS 19 reserve** includes actuarial losses from pension and provisions for severance. The IAS 19 reserve, including shares of non controlling shareholders, is EUR -6,249k as at December 31, 2017 (prior year: EUR -6,521k).

The **reserves relating to exchange differences** comprise all exchange rate differences resulting from the currency translation of the annual financial statements of consolidated subsidiaries that had been drawn up in foreign currency. The net investments in foreign subsidiaries comprise the following long term loans in addition to the the carrying amount of investments:

Amount of credit (thousand)	12/31/2017	12/31/2016	Currency
Pankl Racing Systems UK Ltd.	1,615	1,615	GBP
CP-CARRILLO, Inc.	1,000	1,069	USD
Pankl Holdings, Inc.	29,140	16,550	USD
KTM North America, Inc.	0	3,863	USD

The loan of KTM North America, Inc. was repaid in October 2017. The cumulative effects of foreign currency translation are still included under other comprehensive income. As repayment of the other long-term loans is neither planned nor likely in the foreseeable future, foreign currency translation effects are recognized in other comprehensive income.

The **interests held by non-controlling shareholders** include the interests of third parties in the equity of the consolidated subsidiaries.

2017	KTM AG	WP Performance Systems GmbH	Pankl Racing Systems AG	Other	Total
Percentage of non-controlling interests on reporting date	48.32%	11.74%	5.47%		
<b>EURk</b>					
Revenue	1,331,717	179,738	195,388		
Profit	78,963	7,680	4,835		
Other comprehensive income	3,062	135	-2,757		
Total comprehensive income	82,025	7,815	2,078		
<b>Profit assigned to non-controlling interests</b>	<b>38,215</b>	<b>932</b>	<b>-53</b>	<b>122</b>	<b>39,216</b>
<b>Other comprehensive income assigned to non-controlling interests</b>	<b>1,481</b>	<b>28</b>	<b>-151</b>	<b>0</b>	<b>1,358</b>
Non-current assets	511,233	58,323	114,894		
Current assets	502,149	53,012	103,626		
Non-current liabilities	-267,863	-22,074	-86,961		
Current liabilities	-336,239	-35,897	-41,958		
Net assets	409,280	53,364	89,601		
<b>Carrying amount of non-controlling interests</b>	<b>198,020</b>	<b>6,945</b>	<b>5,527</b>	<b>122</b>	<b>210,614</b>
Cash flow from operating activities	166,388	15,579	13,024		
Cash flow from investing activity	-127,126	-6,150	-35,229		
Cash flow from financing activity	-129,355	2,785	22,397		
Cash change	-90,093	12,214	192		
<b>Dividends from non-controlling interests</b>	<b>10,620</b>	<b>4</b>	<b>103</b>	<b>0</b>	<b>10,727</b>



2016	KTM AG	WP Performance Systems GmbH	Pankl Racing Systems AG	Other	Total
Percentage of non-controlling interests on reporting date	48.33%	11.74%	5.47%		
<b>EURk</b>					
Revenue	1,141,819	166,106	185,991		
Profit	72,108	14,310	8,925		
Other comprehensive income	-2,593	-137	-731		
Total comprehensive income	69,515	14,173	8,194		
<b>Profit assigned to non-controlling interests</b>	<b>34,899</b>	<b>1,692</b>	<b>341</b>	<b>0</b>	<b>36,932</b>
<b>Other comprehensive income assigned to non-controlling interests</b>	<b>-1,244</b>	<b>-40</b>	<b>1,005</b>	<b>0</b>	<b>-279</b>
Non-current assets	438,261	57,632	99,115		
Current assets	540,636	42,337	95,698		
Non-current liabilities	-281,524	-27,854	-55,171		
Current liabilities	-348,081	-23,564	-60,228		
Net assets	349,292	48,551	79,414		
<b>Carrying amount of non-controlling interests</b>	<b>169,027</b>	<b>6,338</b>	<b>5,286</b>	<b>0</b>	<b>180,651</b>
Cash flow from operating activities	165,590	2,583	21,925		
Cash flow from investing activity	-146,752	-4,435	-21,437		
Cash flow from financing activity	99,261	-4,274	1,318		
Cash change	118,099	-6,126	1,806		
<b>Dividends from non-controlling interests</b>	<b>10,542</b>	<b>8</b>	<b>640</b>	<b>0</b>	<b>11,190</b>

The effects of the transactions with non controlling interests and the change in the proportion of the equity attributable to the shareholders during the financial year are as follows:

EURk	12/31/2017	12/31/2016
Carrying amount acquired (-) or disposed of (+) for non-controlling interests	41	34,759
Purchase price received from (+) or paid (-) to non-controlling shareholders	-151	-58,995
<b>Difference recorded in equity</b>	<b>-110</b>	<b>-24,236</b>

In the prior year, KTM Industries AG increased its share in KTM AG from 51.28% to 51.67% and in 2017 by a further 0.01% to 51.68%. In 2016, the share in Pankl Racing Systems AG was increased from 55.85% to 94.53%. During the prior year, KTM Industries AG decreased its share in the WP Performance Group from 89.48% to 88.26% (directly and indirectly). Furthermore, Pankl Racing Systems AG increased its share in CP-CARRILLO, Inc. from 70.00% to 100.00% in the 2016 financial year.

Movements in **other earnings** after tax within consolidated equity were as follows:

EURk	Provision as per IAS 39	IAS 19 provision for actuarial losses	Foreign currency translation reserve	Total	Interests non-controlling shareholders	Total consolidated equity
<b>2017</b>						
Currency translation differences	0	0	-4,480	-4,480	-1,901	-6,381
Cash flow hedge	3,357	0	0	3,357	3,162	6,519
Revaluation of net debt from defined benefit plans	0	175	0	175	97	272
	<b>3,357</b>	<b>175</b>	<b>-4,480</b>	<b>-948</b>	<b>1,358</b>	<b>410</b>
<b>2016</b>						
Currency translation differences	0	0	-1,040	-1,040	1,460	420
Cash flow hedge	-1,602	0	0	-1,602	-1,515	-3,117
Revaluation of net debt from defined benefit plans	0	-567	0	-567	-224	-791
	<b>-1,602</b>	<b>-567</b>	<b>-1,040</b>	<b>-3,209</b>	<b>-279</b>	<b>-3,488</b>

### 33. FINANCIAL LIABILITIES

12/31/2017 EURk	Nominal	Carrying amount	Term < 1 year	Term > 1 year
KTM Industries AG bond	57,800	57,737	57,737	0
Promissory note loans	144,500	144,069	0	144,069
Registered bond	30,000	30,000	0	30,000
Liabilities owed to credit institutions	305,233	305,233	110,272	194,961
Leasing liabilities	3,094	3,094	1,013	2,081
Other interest-bearing liabilities	3,902	3,902	2,472	1,430
<b>Total financial liabilities</b>	<b>544,529</b>	<b>544,035</b>	<b>171,494</b>	<b>372,541</b>

12/31/2016 EURk	Nominal	Carrying amount	Term < 1 year	Term > 1 year
Bonds				
KTM AG	83,100	83,061	83,061	0
KTM Industries AG	57,800	57,654	0	57,654
Pankl Racing Systems AG	10,000	9,985	9,985	0
	150,900	150,700	93,046	57,654
Promissory note loans	176,500	175,887	0	175,887
Registered bond	30,000	30,000	0	30,000
Liabilities owed to credit institutions	285,711	285,711	93,834	191,877
Leasing liabilities	1,641	1,641	572	1,069
Other interest-bearing liabilities	4,236	4,236	3,248	988
<b>Total financial liabilities</b>	<b>648,988</b>	<b>648,175</b>	<b>190,700</b>	<b>457,475</b>

**Bonds:**

On April 24, 2012, KTM AG successfully placed a bond (ISIN: AT0000A0UJP7) with a term of five years, an issuing volume of EUR 85,000k and interest rate of 4.375%. During the 2016 financial year, bonds with a value of EUR 1,966k (nominal value: EUR 1,900k) were purchased and offset against the financial liability. The bond was repaid according to schedule in April 2017.

In August 2013, Pankl Racing Systems AG issued a bond (ISIN: AT0000A117Y4) with an issuing volume of EUR 10,000k and a term of four years (interest rate 3.25%). The bond was repaid according to schedule in August 2017.

In October 2012, KTM Industries AG issued a bond with a value of EUR 75,000k, a term of six years and an interest rate of 4.625% (ISIN: AT0000A0WQ66). The bond was reduced by EUR 17,200k in the 2016 financial year. The company optimized its capital structure and reduced its ongoing interest payments by repurchasing bonds.

**Promissory note loan:**

In June 2016, a promissory note loan with an issuing volume of EUR 120,000k and a term of five, seven or ten years was placed by KTM AG in order to refinance the bond repaid in April 2017.

In July 2015, KTM Industries AG issued a promissory note loan with a value of EUR 56.500k and a term of five and seven years. In January 2017, a part of the promissory note loan in the amount of EUR 32,000k, EUR 25.500k of which with a term of five years and EUR 6,500k of which with a term of seven years, was repaid early.

**34. LIABILITIES FOR EMPLOYEE BENEFITS**

The obligations relating to employee benefits consist of obligations relating to severance pay and anniversary bonuses.

EURk	12/31/2017	12/31/2016
Severance payments	20,268	19,826
Anniversary bonuses	3,733	3,710
	<b>24,001</b>	<b>23,536</b>

Defined benefit obligations in respect of severance pay and anniversary bonuses are measured according to the projected unit credit method prescribed by IAS 19 (Employee Benefits), based on actuarial reports. The projected unit credit method (also known as the years of service method) takes account of both the benefits vested as at the reporting date and future expected increases in salaries. This method is used to determine the present value of the defined benefit obligation (DBO), which is compared, where required, to the fair value of the plan assets as at the reporting date.

The KTM Industries Group is also obligated by law to issue severance pay upon termination by the employer or upon retirement to all employees in Austria whose employment relationship commenced before January 1, 2003. This defined benefit obligation depends on the number of years of service and on the employee's relevant remuneration at the time of departure. For all employees in Austria who joined after December 31, 2002, the company pays 1.53% of their remuneration each month into a staff severance pay fund that invests the contributions in an account maintained for the employee; at the end of the employment relationship, the amount thus accumulated is paid out or the claim thereto is passed on. The company's obligation extends only to the payment of the contributions, which are recognized as expenses in the financial year for which they were paid (defined contribution obligation). For employees of Austrian group companies whose employment commenced on or after January 1, 2003, contributions amounting to 1.53% of wages or salary were paid into a statutory staff severance pay fund. In the financial year under review, total contributions amounted to EUR 2,405k (prior year: EUR 2,062k).

Any differences (actuarial gains or losses) resulting at year-end between the budgeted severance payment obligations and the actual value of the conditional benefits are taken directly to other comprehensive income, net of any deferred taxation.

Movements in the net liability under defined benefit plans in respect of **severance pay** during the financial year were as follows:

EURk	12/31/2017	12/31/2016
<b>Conditional benefit:</b>		
Balance as of 1/1	19,826	17,827
Service cost	946	986
Interest expenses	287	341
Payments made	-447	-454
Actuarial gain/loss	-361	1,067
Miscellaneous	17	59
<b>Balance as of 12/31</b>	<b>20,268</b>	<b>19,826</b>

The weighted average durations of the obligations for severance pay at December 31, 2017 were 13 years (prior year: 14 years).

The actuarial gain/loss is made up of the following factors:

EURk	2017	2016
Change in expected values	377	383
Change in demographic assumptions	-78	21
Change in financial assumptions	-660	663
<b>Actuarial gain/loss</b>	<b>-361</b>	<b>1,067</b>

The measurement of the obligation is based on the following assumptions:

	12/31/2017	12/31/2016
Discount rate	2.00%	1.50%
Wage/salary trend	2.50%	2.25%
Retirement age (years) women/men with transitional arrangement	62-65 years	62-65 years

The discount rate was determined taking into account the very long average terms and the long average remaining lifespans. The discount rate is the market yield on high quality, fixed interest corporate bonds at the end of the reporting period.

Employee turnover is determined on a company-specific basis and takes account of age and length of service. The actuarial measurements are based on country specific tables of mortality rates. The chosen retirement age is the statutory retirement age in each country.

As of December 31, 2017, a change (+/- 0.5 percentage points) to the parameters "discount rate" and "wage/salary trend" would have had the following effects on the present value of the future payments:

2017 Parameter	Change	
	-0.50%	+0.50%
Discount rate	6.7%	-6.0%
Wage/salary trend	-6.0%	6.6%

As of December 31, 2016, a change (+/- 0.5 percentage points) to the parameters "discount rate" and "wage/salary trend" would have had the following effects on the present value of the future payments:

2016 Parameter	Change	
	-0.50%	+0.50%
Discount rate	7.2%	-6.6%
Wage/salary trend	-6.6%	7.1%

The companies of the KTM Industries Group are obligated under collective-bargaining agreements to pay their employees in Austria **anniversary bonuses** upon attaining a certain number of years of service (as from 25 years of service) (defined benefit obligation). Movements in obligations relating to claims to anniversary bonuses were as follows:

EURk	12/31/2017	12/31/2016
Balance as of 1/1	3,710	3,078
Service cost	364	307
Interest expenses	51	61
Payments made	-294	0
Actuarial gain/loss	-96	264
Miscellaneous	-2	0
<b>Balance as of 12/31</b>	<b>3,733</b>	<b>3,710</b>

### 35. OTHER CURRENT AND NON-CURRENT LIABILITIES

Other **non-current** liabilities essentially comprise the following:

EURk	12/31/2017	12/31/2016
Deposits	7,773	6,921
Other financial liabilities	3,210	3,652
Other non-current financial liabilities	10,983	10,573
Other non-current non-financial liabilities	496	569
<b>Other non-current liabilities</b>	<b>11,479</b>	<b>11,142</b>

Other **current** liabilities essentially comprise the following:

EURk	12/31/2017	12/31/2016
Sales bonuses	20,260	17,004
Price rebates	2,895	3,757
Liabilities from derivative financial instruments	2,431	7,665
Employee benefits	5,696	4,667
Other financial liabilities	16,575	20,917
Other current financial liabilities	47,857	54,010
Employee benefits	35,002	28,293
Prepayments	6,148	6,864
Tax liabilities	6,222	4,448
Other non-financial liabilities	3,762	1,204
Other current non-financial liabilities	51,134	40,809
<b>Other current liabilities</b>	<b>98,991</b>	<b>94,819</b>

### 36. PROVISIONS

The group makes provisions for guarantees and warranties in relation to known, expectable individual cases. The amounts of expected expenses are primarily based on previous experience and are recorded at the time the products are sold as an expense.

Provisions are made if a liability is owed to third parties, a claim is likely to be asserted, and a reliable estimate of the amount expected to become payable is possible.

Estimates of future expenses are inevitably subject to numerous uncertainties, which could lead to an adjustment of the provision made. It cannot be ruled out that the actual expenses for these measures exceed the provision made for those purposes in an unforeseeable way.

Movements in the provisions during the financial year were as follows:

EURk	Balance as of 1/1/2017	Currency translation	Additions	Dis- solutions	Utili- zation	Balance as of 12/31/2017
<b>Current Provisions:</b>						
Provisions for guarantee and warranty	10,134	-9	10,736	0	-9,688	11,173
Provisions for legal action	819	0	115	-10	-340	584
Other provisions	5,846	0	757	-4,819	-1,545	239
	<b>16,799</b>	<b>-9</b>	<b>11,608</b>	<b>-4,829</b>	<b>-11,573</b>	<b>11,996</b>

## VI. NOTES ON THE STATEMENT OF CASH FLOWS

The changes in the statement of financial position items presented in the statement of cash flows cannot be derived directly from the statement of financial position since non-cash effects are eliminated. Other non-cash expenses (income) mainly comprise changes in the measurement of foreign currency receivables and payables and movements in allowances on receivables and inventories. The effects associated with changes in the scope of consolidation have been eliminated and are accounted for as cash flow from investing activities.

The change in accounting for financial liabilities and the values shown in the statement of cash flows can be reconciled as follows:

EURk	Carrying amount January 1, 2017	Changes affecting cash flow	Changes not affecting cash flow				Carrying amount December 31, 2017
		Change	Acquisition	Reclassifica- tion	Transaction costs	Accrued interest	
Current financial liabilities	190,128	-83,456	0	64,693	179	-973	170,481
Non-current financial liabilities	456,406	-21,143	0	-64,693	15	-125	370,460
Leasing obligations (current)	572	-511	0	952	0	0	1,013
Leasing obligations (non-current)	1,069	-322	2,286	-952	0	0	2,081
<b>Total</b>	<b>648,175</b>	<b>-105,522</b>	<b>2,286</b>	<b>0</b>	<b>194</b>	<b>-1,098</b>	<b>544,035</b>

## VII. RISK REPORT

### 37. RISK MANAGEMENT

As a globally active group, the KTM Industries Group is confronted with a large number of potential risks. The Executive Board and Supervisory Board are periodically informed about risks that may have a major impact on the group's business developments. Management takes timely action to avoid, minimize and hedge risks.

An internal control system adapted to the company's needs and incorporating basic principles such as segregation of duties and dual control has been integrated into the financial reporting process. Internal and external audits ensure that the processes are continually improved and optimized. Furthermore, a uniform reporting system is in place throughout the group, for the ongoing management and control of the risk management process.

Continuous growth depends on a variety of factors, such as demand behavior, product development, changes in foreign exchange rates, the general economic setting in the individual markets, prices of goods purchased from others, or talent management. Increased market research activities and a model policy reflecting the resulting findings are means of responding to a market environment characterized by rapidly changing situations.

The earnings position of KTM Industries AG (as an individual company) is characterized by expenses associated with financing, the acquisition of equity holdings and expenses for projects, and is significantly dependent on the dividend policy of its affiliates. The equity holding in the KTM Group is currently its biggest and most essential interest.

In accordance with the requirements of sec. 234(b) of the Austrian Commercial Code, a corporate governance report has been drawn up. In this regard, please refer to the publication in the annual report of KTM Industries AG and/or to the KTM Industries AG website.

### 38. MARKET RISKS

#### Cyclical risk

The focus of activities of the KTM/WP Group is on the **motorcycle industry**. The sales opportunities for motorcycles are determined by the general economic trend prevailing in the countries and regions where motorcycle manufacturers do business. As these last years have shown, the motorcycle industry is generally a cyclical industry and is moreover subject to strong fluctuations regarding demand. This risk is counteracted by relevant market research and market forecasts, which are then taken into account in the planning process.

The Pankl Group is strongly subject to changes in rules in the respective racing series of the **motor racing market**. These ongoing changes in the rules result in increased development and testing activities for the individual racing teams. There is the risk that Pankl will not be able to respond to these challenges sufficiently, but there is also an opportunity for Pankl to further increase its market share and further strengthen its leading market position via innovations. The seasonal nature of the revenues in the individual racing classes can be influenced by the postponement of test days or season starts.

In the area of **aviation**, Pankl is subject to the fluctuations of the aviation industry. In the area of civil aviation, the growth in the helicopter sector is stagnating due to the fall in the price of oil, but opportunities could arise in the engine sector for fixed wing aircraft. Military budget reductions are having a negative impact on economic development in the military sector.

#### Competition and pricing pressure

The market for motorcycles in industrialized countries is characterized by intense competition; KTM's strongest competitors are four Japanese, three European and, to a lesser extent, one US manufacturer, some of which possess greater financial resources and have higher sales figures and market shares. The street motorcycle market is, in addition, characterized by high pricing pressure, and new competitors are trying to enter the market by relying on a low-price strategy. Thanks to KTM's successful market strategy, market leadership has been achieved in Europe.

AUDI SPORT's exit from the WEC and VW Motorsport's withdrawal from the WRC have seriously affected some suppliers. Pankl has the advantage of having a very wide customer base. The general trend of OEMs developing hypercars is also to be regarded extremely positively, as Pankl can score points with its motorsport experience in this niche. Development projects bringing racing technology to the street are in great demand in this area.

#### Sales risk

The largest individual sales markets of KTM are the European market and the US market. A slump in these markets could have a negative impact on the business activities of KTM. Entering new markets essentially involves a cost risk for KTM as, in some of these markets, the trend of sales as well as the general political conditions are difficult to assess. By collaborating with its strategic partner Bajaj Auto Ltd., India, KTM continues to work steadily towards the implementation of a global product strategy.

### 39. SECTOR-SPECIFIC RISKS

#### Restrictions relating to motorcycling

The revenue of the KTM Industries Group depends, inter alia, on the possible offroad uses of its motorcycles and is therefore considerably influenced by national legal framework conditions regulating offroad motorsport, motorcycle registration and driver's licenses in the countries where the vehicles are sold.

#### Changes in the procurement market

For the KTM Industries Group, the procurement market constitutes a risk in relation to quantity, quality and price. The KTM Industries Group reacts to these risks by continuous auditing of existing and potential suppliers by entering into long term supply contracts. The quality of the materials provided is continuously monitored.

In view of the current developments on the national and international markets, the procurement risk faced by the **KTM Group** mainly involves the timely introduction of suitable measures to ensure the supply of parts if suppliers become insolvent or supply bottlenecks materialize. KTM is therefore exposed to this risk only indirectly. To minimize risk and ensure the availability of materials, KTM places great emphasis on using predetermined criteria to carefully select new suppliers and on sustainably collaborating with existing suppliers and/or further developing such cooperations in stable supplier relationships with a long-term approach. As the quality of KTM's 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.

The **Pankl Group** needs high quality (raw) materials such as stainless steel and titanium and aluminum alloys for the production of individual components. The timely availability of raw materials is dependent on careful planning of future order volumes. A shortage of materials could lead to delays in production and deliveries or higher material expenses. As the company acquires a large proportion of its raw materials from abroad, it is subject to numerous risks, including economic or political disruptions, delays in transport or exchange rate fluctuations. Each of the above mentioned risks could have a negative impact on the company's business operations and EBIT.

The risk associated with the procurement markets is currently considered to be higher for the **WP Group**. Maintaining a supply of certain raw materials (aluminum alloys, special steels and plastic) is currently very difficult and may lead to bottlenecks. Future price trends for raw materials are difficult to predict, which may have an impact on the WP Group.

#### Research and development, racing

Competitive positioning is largely dependent on technical innovation and the introduction of new products. To this end, new trends must be identified promptly. To counteract the risk, our own products' innovative capacity must be ensured.

KTM therefore places a high value on the early recognition of motorcycle trends, on research and development regarding engineering and functionality, and on researching customer wishes so as to achieve innovative product development close to the market. Racing achievements are not only an important marketing instrument for the company but also form the basis for product development and set standards for series development. Valuable experience is gained whenever products can be tested under racing conditions at racing events. Before being introduced into series production, all



technical innovations are moreover subjected to comprehensive testing using the quality management system so as to eliminate any technical defects that could have a negative effect on earnings development as much as possible.

Pankl's research and development process always carries the risk that development goals are not achieved or results are not accepted by the market. The Pankl Group counters these risks by constantly monitoring the market and carrying out development activities in close cooperation with customers.

#### **Product liability risk**

In its business environment, the KTM Industries Group is also exposed to claims for damages arising as a result of accidents and injuries. This applies especially to the US, where claims asserted in product liability cases involve higher amounts of liability. Appropriate insurance has been taken out to hedge these risks.

#### **40. IT RISKS**

Within the KTM Industries Group, an IT security and risk management system is operated with the aim of making it possible to recognize and manage company-relevant risks in the area of information security. In addition, evidence of compliance and the exercising of due diligence when handling and using information and equipment for the processing of information is provided and documented in respect of customers, the Executive Board and the general managers of each participating company.

The ever-increasing threat of IT and cyber risks is countered through the ongoing development of IT security measures and the use of state-of-the-art IT security technologies. Cyber attacks are averted using a multi-level technical concept, which makes use of state-of-the-art security features, such as an intrusion prevention system and additional upstream or internal technical security systems. In addition, behavior-based security solutions are used with a view to identifying security-related abuse. Incidents are identified and handled by a malware incident response process. In parallel, regular internal and external vulnerability analyses are performed and any vulnerabilities identified are countered by means of an established patch and update management process. Regular internal and external security audits are documented, evaluated and prioritized by means of risk management measures and a solution is then applied.

Care is taken to ensure that all users of the IT systems possess the requisite knowledge and awareness for the use of IT within the scope of their role through the provision of regular general IT security awareness training. This training is provided in a preventative and traceable manner.

We apply the same high quality standards in the area of data security and data protection as we do for our products.

#### **41. FINANCIAL RISKS**

The KTM Industries Group is subject to credit, market, currency and liquidity risks regarding its assets, liabilities and planned transactions. Financial risk management is aimed at controlling and limiting those risks.

The principles of financial risk management are laid down and monitored by the Supervisory Board and the Executive Board. Group treasury and the decentralized treasury units are in charge of implementation. To protect itself against the financial risks described below, the KTM Industries Group uses derivative financial instruments in order to safely hedge cash flows from operating activities against fluctuations in exchange rates and/or interest rates. The timescale for hedging generally covers currently open items and any transactions planned for the next twelve months. In exceptional cases, strategic hedge positions involving longer time periods may be entered into in consultation with the Supervisory Board.

#### **Currency risks**

As an enterprise doing business on a global scale, the KTM Industries Group is influenced by general global economic data such as changes in currency rates or developments in the financial markets. As the US dollar represents the highest individual foreign currency risk faced by KTM, movements in the US dollar exchange rate are of particular importance to the development of the company's revenue and income. KTM earned approximately 23% of its revenues in US dollars during the 2017 financial year (prior year: 24%). Such currency shifts can, for the most part, be offset over at least one model year by taking currency hedging measures and employing hedging strategies in particular; for the 2017 financial year, the US dollar business was hedged by means of positions involving EUR/USD rates ranging from 1.0732 to 1.1511.

The group is exposed to further currency risks where financial assets and liabilities are settled in a currency other than the local currency of the relevant company. The companies of the group predominantly perform their invoicing in local currency and largely take out financing in local currency. Financial investments are primarily made in the local currency of the investing group company. For these reasons, most resulting currency positions will be closed out naturally. Exchange rate related differences due to the translation of financial statements into the group currency were disregarded.

Sensitivity analyses have been performed on currency risks in relation to financial instruments in order to show the effects that hypothetical changes in the exchange rates have on profit or loss (after taxes) and equity. The relevant balances as of the reporting date and foreign currency purchases and sales budgeted for 2018 were used as a basis. It was assumed that the risk faced on the reporting date essentially represents the risk present during the financial year. The group tax rate of 25 % was used as the tax rate. Furthermore it was assumed in the analysis that all other variables, in particular the interest rates, remained constant. Currency risks relating to financial instruments of a monetary nature that are denominated in a currency other than the functional currency were included in the analysis.

In the scope of the sensitivity analysis, effects of changes in the exchange rate of  $\pm 10\%$  are shown as profit or loss, other income, and equity.

The KTM Industries Group bases the analysis on the following assumptions:

- For the sensitivity of profit and loss, the group's bank balances, receivables and payables are considered, as are future receipts and payments in foreign currency that are not accounted for in the functional currency of the group company. Account is also taken of open derivatives on cash flow hedges where the underlying transaction has already been realized on the reporting date (recognized as income).
- For the sensitivity of other income, account is taken of open derivatives on cash flow hedges where the hedged item has not yet been realized as of the reporting date (not recognized in profit or loss). The exposure corresponds to the notional amount of the open derivatives.

Increase (+) / decrease (-) EURk	10% increase		10% devaluation	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Change in net result	6,780	6,383	-8,365	-7,953
Change in currency-related cash flow hedge provision	-10,552	-11,704	12,897	14,305
<b>Change in equity</b>	<b>-3,772</b>	<b>-5,321</b>	<b>4,532</b>	<b>6,352</b>

#### Interest rate risks

Financial instruments on both the assets side and the liabilities side mainly carry interest at variable rates. Thus the risk consists in rising interest expenses or falling interest income resulting from an adverse change in market interest rates.

The KTM Industries Group has refinanced part of its debt at variable rates and is thus exposed to the risk of interest rate fluctuations on the market. Regular monitoring of the money and capital markets and, in some cases, the use of interest rate swaps (fixed interest rate payer swaps) serve to respond to this risk. Under the interest rate swaps entered into, the entity receives variable interest payments and, in return, pays fixed interest on the notional amounts of the contracts entered into.

Interest rate risks thus result mainly from primary financial instruments carrying interest at variable rates (cash flow risk). Sensitivity analyses were performed on the interest rate risks of these financial instruments in order to show the effects that hypothetical changes in the market interest rate level have on profit or loss (after tax) and equity. The relevant balances as of the reporting date were used as a basis. It was assumed that the risk faced on the reporting date essentially represents the risk present during the financial year. The group tax rate of 25 % was used as the tax rate. Furthermore it was assumed in the analysis that all other variables, in particular the exchange rates, remained constant.

A change of 50 basis points would have the following effects:

Increase (+) / decrease (-) EURk	Increase by 50 BP		Decrease by 50 BP	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Change in net result	2	109	1	36
Change in interest-related cash flow hedge provision	274	261	-277	-266
<b>Change in equity</b>	<b>276</b>	<b>370</b>	<b>-276</b>	<b>-230</b>

#### Default risks (credit risks)

The default risk is the risk of one party to a financial instrument causing the other party to incur financial loss by not being able to meet a payment obligation. The risk of default on receivables from customers can be rated as low, as ongoing checks of the creditworthiness of new and existing customers are performed and collateral is requested. This takes place by means of credit insurance and bankable security (guarantees, letters of credit). The default risks and related controls are defined in internal guidelines.

Moreover, derivative financial instruments expose the group to a credit risk that arises if the counterparties fail to fulfill their contractual agreements. The counterparties are international financial institutions. The default risk on derivative financial instruments with positive market value is limited to their replacement cost; as all the counterparties are banks of good creditworthiness, the default risk can be classified as low.

On the assets side, the amounts reported also represent the maximum default risk. In addition, there are no general set-off agreements, with the exception of the set-off agreement described under Note 45 to the consolidated financial statements.

The carrying amounts of the receivables comprise the following:

EURk	Carrying amount 12/31/2017	Including: Neither impaired nor past due on closing date	Including: Not impaired as of the closing date and past due within the following time bands				Impaired
			Less than 30 days	Between 30 and 60 days	Between 60 and 90 days	More than 90 days	
Trade receivables	120,305	93,430	14,558	3,778	1,624	4,110	2,805
Receivables from related company shareholders	18,727	18,727	0	0	0	0	0
Other financial assets (current and non-current)	23,338	22,902	262	43	41	90	0
Financial assets - lendings	1,606	1,606	0	0	0	0	0
<b>Total</b>	<b>163,976</b>	<b>136,665</b>	<b>14,820</b>	<b>3,821</b>	<b>1,665</b>	<b>4,200</b>	<b>2,805</b>

EURk	Carrying amount 12/31/2016	Including: Neither impaired nor past due on closing date	Including: Not impaired as of the closing date and past due within the following time bands				Impaired
			Less than 30 days	Between 30 and 60 days	Between 60 and 90 days	More than 90 days	
Trade receivables	121,873	98,814	15,516	2,564	1,079	2,455	1,445
Receivables from related company shareholders	1,198	504	256	54	183	201	0
Other financial assets (current and non-current)	50,887	50,031	483	81	96	196	0
Financial assets - lendings	1,970	1,970	0	0	0	0	0
<b>Total</b>	<b>175,928</b>	<b>151,319</b>	<b>16,255</b>	<b>2,699</b>	<b>1,358</b>	<b>2,852</b>	<b>1,445</b>

As regards the current portfolio of trade and other receivables that are neither impaired nor past due, there are no indications as of the end of the reporting period that the obligors will not meet their payment obligations.

### Liquidity risks

It is a material objective of financial risk management in the KTM Industries Group to ensure solvency and financial flexibility at all times. Factors contributing to liquidity risks include, in particular, proceeds from revenues being below the planning assumptions due to weaker demand. For this purpose, the group maintains a liquidity reserve in the form of unused credit lines (cash credits and guarantee credits) and, if needed, in the form of cash in banks with good creditworthiness. Top priority is given to ensuring liquidity over the short and medium term. Another major control parameter is the maximization of free cash flow by cost-cutting measures, proactive working capital management and reduced investment expenditure. From today's perspective, sufficient commitments have been given concerning the creditworthiness of our strategic financing partners and therefore the security of current liquidity reserves. Non current liquidity requirements are met by the issuance of shares and bonds and by taking out loans or capital increases.

The contractually agreed (undiscounted) cash flows (payments of interest and principal) and the remaining terms to maturity of the financial liabilities comprise the following:

EURk	Carrying amount 12/31/2017	Cash flow 2018			Cash flow 2019 to 2022			Cash flow from 2023		
		Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment
<b>At amortized cost</b>										
Interest-bearing liabilities	483,204	6,202	1,068	112,744	18,315	2,721	204,650	7,610	1,027	166,241
Bonds	57,737	2,036	0	57,800	0	0	0	0	0	0
Liabilities under finance leases	3,094	0	27	1,013	0	28	2,081	0	0	0
Trade payables	178,464	0	0	178,464	0	0	0	0	0	0
Other financial liabilities (current and non-current)	56,407	0	0	53,668	0	0	3,210	0	0	0
<b>Total</b>	<b>778,906</b>	<b>8,238</b>	<b>1,095</b>	<b>403,689</b>	<b>18,315</b>	<b>2,749</b>	<b>209,941</b>	<b>7,610</b>	<b>1,027</b>	<b>166,241</b>
<b>Held for trading</b>										
Other financial liabilities - derivatives with negative market value	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fair value - hedging instruments</b>										
Other financial liabilities - derivatives with negative market value (cash flow hedge)	2,432	207	0	2,432	414	0	0	0	0	0
<b>Total</b>	<b>2,432</b>	<b>207</b>	<b>0</b>	<b>2,432</b>	<b>414</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>781,338</b>	<b>8,445</b>	<b>1,095</b>	<b>406,121</b>	<b>18,729</b>	<b>2,749</b>	<b>209,941</b>	<b>7,610</b>	<b>1,027</b>	<b>166,241</b>

EURk	Carrying amount 12/31/2016	Cash flow 2017			Cash flow 2018 to 2021			Cash flow from 2022		
		Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment
<b>At amortized cost</b>										
Interest-bearing liabilities	495,834	6,237	1,204	97,082	17,529	3,157	212,188	10,289	1,364	155,177
Bonds	150,700	4,176	0	93,100	2,036	0	57,800	0	0	0
Liabilities under finance leases	1,641	0	15	572	0	22	1,069	0	0	0
Trade payables	130,864	0	0	130,864	0	0	0	0	0	0
Other financial liabilities (current and non-current)	56,918	0	0	53,266	0	0	3,652	0	0	0
<b>Total</b>	<b>835,957</b>	<b>10,413</b>	<b>1,219</b>	<b>374,884</b>	<b>19,565</b>	<b>3,179</b>	<b>274,709</b>	<b>10,289</b>	<b>1,364</b>	<b>155,177</b>
<b>Held for trading</b>										
Other financial liabilities - derivatives with negative market value	147	0	0	147	0	0	0	0	0	0
<b>Total</b>	<b>147</b>	<b>0</b>	<b>0</b>	<b>147</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fair value - hedging instruments</b>										
Other financial liabilities - derivatives with negative market value (cash flow hedge)	7,518	273	0	6,716	818	0	255	0	0	0
<b>Total</b>	<b>7,518</b>	<b>273</b>	<b>0</b>	<b>6,716</b>	<b>818</b>	<b>0</b>	<b>255</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>843,622</b>	<b>10,686</b>	<b>1,219</b>	<b>381,747</b>	<b>20,383</b>	<b>3,179</b>	<b>274,964</b>	<b>10,289</b>	<b>1,364</b>	<b>155,177</b>

The table includes all financial instruments that were held at the reporting date and for which payments had already been contractually agreed. Budget figures for future new financial liabilities are not included. Ongoing working capital loans were assumed to have an average term to maturity of 12 months; however, these loans are regularly renewed and, from an economic point of view, are available for a longer period of time. Foreign exchange balances were converted using the closing rate. Variable interest payments from the financial instruments were determined on the basis of the last interest rate that was set before the reporting date. Financial liabilities repayable at any time are always assigned to the earliest maturity band.

## 42. OTHER RISKS

### Risks due to the legal framework

As the KTM Industries Group markets its products in a large number of countries, it is exposed to the risk of changes in national regulations, terms of licenses, taxes, trade restrictions, prices, income and exchange restrictions as well as to the risk of political, social and economic instability, inflation and interest rate fluctuations. To counteract the risk, the regulations in each country are analyzed in detail prior to market entry and subsequently monitored on an ongoing basis so that any changes can be responded to in a timely manner.

### Business and environmental risk

Although risk cannot be fully excluded as regards forces of nature, the companies of the KTM Industries Group try to minimize the risk of production processes being affected, by providing appropriate contingency plans and insurance.

### Personnel-related risks

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 risk of managerial staff leaving the company.

The risk of a shortage of skilled staff is 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.

## VIII. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

### 43. BASIC PRINCIPLES

The KTM Industries Group holds primary and derivative financial instruments. **Primary financial instruments** mainly include financial assets, trade receivables, credit balances with credit institutions, liabilities owed to banks, trade payables, financial liabilities and bonds. The portfolio of primary financial instruments is shown in the consolidated statement of financial position and described in the notes to the Consolidated Financial Statements. **Derivative financial instruments** are generally used to hedge existing risks relating to interest rate changes and foreign currency. The use of derivative financial instruments is subject to appropriate authorization and control procedures in the group. Linkage to a hedged item is mandatory; trading transactions are not permitted.

Purchases and sales of all financial instruments are recognized as at the settlement date. As a matter of principle, financial instruments are measured at cost of acquisition upon initial recognition. The financial instruments are derecognized if the rights to payments from the investment have expired or have been transferred and the group has essentially transferred all the risks and opportunities associated with their ownership.

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 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 is determined on the basis of measurement techniques for which at least one material input is not based on observable market data (Level 3). Reclassifications from one level to another are taken into account at the end of the reporting period. There were no transfers between levels during the financial year. The table below shows the measurement techniques used to determine fair value as well as the significant unobservable input factors used.

Financial instruments measured at fair value			
Type	Measurement technique	Significant unobservable input factors	Connection between significant unobservable input factors and measurement at fair value
Forward currency transactions and interest rate swaps	Market comparison method: The fair values are based on price quotations made by banks. Similar contracts are traded on an active market and the price quotations reflect the actual transaction costs for similar instruments.	Not applicable	Not applicable
Securities	Securities are measured at the current stock exchange price on the reporting date.	Not applicable	Not applicable
Financial instruments not measured at fair value			
Type	Measurement technique	Significant unobservable input factors	
Bonds	Exchange listed bonds are measured at the closing price on the reporting date and/or discounted cash flows.	Not applicable	
Financial liabilities	Discounted cash flows	Risk premium for own credit risk	

#### 44. CLASSIFICATION AND FAIR VALUE

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 IAS 39 measurement category. However, it does not provide information on the fair value or measurement level of financial assets not measured at fair value, where the carrying amount is a reasonable approximation of fair value or where the asset is an equity instrument measured at acquisition cost.

EURk	Carrying amount 12/31/2017	Fair Value 12/31/2017	Fair value			Total
			Level 1	Level 2	Level 3	
<b>Loans and receivables</b>						
Cash and cash equivalents	169,068					
Trade receivables	120,305					
Receivables from related company shareholders	18,727					
Other financial assets (current and non-current)	23,338					
Financial assets - lendings	1,606					
<b>Total</b>	<b>333,044</b>					
<b>Available for sale</b>						
Other non-current financial assets	166					
<b>Total</b>	<b>166</b>					
<b>Held for trading</b>						
Other current assets - securities	0					
<b>Total</b>	<b>0</b>					
<b>Fair value - hedging instruments</b>						
Other current assets - derivatives with positive market value	11,625	11,625	0	11,625	0	11,625
<b>Total</b>	<b>11,625</b>					
<b>Total</b>	<b>344,835</b>					
<b>2016</b>						
EURk	Carrying amount 12/31/2016	Fair Value 12/31/2016	Fair value			Total
			Level 1	Level 2	Level 3	
<b>Loans and receivables</b>						
Cash and cash equivalents	283,578					
Trade receivables	121,873					
Receivables from related company shareholders	1,198					
Other financial assets (current and non-current)	50,887					
Financial assets - lendings	1,970					
<b>Total</b>	<b>459,506</b>					
<b>Available for sale</b>						
Other non-current financial assets	3,756					
<b>Total</b>	<b>3,756</b>					
<b>Held for trading</b>						
Other current assets - securities	2,047	2,047	2,047	0	0	2,047
<b>Total</b>	<b>2,047</b>					
<b>Fair value - hedging instruments</b>						
Other current assets - derivatives with positive market value	3,169	3,169	0	3,169	0	3,169
<b>Total</b>	<b>3,169</b>					
<b>Total</b>	<b>468,478</b>					

Receivables sold in connection with the ABS program currently in place at KTM are fully derecognized in accordance with the rules under IAS 39. Under the ABS program, trade receivables insured on a revolving monthly basis are sold up to a maximum volume of EUR 120,000k (prior year: EUR 75,000k). As at the reporting date, trade receivables of EUR 107,310k (prior year: EUR 54,071k) had been sold to third parties. Up to a contractually defined amount, KTM continues to bear a risk from credit risk related defaults. As at December 31, 2017, the maximum ensuing risk of loss was EUR 1,195k (prior year: EUR 391k). The expected loss is recorded as a liability and expensed at the time of sale. As at December 31, 2017, the carrying amount of the ongoing commitment was EUR 1,195k (prior year: EUR 391k) and is disclosed under other current liabilities. The carrying amount represents the fair value of the ongoing commitment. Expenses of EUR 804k (prior year: EUR 6k) were recognized in the income statement during the period under review; the cumulative total since the commencement of the transaction is EUR 1,195k (prior year: EUR 391k). During the 2017 financial year, the ABS program was increased by EUR 45,000k. An amount of EUR 653k was recorded in the income statement in this regard.

In addition, there is a factoring arrangement within the KTM Industries Group for a maximum volume of EUR 2,500k (prior year: EUR 2,500k). On the reporting date, the receivables sold in connection with these contracts amounted to EUR 1,934k (prior year: EUR 1,247k) and are fully derecognized in accordance with the rules under IAS 39 on the basis of the transfer of the power of disposal.

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 IAS 39 measurement category. However, it does not provide information in relation to financial liabilities not measured at fair value where the carrying amount is a reasonable approximation of fair value.

EURk	Carrying amount 12/31/2017	Fair Value 12/31/2017	Fair value			Total
			Level 1	Level 2	Level 3	
<b>At amortized cost</b>						
Interest-bearing liabilities	483,204	502,182	0	0	502,182	502,182
Bonds	57,737	59,471	59,471	0	0	59,471
Liabilities under finance leases	3,094					
Trade payables	178,464					
Other financial liabilities (current and non-current)	56,407					
<b>Total</b>	<b>778,906</b>					
<b>Held for trading</b>						
Other financial liabilities - derivatives with negative market value	0					
<b>Total</b>	<b>0</b>					
<b>Fair value - hedging instruments</b>						
Other financial liabilities - derivatives with negative market value (cash flow hedge)	2,432	2,432	0	2,432	0	2,432
<b>Total</b>	<b>2,432</b>					
<b>Total</b>	<b>781,338</b>					



EURk	Carrying amount 12/31/2016	Fair Value 12/31/2016	Fair value			Total
			Level 1	Level 2	Level 3	
<b>At amortized cost</b>						
Interest-bearing liabilities	495,834	513,474	0	0	513,474	513,474
Bonds	150,700	156,835	146,512	0	10,323	156,835
Liabilities under finance leases	1,641					
Trade payables	130,864					
Other financial liabilities (current and non-current)	56,918					
<b>Total</b>	<b>835,957</b>					
<b>Held for trading</b>						
Other financial liabilities - derivatives with negative market value	147	147	0	147	0	147
<b>Total</b>	<b>147</b>					
<b>Fair value - hedging instruments</b>						
Other financial liabilities - derivatives with negative market value (cash flow hedge)	7,518	7,518	0	7,518	0	7,518
<b>Total</b>	<b>7,518</b>					
<b>Total</b>	<b>843,622</b>					

The net result from the financial instruments by class and IAS 39 measurement category includes net gains/losses, total interest income/expenses and impairment losses and is made up as follows:

EURk	From interest	From subsequent measurement to fair value	From allowance	From disposal income	Net income (total)
<b>2017</b>					
Loans and receivables	2,207	0	851	-82	2,976
Held for sale	244	0	-738	23	-471
Fair value - Hedging instruments and held-for-trading	0	-130	0	774	644
At amortized cost	-14,070	0	0	-288	-14,358
<b>Total</b>	<b>-11,619</b>	<b>-130</b>	<b>113</b>	<b>427</b>	<b>-11,209</b>
<b>2016</b>					
Loans and receivables	2,743	0	-2,322	-172	249
Held for sale	68	-43	-718	0	-693
Fair value - Hedging instruments and held-for-trading	-143	531	0	0	388
At amortized cost	-18,041	0	0	0	-18,041
<b>Total</b>	<b>-15,373</b>	<b>488</b>	<b>-3,040</b>	<b>-172</b>	<b>-18,097</b>

The change in the value adjustment to loans and receivables is shown under the other operating expenses. The part with no impact on the income statement of subsequent fair value measurement of the financial assets available for sale is recognized in the fair value reserve for AfS securities. The remaining components of the net result are included in financial income and expenses.

#### 45. SET-OFF OF FINANCIAL ASSETS AND LIABILITIES

The group enters into set-off agreements with banks in connection with derivatives. Generally, the amounts owed under such agreements by each counterparty on a given day for all outstanding transactions in the same currency are aggregated into a single net amount payable by one party to the other. In certain cases – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, their value as of termination is determined and only a single net amount is payable for settling all transactions. These items are not set off in the statement of financial position, since the net set-off of multiple transactions under the same framework agreements does not generally occur.

The tables below show financial assets and liabilities that have actually been offset along with amounts that are subject to a set-off agreement but which have not been offset as they do not fulfill the criteria for set-off prescribed under IFRS.

EURk	Financial assets (gross)	Offset balance items (gross)	Accounted financial assets (net)	Effect of general offsetting agreements	Net amounts
<b>Financial assets 2017</b>					
Other financial assets					
Derivatives with positive market value					
Forward currency transactions	11,625	0	11,625	-230	11,395
<b>Total</b>	<b>11,625</b>	<b>0</b>	<b>11,625</b>	<b>-230</b>	<b>11,395</b>
<b>Financial liabilities 2017</b>					
Other financial liabilities					
Derivatives with negative market value					
Forward currency transactions	1,839	0	1,839	-230	1,609
Interest rate swaps	593	0	593	0	593
<b>Total</b>	<b>2,432</b>	<b>0</b>	<b>2,432</b>	<b>-230</b>	<b>2,202</b>
<b>Financial assets 2016</b>					
Other financial assets					
Derivatives with positive market value					
Forward currency transactions	3,169	0	3,169	-2,043	1,126
<b>Total</b>	<b>3,169</b>	<b>0</b>	<b>3,169</b>	<b>-2,043</b>	<b>1,126</b>
<b>Financial liabilities 2016</b>					
Other financial liabilities					
Derivatives with negative market value					
Forward currency transactions	6,503	0	6,503	-2,043	4,460
Interest rate swaps	1,162	0	1,162	0	1,162
<b>Total</b>	<b>7,665</b>	<b>0</b>	<b>7,665</b>	<b>-2,043</b>	<b>5,622</b>

#### 46. HEDGING

The group enters into derivative financial instruments (forward currency transactions and interest rate swaps) essentially to hedge foreign currency and interest rate risk. The aim thereof is to offset fluctuations in cash flows from future transactions. The KTM Industries Group enters into forward currency transactions essentially to hedge intended future revenue and cost of materials denominated in foreign currency against the risk of exchange rate fluctuations. Expected revenues in foreign currencies serve as the basis for planning future cash flows.

In accordance with IAS 39, derivatives are generally measured at market value. The KTM Industries Group applies the rules for cash flow hedge accounting defined by IAS 39 to these derivative financial instruments. Fair value hedge accounting is not applied within the KTM Industries Group. A **cash flow hedge** is present if variable cash flows from recognized assets and/or liabilities or forecast business transactions that are subject to a market price risk are being hedged. The application of hedge accounting requires certain conditions to be met. The hedging relationships must be documented and the effectiveness of the hedge, as determined by regular periodic measurements, must lie between 80 % and 125 %. Effectiveness tests are conducted in order to demonstrate that unrealized losses and unrealized gains are effectively offset.

If the requirements for a cash flow hedge are met, the effective portion of the change in the market value of hedging instruments must be recognized directly in consolidated equity. However, it is not recognized in profit or loss until the hedged transaction occurs. Any changes in earnings that are caused by the ineffectiveness of derivative financial instruments are recognized in profit or loss in the consolidated income statement. In cash flow hedge accounting, both variable future cash flows arising from non-current liabilities with maturity dates up to 2020 and future operating foreign currency cash flows (receipts as well as payments) planned for the next 12 months are hedged.

To measure the effectiveness of a currency hedge, the hedged items and the hedging transactions are grouped together in so-called maturity bands according to the risk being hedged. The maturity bands should not cover more than one quarter-year. The hedging relationship is tested prospectively by comparing the material conditions (maturity, etc.) of the hedged item and the hedging transaction. Hedge effectiveness is measured retrospectively using the dollar offset approach. This involves comparing and assessing the changes in the fair value of the hedged item and the changes in the fair value of the hedging transaction.

In the case of interest rate hedges, prospective effectiveness is measured using a sensitivity analysis and retrospective effectiveness is measured using the dollar offset approach.

Hedging transactions that do not meet the criteria for hedging instruments within the meaning of IAS 39 are deemed to be **trading transactions** and are assigned to the category "at fair value through profit or loss" (held for trading). Changes in their market value are recognized in their full amount in profit or loss in the current period and shown in the financial result.

Derivatives are measured at fair value. The fair value is the market value and is determined using accepted methods of financial mathematics. This determination is based on the market data (interest rate, exchange rate, etc.) prevailing on the reporting date. The forward rate applicable on the balance sheet date is used for measuring foreign currency transactions. In the case of existing positive market values, the creditworthiness of the counterparty is included in the measurement by means of a so-called credit value adjustment (CVA). In the case of negative market values, a debit value adjustment (DVA) is deducted in order to account for the own risk of default. Special models are used to estimate the measurement. They are checked for plausibility by means of bank valuations.

The following derivative financial instruments used as **hedging instruments** are employed as of December 31st 2017:

12/31/2017	Currency	Notional amount in 1000 Local currency	Market values in EURk	Exposures in EURk	Term Up to 1 year	Term 1- 5 years
<b>Forward currency transactions</b>	USD	151,000	8,790	150,762	116,000	35,000
	JPY	3,796,470	-1,600	40,260	3,796,470	0
	CAD	41,100	577	50,252	41,100	0
	GBP	36,650	707	70,694	36,650	0
	CHF	15,550	960	23,343	15,550	0
	SEK	107,800	282	26,941	107,800	0
	DKK	0	0	3,600	0	0
	PLN	28,900	-117	11,335	28,900	0
	NOK	56,200	267	9,973	56,200	0
	CZK	160,700	-90	10,478	160,700	0
	ZAR	65,000	20	21,299	65,000	0
CNY	40,770	-8	5,000	40,770	0	
<b>Interest rate swaps</b>		27,357	-593	0	861	26,496

12/31/2016	Currency	Notional amount in 1000 Local currency	Market values in EURk	Exposures in EURk	Term Up to 1 year	Term 1- 5 years
<b>Forward currency transactions</b>	USD	135,800	-4,625	183,020	118,800	17,000
	JPY	2,591,755	-551	41,064	2,591,755	0
	CAD	50,700	-634	56,570	49,700	1,000
	GBP	40,250	2,637	69,359	39,250	1,000
	CHF	18,900	-198	23,848	18,900	0
	SEK	111,600	72	19,941	111,600	0
	DKK	10,250	0	2,694	10,250	0
	PLN	19,250	61	10,428	19,250	0
	NOK	48,200	-72	8,160	48,200	0
	CZK	83,450	9	9,123	83,450	0
	ZAR	50,000	-60	19,585	50,000	0
CNY	0	0	0	0	0	
<b>Interest rate swaps</b>		35,718	-989	0	854	34,864

The following derivative financial instruments have not been hedged:

12/31/2017	Notional amount in 1000 Local currency	Market values in EURk	Term Up to 1 year	Term 1- 5 years
<b>Interest rate swaps</b>	0	0	0	0

12/31/2016	Notional amount in 1000 Local currency	Market values in EURk	Term Up to 1 year	Term 1- 5 years
<b>Interest rate swaps</b>	20,000	-147	20,000	0

#### 47. CAPITAL MANAGEMENT

The aim of the Group is to preserve a strong capital structure in order to maintain investor, creditor and market confidence and to ensure the company's sustainable development. The Executive Board regularly monitors the return on capital as well as the amounts of the dividends, which will be distributed to the holders of ordinary shares.

The strategy of KTM Industries Group aims to ensure that KTM Industries AG and the other group companies have an equity base that meets the local requirements. The principal key figures used for capital management control are equity ratio, net financial debt, gearing and the dynamic debt level. Some loan agreements include financial covenants regarding the equity ratio and dynamic debt level, non compliance with which would lead to a premature repayment of the financial liabilities. All financial covenants were fulfilled in the reporting year.

The **equity ratio** is represented as follows:

EURk	12/31/2017	12/31/2016
Equity	528,579	454,937
Balance sheet total	1,465,153	1,423,759
<b>Equity ratio</b>	<b>36.1%</b>	<b>32.0%</b>

The **net financial debt** is defined on the basis of the current and non-current financial liabilities (bonds, loans, liabilities from finance leasing and other interest-bearing liabilities) minus cash and cash equivalents. The aim here is to ensure long term liquidity, the efficient use of external financing and minimizing financial risk while simultaneously optimizing returns.

EURk	12/31/2017	12/31/2016
Non-current financial liabilities	372,541	457,475
Current financial liabilities	171,494	190,700
	544,035	648,175
Cash and cash equivalents	-169,068	-283,578
<b>Net financial debt</b>	<b>374,967</b>	<b>364,597</b>

The key figures of "**gearing**" (ratio of net debt to equity) and the "**dynamic debt level**" (ratio of net financial debt to EBITDA) for monitoring the capital are represented as follows:

EURk	12/31/2017	12/31/2016
Equity	528,579	454,937
Net financial debt	374,967	364,597
<b>Gearing</b>	<b>70.9%</b>	<b>80.1%</b>

EURk	12/31/2017	12/31/2016
Net financial debt	374,967	364,597
EBITDA	218,937	198,437
<b>Dynamic debt level</b>	<b>1.7</b>	<b>1.8</b>

## IX. LEASES

### 48. FINANCE LEASES

The finance leases in the KTM Industries Group concern machines with a running time of 3-7 years. In the 2017 financial year, interest payments of EUR 28k (prior year: EUR 15k) were made. The carrying amount is as follows:

MACHINERY EURk	2017	2016
Value on acquisition	7,029	4,743
Accumulated depreciation and amortization	-3,750	-2,936
<b>Carrying amount</b>	<b>3,279</b>	<b>1,807</b>

The cash value of the minimum lease payments is as follows:

EURk	Leasing payments	Interest payments	Present value
<b>2017</b>			
Up to 1 year	1,040	27	1,013
Longer than 1 year and up to 5 years	2,109	28	2,081
Over five years	0	0	0
<b>TOTAL</b>	<b>3,149</b>	<b>55</b>	<b>3,094</b>
<b>2016</b>			
Up to 1 year	590	17	573
Longer than 1 year and up to 5 years	1,091	23	1,068
Over five years	0	0	0
<b>TOTAL</b>	<b>1,681</b>	<b>40</b>	<b>1,641</b>

Payment obligations under finance leases are disclosed in the consolidated statement of financial position under financial liabilities, see note 33.

### 49. OPERATING LEASES

As well as finance leases, there are rental and leasing relationships in the KTM Industries Group whose economic content means they must be classified as operating leases. The definition of operating lease expenses is standardized group-wide. This item includes long-term rents for land and buildings. The leasing agreements include leasing installments, which are mostly based on variable interest.

Payments from lease payments (rental and lease expenses) from operating leases recorded as expenses amounted to EUR 14,079k in 2017 (previous year: EUR 13,906k).

The use of rental and lease assets not reported under property, plant and equipment (mostly rent for properties, operating and administration buildings and storage areas, leasing of CNC machinery, vehicles and computer equipment) entails obligations to third parties totaling EUR 77,167k (prior year: EUR 67,964k) that are payable as follows:

EURk	12/31/2017	12/31/2016
Up to 1 year	18,120	15,013
Longer than 1 year and up to 5 years	48,727	42,633
Over five years	10,320	10,318
	<b>77,167</b>	<b>67,964</b>

The reported expenses neither include payments from subleases recognized as expenses, nor significant contingent rental payments.

## X. EXPLANATIONS REGARDING RELATED PARTIES AND THE CORPORATE BODIES

### 50. RELATED PARTY TRANSACTIONS

According to the provisions of IAS 24, details are to be provided of related party transactions. On the reporting date of December 31, 2017, 63.61% of the shares in KTM Industries AG were held by Pierer Konzerngesellschaft mbH. A further 5.42% were held by Pierer Beteiligungs GmbH, which is wholly owned by Pierer Konzerngesellschaft mbH. The sole shareholder of Pierer Konzerngesellschaft mbH is Dipl.-Ing. Stefan Pierer.

Stefan Pierer held the following important positions in the Pierer Konzerngesellschaft mbH Group as at December 31, 2017:

- Member of the Executive Board of Pierer Industrie AG, Wels
- Chairman of the Executive Board of KTM Industries AG, Wels
- Chairman of the Executive Board of KTM AG, Mattighofen
- Chairman of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg
- Deputy Chairman of the Supervisory Board of WP Performance Systems GmbH, Munderfing
- Chairman of the Supervisory Board of Wirtschaftspark Wels Errichtungs- und Betriebs Aktiengesellschaft, Wels

In the KTM Industries Group, transactions with related parties are grouped according to “shareholder related companies”, “associated companies” and “other companies”.

KTM Industries AG is part of the same group as Pierer Konzerngesellschaft mbH, the **ultimate parent company, and its subsidiaries** and is included within the consolidated financial statements of that group. All the companies included within the consolidated financial statements of Pierer Konzerngesellschaft mbH and controlled or decisively influenced by Pierer Konzerngesellschaft mbH are shown as related companies in the “shareholder related companies” category.

**Associated companies** can be seen from the schedule of equity holdings (see chapter XII) and concern all investments accounted for using the equity method.

**Other companies** are defined as all companies controlled by **key management**. KTM Industries AG principally defines key management as members of the Executive Board and Supervisory Board and, where appropriate, further managers in key positions who may exert a decisive influence on the finance and business policy decisions of the group. In addition, account is also taken of **relatives** of key management and their companies.

In the 2017 financial year and in the prior year, there were no transactions with related persons (apart from Executive Board and Supervisory Board earnings, see point 52.). The business transactions with related companies are represented as follows according to the grouping described:

EURk	Shareholder related companies		Associated companies		Other Company	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Receivables	18,727	1,198	31,337	2,978	222	6,740
Liabilities	-14,327	-2,909	-2,774	-3,488	-5,403	-603
Perpetual bond	-70,000	-60,000	0	0	0	0
Income	639	7,229	93,527	6,833	350	7,483
Expenses	-25,646	-6,759	-22,291	-14,807	-101,345	-71,505
Dividend	-7,307	-5,202	0	0	0	0

All transactions with related companies were made under customary market conditions. Material business relations are explained below:

**Shareholder related companies:**

Since the 2014 financial investment, KTM Industries AG, Pankl Racing Systems AG and WP Performance Systems GmbH have been members of the group pursuant to Section 9 of the Austrian Corporate Tax Act of Pierer Konzerngesellschaft mbH, Wels. Since 2017, KTM AG has formed a group within the meaning of the Austrian Corporate Tax Act. The taxable incomes of the group members are allocated to the group parent. The tax compensation between the group parent and each individual group member was regulated by a group taxation and tax transfer agreement. Any tax loss including that made by the involved subsidiaries is kept evident and offset against future tax credit. A compensation payment is agreed for losses not offset on termination of the agreement.

In the 2017 financial year, expenses totaling EUR 16,980k were incurred with Pierer Konzerngesellschaft mbH. On the reporting date, there were outstanding liabilities of EUR 14,091k, essentially concerning tax compensation.

In order to strengthen the equity of the Pankl Group, Pankl Racing Systems AG issued a subordinated 5.00% bond with no fixed term (perpetual bond) of EUR 10,000k in October 2017. The bond was subscribed for by Pierer Konzerngesellschaft mbH.

In the prior year, KTM Industries AG issued a perpetual bond (5.00% interest rate) of EUR 60,000k, essentially serving to finance the acquisitions made in 2016 in its core holdings KTM, Pankl and WP. This perpetual bond was subscribed for by Pierer Industrie AG and is listed in the group equity. In the 2017 financial year, a dividend of EUR 3,000k was paid.

PIERER IMMOREAL GmbH is facing a short-term financing requirement in the amount of TEUR 18.707 (previous year: TEUR 0), which bears interest on arm's length terms.

In the 2017 financial year, Pierer Industrie AG and Pierer Konzerngesellschaft mbH received dividends from KTM Industries AG of EUR 4,307k (prior year: EUR 5,202k) from the previous financial year 2016.

In addition, Wohnbau-west Bauträger Gesellschaft m.b.H., a subsidiary of Pierer Konzerngesellschaft mbH, provided services as general contractor in relation to the planning, construction and extension of the KTM logistics center in Munderfing on behalf of KTM Logistikzentrum GmbH. The building services provided amounted to EUR 6,508k (prior year: EUR 0k).

**Associated companies:**

Gerald Kiska is a member of the Supervisory Board of KTM Industries AG and is a managing shareholder of Kiska GmbH. Expenses of EUR 20,229k were incurred for services provided by Kiska GmbH during the financial year (prior year: EUR 13,852k) as well as income of EUR 962k (prior year: EUR 620k). As of December 31, 2017, accounts payable to the company stood at EUR 2,526k (prior year: EUR 3,488k).

Mattighofen Museums-Immobilien GmbH (now: KTM MOTOHALL GmbH), which was founded in 2015, is held by Pierer Konzerngesellschaft GmbH with 51% and KTM Immobilien GmbH with 49%. Receivables of EUR 3,107k existed as at December 31, 2017 (prior year: EUR 17k) in respect of the company. In the prior year, KTM Immobilien GmbH made a proportional shareholder contribution of EUR 2,300k to KTM MOTOHALL GmbH.

Arm's-length deliveries of motorcycles and spare parts were made to KTM New Zealand Ltd. and KTM MIDDLE EAST AL SHAFAR LLC, two former general importers in the KTM Group that were accounted for using the equity method. The holding in KTM MIDDLE EAST AL SHAFAR LLC was sold during the 2017 financial year. In addition, 26% of Motorcycle Distributors Australia Pty Ltd. was purchased; this company acts as an importer for the Australia and New Zealand market. In July 2017, KTM New Zealand Ltd. was merged into a subsidiary of Motorcycle Distributors Australia Pty Ltd.

Arm's-length deliveries of motorcycles and spare parts are made to authorized KTM dealers in which the KTM Group holds minority investments and which are accounted for using the equity method (prior year: as other non-current financial assets).

KTM Asia Motorcycle Manufacturing Inc., Philippines, was jointly founded in June 2016 in partnership with Ayala Corp. The KTM Group holds 26% of the company. The company began assembling KTM motorcycles in the Philippines from CKD (completely knocked down) kits in mid-2017. The company was not yet operationally active in the prior year.



**Other companies:**

A cooperation with the Indian Bajaj Group has been in place since 2007. The Bajaj Group is India's second largest manufacturer of motorcycles and three-wheelers, selling approximately 3.67 million units in the last financial year (reporting date: 3/31/2017). The cooperation focuses on the joint development of entry level street motorcycles, which are produced in India and distributed under the KTM brand by both companies in their respective core markets.

Mr. Rajiv Bajaj, Deputy Chairman of the Supervisory Board, is the General Manager of Bajaj Auto Ltd., Pune, India. Srinivasan Ravikumar, a member of the Supervisory Board, is a director of Bajaj Auto International Holdings B.V., Amsterdam, Netherlands, and President of Business Development and Assurance at Bajaj Auto Ltd. Bajaj Auto International Holdings B.V., Amsterdam, Netherlands, a subsidiary of Bajaj Auto Ltd., Pune, India, held 47.99 % of KTM AG as at 12/31/2017. On the reporting date, accounts payable to Bajaj Auto Ltd., Pune, India stood at EUR 5,389k, while accounts receivable from the same company stood at EUR 221k (prior year: receivables of EUR 4,255k and payables of EUR 2k). Bajaj Auto International Holdings B.V. granted KTM AG a short-term arm's-length, interest-bearing loan of in each case EUR 10,000k from 10/24/2016 to 12/22/2016 and from 01/11/2017 to 04/07/2017. Additionally, the cooperation with the Bajaj Group incurred expenses amounting to EUR 99,173k (prior year: EUR 65,452k).

KTM AG granted an arm's length, interest-bearing loan to TRUE Management & Investment GmbH, which is within the sphere of influence of Hubert Trunkenpolz, a member of the Executive Board. The loan has a maturity date of December 31, 2017, subject to annual options to prolongation up to a final date of February 28, 2018. The loan was repaid early in March 2017. As of the December 31, 2016 reporting date, loan receivables in the amount of EUR 100k were recognized.

**51. CORPORATE BODIES OF KTM INDUSTRIES AG**

The following individuals were appointed as **members of the Executive Board** with collective power of representation:

Stefan **Pierer**, CEO  
 Friedrich **Roithner**, CFO  
 Alfred **Hörtenhuber** (until 12/31/2017)  
 Wolfgang **Plasser**  
 Harald **Plöckinger** (from 1/1/2018)  
 Hubert **Trunkenpolz** (from 1/1/2018)

The following individuals were appointed as members of the **Supervisory Board**:

Josef **Blazicek**, Chairman  
 Dr. Ernst **Chalupsky**, Deputy Chairman  
 Gerald **Kiska**  
 Klaus **Rinnerberger**

**52. EXECUTIVE BOARD AND SUPERVISORY BOARD EARNINGS**

The **remuneration for the Executive Board** 2017 of KTM Industries AG includes salaries, benefits in kind, bonuses as well as payments into the company's staff severance pay fund and amounted to EUR 4,209k (prior year: EUR 3,840k). The Members of the Executive Board also received earnings from previous periods in the amount of EUR 79k. In addition, there are no agreements regarding a company retirement scheme for the Executive Board and no pension fund payments were made to the Executive Board in the 2017 financial year.

It is proposed that the **remuneration to be paid to the Supervisory Board** of KTM Industries AG for the 2017 financial year (payout in the 2018 financial year) shall amount to a total of EUR 39k (prior year: EUR 28k).

No loans or advances have been granted to the Members of the Supervisory Board of KTM Industries AG as of the reporting date.

## XI. EVENTS AFTER THE BALANCE SHEET DATE

On January 3, 2018, KTM Industries AG announced an offer to terminate the trading license in accordance with Section 38(6) to (8) of the 2018 Stock Exchange Act in conjunction with the fifth part of the Takeover Act to the shareholders of Pankl Racing Systems AG. The offer is intended to terminate the trading license for the shares of Pankl Racing Systems AG on the Vienna Stock Exchange.

The offer is aimed at the acquisition of all the shares of the target company which are not held by KTM Industries AG or by legal entities acting in concert therewith. The offer is therefore aimed at the acquisition of 95,235 shares of the target company. The offer price is EUR 42.18 cum dividend 2017 per no-par value bearer share of the target company. The acceptance period runs from February 2, 2018 up to and including March 23, 2018 (17:00 - Vienna time). With notification of the Wiener Börse AG of February 19th 2018, the last trading day of Pankl Racing Systems AG-shares will be May 31st 2018.

In order to secure the continued growth of the KTM Industries Group and to realize synergy potential, the WP Group was fully integrated into KTM AG in January 2018 in its position as the most important supplier to motorcycle production in Mattighofen. KTM AG now directly holds 99.9% of the WP Group.

In February 2018, KTM Industries AG was informed that Pierer Beteiligungs GmbH has sold 15,884,217 shares in KTM Industries AG to qualified investors as part of an international private placement carried out without a prospectus. This corresponds to a holding of around 7.0% of the company's share capital. Additionally, 2,146,722 shares, amounting to around 1.0% of the company's share capital, were sold by third parties. Pierer Konzerngesellschaft mbH continues to have an equity holding of around 63.0% of the share capital of KTM Industries AG.

## XII. GROUP COMPANIES (SCHEDULE OF EQUITY HOLDINGS)

The schedule of equity holdings comprises all companies that have been included in the consolidated financial statements in addition to the parent company.

Company	Initial consolidation date	12/31/17		12/31/16		
		Interest %	Consolidation type	Interest %	Consolidation type	
<b>Fully consolidated companies:</b>						
Pankl Racing Systems AG, Kapfenberg	1/1/2008	94.53	FC	94.53	FC	
Pankl Engine Systems GmbH & Co KG, Bruck an der Mur	-	-	-	94.53	FC	
Pankl Drivetrain Systems GmbH & Co KG, Kapfenberg	-	-	-	94.53	FC	
Pankl Racing Systems UK Ltd., Bicester, United Kingdom	1/1/2008	94.53	FCA	94.53	FCA	
Pankl Holdings, Inc., Irvine, USA	1/1/2008	94.53	FCA	94.53	FCA	
Capital Technology Beteiligungs GmbH, Bruck an der Mur	-	-	-	94.53	FC	
CP-CARRILLO, Inc., Irvine, USA	1/1/2008	94.53	FCA	94.53	FCA	
Pankl Emission Control Systems GmbH, Kapfenberg	-	-	-	94.53	FC	
Pankl Aerospace Systems Inc., Cerritos, USA	1/1/2008	94.53	FCA	94.53	FCA	
Pankl Systems Austria GmbH, Kapfenberg	1/1/2008	94.53	FC	94.53	FC	
Pankl Schmiedetechnik GmbH & Co KG, Kapfenberg	-	-	-	94.53	FC	
Pankl Aerospace Systems Europe GmbH, Kapfenberg	1/1/2008	94.53	FC	94.53	FC	
Pankl Automotive Slovakia s.r.o., Topolcany, Slovakia	1/1/2008	94.53	FCA	94.53	FCA	
Pankl Japan Inc., Tokyo, Japan	12/31/2017	94.53	FCA	94.53	NCA	
Pankl Turbosystems GmbH (formerly: Pankl - APC Turbo-systems GmbH), Mannheim, Germany	9/28/2012	66.17	FCA	66.17	FCA	
W Verwaltungs AG (formerly: WP AG), Wels	6/30/2005	88.26	FC	88.26	FC	
WP Performance Systems GmbH, Munderfing	11/30/2007	88.26	FC	88.26	FC	
WP Cooling Systems (Dalian) Co., Ltd., Dalian, China	12/31/2017	88.26	FCA	88.26	NCA	
WP Components GmbH, Munderfing	12/31/2009	88.26	FC	88.26	FC	
WP Immobilien GmbH, Munderfing	4/30/2005	82.97	FC	82.97	FC	
K KraftFahrZeug Holding GmbH, Wels	9/30/2010	100.00	FC	100.00	FC	
KTM AG, Mattighofen	5/31/2005	51.68	FC	51.67	FC	
KTM Immobilien GmbH, Mattighofen	5/31/2005	51.87	FC	51.86	FC	
KTM North America, Inc., Amherst, Ohio, USA	5/31/2005	51.68	FCA	51.67	FCA	
KTM-Motorsports Inc., Amherst, Ohio, USA	5/31/2005	51.68	FCA	51.67	FCA	
KTM Japan K.K. (formerly: KTM-Sportmotorcycle Japan K.K.), Tokyo, Japan	5/31/2005	51.68	FCA	51.67	FCA	
KTM-Racing AG, Frauenfeld, Switzerland	5/31/2005	51.68	FCA	51.67	FCA	
KTM-Sportcar GmbH, Mattighofen	5/31/2005	51.68	FC	51.67	FC	
KTM Motorcycles S.A. Pty. Ltd., Northriding, South Africa	3/1/2009	51.68	FCA	51.67	FCA	
KTM Sportmotorcycle Mexico C.V. de S.A., Lerma, Mexico	6/1/2009	51.68	FCA	51.67	FCA	
KTM South East Europe S.A., Elefsina, Greece	11/1/2010	51.68	FCA	51.67	FCA	
KTM Sportmotorcycle GmbH, Mattighofen	3/31/2011	51.68	FC	51.67	FC	

Company	Initial consolidation date	12/31/17		12/31/16	
		Interest %	Consolidation type	Interest %	Consolidation type
KTM-Sportmotorcycle India Private Limited, Pune, India	6/1/2012	51.68	FCA	51.67	FCA
Husqvarna Motorcycles GmbH, Mattighofen	1/1/2013	51.68	FC	51.67	FC
KTM-Sportmotorcycle Deutschland GmbH, Ursensollen, Germany	12/31/2013	51.68	FCA	51.67	FCA
KTM Switzerland Ltd, Frauenfeld, Switzerland	12/31/2013	51.68	FCA	51.67	FCA
KTM-Sportmotorcycle UK Limited., Brackley, United Kingdom	12/31/2013	51.68	FCA	51.67	FCA
KTM-Sportmotorcycle Espana S.L., Terrassa, Spain	12/31/2013	51.68	FCA	51.67	FCA
KTM-Sportmotorcycle France SAS, Saint Priest, France	12/31/2013	51.68	FCA	51.67	FCA
KTM-Sportmotorcycle Italia s.r.l., Merano (formerly: Gorle), Italy	12/31/2013	51.68	FCA	51.67	FCA
KTM-Sportmotorcycle Nederland B.V., Malden, Netherlands	12/31/2013	51.68	FCA	51.67	FCA
KTM-Sportmotorcycle Scandinavia AB, Örebro, Sweden	12/31/2013	51.68	FCA	51.67	FCA
KTM-Sportmotorcycle Belgium S.A., Wavre, Belgium	12/31/2013	51.68	FCA	51.67	FCA
KTM Canada Inc., St-Bruno, Canada	12/31/2013	51.68	FCA	51.67	FCA
KTM Hungária Kft., Törökbálint, Hungary	12/31/2013	51.68	FCA	51.67	FCA
KTM Central East Europe s.r.o., Bratislava, Slovakia	12/31/2013	51.68	FCA	51.67	FCA
KTM Österreich GmbH, Mattighofen	12/31/2013	51.68	FC	51.67	FC
KTM Nordic Oy, Vantaa, Finland	12/31/2013	51.68	FCA	51.67	FCA
KTM Sportmotorcycle d.o.o., Marburg, Slovenia	12/31/2013	51.68	FCA	51.67	FCA
KTM Czech Republic s.r.o., Pilsen, Czech Republic	12/31/2013	51.68	FCA	51.67	FCA
KTM Sportmotorcycle SEA PTE. Ltd., Singapore, Singapore	1/1/2014	51.68	FCA	51.67	FCA
Husqvarna Motorcycles Italia S.r.l., Merano (formerly: Albano Sant'Alessandro), Italy	12/31/2013	51.68	FCA	51.67	FCA
Husqvarna Motorcycles Deutschland GmbH, Ursensollen, Germany	12/31/2013	51.68	FCA	51.67	FCA
Husqvarna Motorcycles Espana S.L., Terrassa, Spain	12/31/2013	51.68	FCA	51.67	FCA
Husqvarna Motorcycles UK Ltd., Brackley, United Kingdom	12/31/2013	51.68	FCA	51.67	FCA
Husqvarna Motorcycles France SAS, Saint Priest, France	12/31/2013	51.68	FCA	51.67	FCA
HQV Motorcycles Scandinavia AB, Örebro, Sweden	12/31/2013	51.68	FCA	51.67	FCA
Husqvarna Motorcycles North America, Inc., Murrieta, CA, USA	12/1/2013	51.68	FCA	51.67	FCA
Husqvarna Motorsports, Inc., Murrieta, CA, USA	4/1/2015	51.68	FCA	51.67	FCA
Husqvarna Motorcycles S.A. Pty. Ltd., Northriding, South Africa	4/1/2015	51.68	FCA	51.67	FCA
KTM Logistikzentrum GmbH, Mattighofen	9/16/2016	48.56	FC	48.56	FC
WP Performance Sports GmbH, Munderfing	11/30/2016	51.68	FC	61.18	FC
KTM Sportmotorcycle MEA DMCC, Dubai	11/30/2016	51.68	FCA	51.67	FCA
WP Suspension North America, Inc., Murrieta, CA, USA	8/31/2017	51.68	FCA	88.26	NCA
KTM do Brasil Ltda., Sao Paulo, Brazil	12/31/2017	51.68	FCA	51.67	NCA
PF Beteiligungsverwaltungs GmbH, Wels	12/31/2016	100.00	FC	100.00	FC
KTM Technologies GmbH, Anif	10/1/2008	74.00	FC	38.24	FC

Company	Initial consolidation date	12/31/17		12/31/16	
		Interest %	Consolidation type	Interest %	Consolidation type
<b>Associated companies:</b>					
KTM New Zealand Ltd., Auckland, New Zealand <sup>2)</sup>	-	-	-	13.43	IEA
KTM MIDDLE EAST AL SHAFAR LLC, Dubai, United Arab Emirates	-	-	-	12.92	IEA
Motorcycle Distributors Australia Pty Ltd, West Perth, Australia	-	13.44	IEA	-	-
KTM Asia Motorcycle Manufacturing Inc., Binan, Laguna, Philippines	-	17.57	IEA	17.57	IEA
KTM Wien GmbH, Vösendorf	-	13.44	IE	39.27	NC
KTM Braumandl GmbH, Wels	-	13.44	IE	13.43	NC
MX - KTM Kini GmbH, Wiesing	-	13.44	IE	13.43	NC
KTM Regensburg GmbH, Regensburg, Germany	-	13.44	IEA	13.43	NCA
Cero Design Studio S.L., Barcelona, Spain	-	13.44	IEA	13.43	NCA
Kiska GmbH, Anif	-	26.00	IE	13.43	IE
KTM MOTOHALL GmbH (formerly: Mattighofen Museums-Immobilien GmbH), Mattighofen	-	25.42	IE	25.41	IE
PEXCO GmbH, Schweinfurt, Germany	-	49.90	IEA	-	-
<b>Other non-current financial assets:</b>					
Wethje Carbon Composites GmbH, Hengersberg, Germany	-	8.36	KOA	17.97	KOA
Wethje Immobilien GmbH, Vilshofen-Pleinting, Germany	-	13.86	KOA	22.89	KOA
AGM Durmont Austria GmbH (formerly: Durmont Teppichbodenfabrik GmbH), Hartberg	-	-	-	24.00	KOI
AC styria Mobilitätscluster GmbH (formerly: ACstyria Autocluster GmbH), Grambach	-	12.33	KOI	12.33	KOI
KTM Australia Pty Ltd., Perth, Australia <sup>1)</sup>	-	-	-	51.67	KOA
A + U Management GmbH (formerly: KTM Finance GmbH), Frauenfeld, Switzerland	-	-	-	51.67	KOA
KTM Events & Travel Service AG, Frauenfeld, Switzerland	-	-	-	51.67	KOA
Project Moto Rütter & Holte GmbH, Oberhausen, Germany	-	-	-	13.43	KOA
KISKA Inc., Murrieta, USA	-	-	-	26.35	KOA
WP Suspension B.V., Malden, Netherlands <sup>1)</sup>	-	-	-	88.26	KOA
WP Germany GmbH, Ursensollen, Germany <sup>3)</sup>	-	88.26	KOA	88.26	KOA

**Legend:**

FC	Full Consolidation, Austria
FCA	Full Consolidation, abroad
IE	Inclusion at equity, Austria
IEA	Inclusion at equity, abroad
NC	Not consolidated due to little or no significance, Austria
NCA	Not consolidated due to little or no significance, abroad

1) liquidated in the 2017 financial year

2) merger into Motorcycle Distributors Australia Pty Ltd.

3) in liquidation

### XIII. STATEMENT OF ALL LEGAL REPRESENTATIVES (APPROVAL)


The group financial statements were approved by the Executive Board on 3/19/2018 (prior year: 3/21/2017) for review by the supervisory board, for submission to the annual general meeting and for subsequent publication. Within the scope of the review it is required to perform, the Supervisory Board may require changes to be made to the consolidated financial statements.

Wels, March 07, 2018

The Management Board of KTM Industries AG



Stefan Pierer, CEO



Friedrich Roithner, CFO



Wolfgang Plasser



Hubert Trunkenpolz



Harald Plöckinger

# AUDITOR'S REPORT

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

### Audit Opinion

We have audited the consolidated financial statements of **KTM Industries AG**, Wels, Austria

and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, Austrian Generally Accepted Accounting Principles as well as the additional requirements by § 245a UGB.

### Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 („EU Regulation“) and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities” section of our report. We are independent of the audited Group in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon.

### Impairment of Goodwill

See notes No. 24

### Risk for the Consolidated Financial Statements

In its consolidated financial statements, KTM Industries AG has recognized goodwill with a carrying value of MEUR 117.1.

Goodwill is tested for impairment at least annually and whenever there is an indication that goodwill may be impaired. For this purpose, KTM Industries AG estimates the recoverable amount, which represents the relevant measure of value for the impairment test, using the discounted cash flow method. Goodwill is tested for impairment separately for each of the cash-generating units ‚KTM‘, ‚Pankl‘ and ‚WP‘. The outcome of the valuation is highly dependent on the assessment of future cash flows (taking into account future revenue growth, profit margins and long-term growth rates) and the discount rate used, and is therefore subject to significant uncertainty. A review of the impairment test is complex and based on a number of judgmental factors.

The risk for the consolidated financial statements is an overstatement of goodwill.

### **Our Response**

We compared the cash flows on which the impairment test is based with the current four-year-planning as approved by the supervisory board and we assessed the valuation methodology. In order to evaluate the appropriateness of the planning, we gained an understanding of the planning process and compared the estimates with the historical development. We have discussed the assumptions and estimates with management and in doing so, gained an understanding on how historical experiences affects the planning of management.

We assessed the appropriateness of assumptions used to determine the discount rate by comparing them to reference values specific to the relevant market and sector (peer-group data); furthermore we re-performed the calculation used to determine the discount rate.

We carried out a sensitivity analysis to determine whether the carrying value tested is sufficiently covered by the recoverable amount taking into account realistic changes in the underlying assumptions. We assessed whether the long-term development of the level of profitability in the terminal value period is consistent and plausible.

In performing these audit procedures we made use of our valuation specialists.

We also evaluated whether the disclosures on the impairment of goodwill made by KTM Industries AG in the consolidated notes are complete and appropriate.

### **Impairment of the brand 'KTM'**

See notes No. 23

### **Risk for the Consolidated Financial Statements**

In its consolidated financial statements, KTM Industries AG has recognized an intangible asset with an indefinite useful life and a carrying value of MEUR 61.1 for the brand 'KTM'.

The brand is tested for impairment at least annually and whenever there is an indication that it may be impaired. For this purpose KTM Industries AG estimates the recoverable amount of the brand, which represents the relevant measure of value for the impairment test, using the relief-from-royalty-method. The outcome of the valuation is highly dependent on the assessment of future revenue, the underlying royalty rate and discount rate and is therefore subject to significant uncertainty. A review of the impairment test is complex and based on a number of judgmental factors.

The risk for the consolidated financial statements is an overstatement of the value of the brand.

### **Our Response**

We compared the revenues (cash flows) on which the impairment test is based to the current four-year-planning as approved by the supervisory board and we assessed the valuation methodology. In order to evaluate the appropriateness of the planning, we gained an understanding of the planning process and compared the estimates with the historical development. We have discussed the assumptions and estimates with management and in doing so, gained an understanding on how historical experiences affects the planning of management.

We assessed the appropriateness of assumptions used to determine the discount rate and the royalty rate by comparing them to reference values specific to the relevant market and sector (peer-group data); furthermore we re-performed the calculation used to determine the discount rate.



We carried out a sensitivity analysis to determine whether the carrying value tested is sufficiently covered by the recoverable amount taking into account realistic changes in the underlying assumptions. We assessed whether the long-term development of the level of profitability in the terminal value period is consistent and plausible.

In performing these audit procedures we made use of our valuation specialists.

We also evaluated whether the disclosures on the brand with an indefinite useful life made by KTM Industries AG in the notes are complete and appropriate.

### **Responsibilities of Management and Audit Committee for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, Austrian Generally Accepted Accounting Principles as well as the additional requirements under § 245a UGB and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

### **Auditors' Responsibility**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as related disclosures made by management.

- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

## REPORT ON OTHER LEGAL REQUIREMENTS

### Group Management Report

In accordance with the Austrian Generally Accepted Accounting Principles, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with the Austrian Generally Accepted Accounting Principles.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

### Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

### Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

## Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report and the auditor's report. We expect the annual report to be provided to us after the date of the auditor's report.

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

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact.

## Additional Information in accordance with Article 10 EU Regulation

At the Annual General Meeting dated on 27 April 2017, we were elected as group auditors. We were appointed by the Supervisory Board on 20 December 2017. We have been the Group's auditors from 31 December 2014 without interruption.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

## Engagement Partner

The engagement partner on this engagement is Mr. Ernst Pichler.  
Linz, 7 March 2018

KPMG Austria GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:  
Mag. Ernst Pichler  
Wirtschaftsprüfer  
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid.

The consolidated financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the group management report are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies

## SUSTAINABILITY REPORT 2017

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# SUSTAINABILITY REPORT 2017

## KTM INDUSTRIES GROUP

(NON-FINANCIAL REPORT ACCORDING TO § 267A UGB))



## 1. DESCRIPTION OF THE BUSINESS MODEL

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, companies are required to report on the material effects of their business activities relating to environmental, social and employee interests, observance of human rights and tackling of corruption and bribery. This consolidated non-financial report, as it is known, covers all fully consolidated subsidiaries 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 our 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.

The **WP GROUP** operates in the motorcycle supplier segment. It 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, the **WP GROUP** was fully integrated into KTM AG in January 2018 in its position as the most important supplier to motorcycle production in Mattighofen.

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.

In order to determine the material contents for the sustainability report, we performed a materiality analysis with the assistance of internal experts from our subsidiaries. We then 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. These topics will be described in the chapters that follow, using the concepts, risks, due diligence processes and measures, and results and performance indicators

## 2. ENVIRONMENTAL INTERESTS

### EFFICIENCY OF USE OF MATERIALS

Where the development and production of our products are concerned, **KTM Industries AG** attaches the greatest possible value to the efficient use of raw materials in a manner that conserves resources, as well as to environmentally sustainable operations. As a result of its awareness that our environment too is as much a limited production factor as work and capital, and is not freely available, KTM Industries Group is keenly focused on many aspects of sustainability that are relevant to the concern.

The Group is aware of its exemplary role and responsibility within society as a whole, and is committed to the principles of sustainable and resource-friendly economic activity. It therefore endeavors to manufacture products in an environmentally friendly manner and to avoid conducting business or undertaking projects that constitute a long-term risk to the environment.

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 also 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. This made it possible, for example, to reduce the vehicle weight of the KTM 450 SX-F model in the 2016 generation by 4kg compared with its predecessor model. Reduced component weights give rise to reduced overall weight of vehicles, which ultimately has a positive effect on fuel consumption.

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 the purpose of continuing to increase efficiency and permanently reducing the use of resources in the research and development department, we will be introducing continuous stock analyses and a targeted purchasing strategy for consumables in the future. 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.

In past years, KTM AG has made further investments in building up its additive manufacturing. These new manufacturing methods have enabled us to achieve savings in the use of materials (practically no waste material), particularly in the area of research and development. What is more, we have reduced our need for prototype tools, as geometries that until now could only be produced using additional tools can now be manufactured directly in the additive manufacturing process. We are continuing research and development on expanding the use of this new manufacturing method.

KTM AG has its production site in Mattighofen. It is audited annually by TÜV Süd Landesgesellschaft in order to ensure that the requirements of ISO 9001:2008 and of the Deutsche Kraftfahrtbundesamt (KBA) are being fulfilled. We are currently working on the switchover to ISO 9001:2015, which was completed in the audit in January 2018.

In addition, all existing environmental law provisions and requirements, as well as regulations in accordance with TÜV ISO 9001, are being fulfilled at the production site of the WP Group in Munderfing; the required technical values are subject to continuous analysis with the aim of achieving continuous improvement. Investments are continuously made in new and modern production facilities to ensure cost-optimized, sustainable, environment- and resource-friendly production. Apart from that, the WP Group aspires to use 100% of raw materials where possible and focuses on recycling aluminum waste in order to conserve limited natural resources.

**Pankl Racing Systems AG** has an “environmental team” in place, which operates across companies. A corresponding process exists for addressing environmental and legal compliance issues, and appropriate process descriptions also exist for recording them. Furthermore, Pankl has an environmental program in place that includes measures for efficient use of materials. Relevant input/output analyses are created for this purpose (e.g. in the 2017 financial year, just under EUR 30 million worth of raw materials were purchased, and just under EUR 0.68 million of revenue from sale of scrap).

An essential milestone for Pankl was environmental certification to ISO 14001. The purpose of this international standard is to protect the environment in the long term and to respond to changing environmental conditions in keeping with socio-economic requirements. The Pankl Group began expanding its environmental management system according to ISO 14001 in 2014. Its Austrian and Slovakian sites received certification in the 2015 financial year. Further preparations were carried out in the 2017 financial year in order to achieve certification for the other Pankl sites to ISO 14001, and this will be fully implemented during the 2018 financial year. The core element of the ISO 14001 environmental management system is the establishment of internal processes and of competencies and responsibilities for improving the environmental situation within operations.

**Introducing, documenting, implementing, maintaining and continuously improving the environmental management system**

The essential building blocks within the certification process are as follows:

Introducing, documenting, implementing, maintaining and continuously improving the environmental management system; establishing the company environmental policy; preventing environmental impact, compliance with legal obligations and setting environmental targets; providing the necessary resources (personnel and infrastructure) and appointing an environmental management officer; documenting the environmental management system, particularly the environmental policy, key elements and targets, training and informing employees, and internal audits at set intervals.

The environmental management system is based on a cycle of planning, implementation, auditing and taking action. The first step, therefore, was to determine legal conformity and to establish the environmental targets and processes from this that were necessary to achieve results in accordance with the environmental policy. The individual process building blocks were then implemented while observing the requirements, and measured continuously against the environmental policy, including its obligations, environmental targets and process criteria. In the final step, the results ensuring from this were reported, and measures were taken for the purpose of continuous improvement.

Nine of the ten Pankl production sites are already certified to ISO 9001, and certification of the last outstanding site has been scheduled for 2018. Seven of the ten production sites are also already certified to ISO 14001, and the remaining three will follow during the 2018 financial year. Three plants have been certified to EN9100, and another three hold certification to IATF16949. We are also proud to hold the Part21G and Part21J certificates in the field of aviation.

#### **ENERGY AND TRANSPORT EFFICIENCY**

In our production concerns, we are aware of the risk of climate change, and we therefore endeavor to minimize our CO<sub>2</sub> emissions and other emissions. Special attention is paid to careful use of resources, and the topic of increasing efficiency is of particular importance for this reason.

The plant buildings and administrative buildings in **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 towards 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, so there is no environmental impact as a result of disposing of it.

As an assembling concern, KTM AG does not form part of energy-intensive industry. In 2017, an actual electricity utilization of 19,000 MWh was determined for the KTM Group (including WP). Gas utilization 2017 was 17,000 MWh. In KTM, around 220,000 liters of fuels were used for the test benches during the last financial year.

An energy audit was also performed for buildings, processes and transport, in which all energy users of KTM AG were recorded and analyzed in full as much as possible. A boiler replacement was reported to the monitoring office as a measure under the Austrian Energy Efficiency Act (EEffG).

#### Measures performed on the basis of the energy audit:

- Within the concern, three gas boilers with a total nominal output of 1,510 kW and a weighted usage level of 94.76% are being used for the supply of thermal heat and (some of the) heat for heating the process water in the main factory, the training center of the main factory and in the Research & Development department in factory 4.
- In order to partially replace (the Max 3 boiler in the main factory was replaced) and complement the gas boilers, and in preparation for a further increase in production and expansion of the company building space, new gas condensing boilers were installed by the end of December 2014. The new boiler combination has a total power output of 2,550 kW and a weighted usage level of 102.92%. We calculated a saving of 344,263 kWh as a result of replacing the heating boiler.

As a manufacturing company, KTM is aware of the responsibility it has vis-à-vis the environment. The transport of motorcycles and components to dealers has been outsourced by KTM AG to logistics companies. The transport mix is determined by HGV and ship. The motorcycle logistics system developed in-house by KTM based on reusable metal racks is used for transport within Europe and serves as an innovative example for the entire industry. This enables us to avoid the use of additional packaging.

The annual electricity, gas and pressurized air costs in **Pankl Racing Systems AG** are ascertained. Electricity and gas utilization was 15,300 MWh and 5,367 MWh respectively in 2017, while pressurized air costs were around EUR 55,000. The emissions for all processes from obtaining raw materials through the manufacturing process up to delivery and waste disposal are measured. In some cases, the 'ecological footprint' is ascertained. During the 2017 financial year, for example, a new light design (conversion to LED bulbs) was implemented, while the majority of heating pipes was insulated and two old heating boilers were replaced with new models, enabling a total saving of 61.5 kg of CO<sub>2</sub> emissions compared with the previous year.

#### **POLLUTANT EMISSIONS FROM PRODUCTS**

New or further development of products may result in exhaust gas and noise emissions that could have an impact on the health of our employees. One of our key targets is to permanently reduce our 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 therefore fulfil or fall short of the statutory homologation requirements of those distribution markets.

The OBD (onboard diagnostics) systems currently being used monitor emission-relevant components during driving, 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.

A further priority lies in the development of 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 fuel range of the purely electrically powered KTM FREERIDE E-XC models by approximately 50%.

## KTM AG has been working in collaboration with 13 project partners from 7 European countries to develop solutions for cost-effective e-drives

In the course of the EU-funded RESOLVE research project (H2020 program, grant agreement no. 653511, <http://www.resolve-project.eu>), solutions are being developed for affordable, effective and appealing E-mobility of the future. The project was launched in May 2015 and is due to end in April 2018. During this project, KTM AG has been working in collaboration with 13 project partners from 7 European countries to develop solutions for cost-effective e-drives, energy-efficient full vehicles, improved driving experience and increased appeal of e-mobility with L-category vehicles. The results of the development will be tested and demonstrated using two demo vehicles.

In order to fulfil the increasingly stringent requirements regarding the reduction of pollutant emissions and fuel consumption, we have also planned further investments in test bench infrastructure and measuring equipment for the optimization of combustion engines, in addition to the expansion of the testing center that has already taken place.

Since January 1, 2017, all vehicles must fulfill the EURO 4 emission limit values. The EURO 4 limit values constitute a reduction of exhaust gas emissions by around half compared with the EURO 3 limit values that were mandatory in Europe up to that point. Development engineers are already preparing the implementation of technologies for mass production for the next stage of the reduction of emission limit values to EURO 5 (a further reduction by up to 40%), the fulfillment of which will become mandatory for all vehicles in 2021. In the course of this process, the range of functions in the ODB system will be substantially expanded.

Furthermore, concepts for new approaches in relation to engine management systems and exhaust gas purification are being developed to ensure that the KTM and Husqvarna model ranges comply with current (EU V) and future homologation and emission regulations. These include both a reduction in fuel consumption and a reduction in exhaust emissions.

Vehicles that have been designed and homologated for use on public roads fulfil 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 towards protecting the world's climate, and therefore forms a key area of priority in future development projects.

## 3. SOCIAL INTERESTS

### PRODUCT QUALITY

The **KTM Industries Group** pursues consistent and sustainable improvement of its quality management system and all internal and external processes for manufacturing its products, as well as a rapid response to market requirements. Technical innovations and the introduction of new products are determining factors for our competitive positioning. The safety of our customers is given the highest priority. In order to counteract the risk of accidents due to faults, it is essential to ensure the innovation capacity of our own products.

**KTM** therefore attaches high value to the early recognition of motorcycle trends, research and development of technology and functionality, and researching customer wishes so as to achieve innovative product development that reflects market demand. Racing achievements are not only an important marketing instrument for the company but also form the basis for product development and set standards for series development. Valuable experience is gained whenever products can be tested under racing conditions at racing events. Before being introduced into series production, all technical innovations are moreover subjected to comprehensive testing using the quality management system so as to eliminate any technical defects that could have a negative effect on earnings development as much as possible.

As a manufacturer of premium products, KTM AG has set 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 and controlled using the KTM process management system.

High product quality is achieved 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 are professionally served by a team of highly qualified QM staff. 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.

The **WP GROUP** develops and produces components for its customers that are tailored in close collaboration, 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.

**Pankl Racing Systems** specializes in the development and production of engine and drive systems for racing, high-performance vehicles and the aviation industry. Pankl enjoys success in these niche markets with lightweight components made from high-grade, innovative raw materials designed for extreme mechanical loads.

Pankl develops and produces market-leading technological systems with its philosophy of 'High Tech, High Speed, High Quality'. Its product range includes individual components and entire assembly groups, and Pankl also offers its customers complete solutions such as drive train or suspension systems and complete crank drives. All components are constructed in-house, from the initial design up to the FEM calculation of the entire system.

In addition to steel and titanium alloying, other raw materials are designed, tested and manufactured for a range of two-wheel and four-wheel competitions on road racing circuits and offroad, as well as for boats. Pankl has a range of testing facilities available, such as high-frequency impulse machines and engine and drive test benches. The Pankl aerospace department is involved with special construction projects for the aviation industry, working in collaboration with leading manufacturers on the design, testing and approval of these projects.

A dynamic test bench approved by the US Federal Aviation Administration (FAA) guarantees the rapid manufacture of prototypes, making it possible to provide customers with short development times while providing the documents necessary for the design approval and the issue of airworthiness certificates.

The forging department produces ready-to-install, precision-forged lightweight forge components for the automotive, aviation and medical technology sectors. State-of-the-art, entirely automated non-destructive tests are performed in-house for a wide variety of lightweight raw materials, such as aluminum and titanium.

## PRODUCT SAFETY

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, 651 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, 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. The world's first motorcycle stability control system, integrated for the first time in the 'KTM 1190 ADVENTURE', or the semi-active chassis of the 'KTM 1290 SUPER ADVENTURE' are two classic examples of these products. A further expansion of the testing facilities and the extension of competencies in these areas has been planned for the future. KTM AG is also involved in various interdisciplinary research projects concerned with similar questions. One example of this was the research project on the recycling and re-use of lithium-ion batteries, which was awarded an 'Energy Globe' in 2017.

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. 'drive 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 sim-

ulations, 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.

As a result of the concept development of new KTM MY RIDE systems for digital link-up of rider and motorcycle, safety-relevant equipment, such as automated emergency systems or interconnected vehicles, can contribute towards a long-term reduction in the number of accidents.

**Concept development of new connectivity systems for digital link-up of rider and motorcycles**

KTM AG is also working on technological solutions that increase rider safety. In this regard, KTM AG has been a project partner of the I\_HeERO project (research project funded by the EU within the scope of the Connected Europe Fund Annual Programme, grant agreement no. 1031743) since January 2015. The project ended in December 2017, and the requirements compiled during the project on eCall systems for single-track vehicles (motorbikes, motorcycles) form the basis for the development of a CEN standard for such systems. KTM AG is also actively participating in the development of this standard, which will form the basis for the development of eCall systems for motorbikes and motorcycles.

**WP** works in close collaboration with KTM on the further development of current products and new products in the chassis, radiator, frame and exhaust system segments, and the existing product range is continuously developed further and improved. This cooperation takes place within the KTM Group in close collaboration with employees of WP Performance Systems GmbH. The main input of WP Group relates to the topics of readiness for serial production and the transition to series production. The WP Group has acquired essential know-how particularly in the fields of production processes and processing of safety-relevant parts (e.g. screw connections), and it uses this to manufacture innovative products cost effectively. Expertise is used in every new product launch when fitting safety-relevant components, systems and processes in order to create high-grade products. In the transition to series production, measurements of the article are recorded during its development, and are continuously checked during the series production process using test bench testing and endurance testing in collaboration with the development department of KTM. The focus on transition to series production, but also the continuous checks during series production, form the basis for continuous risk analysis of newly developed components and assembly groups.

All **Pankl** products are also subjected to testing for health and safety effects. An appropriate initial risk analysis/feasibility analysis (what errors could occur, what the causes are, how can the errors be prevented), design FMEAs (calculation of all probable parameters and loads of the individual components) is also carried out. The properties of all raw materials are recorded in precise detail (testing of unique load, service life and substances). Pankl also works to continuously improve existing raw materials and to develop new raw materials and coatings.

The heat treatment system that was installed in 2017 also opened the door to many new opportunities for further development and improvement of our products and product properties in the field of surface engineering.

## REGIONALITY / SUPPLIERS

In view of the current developments on the national and international markets, the procurement risk faced by the **KTM Industries Group** mainly exists in the timely introduction of suitable measures to ensure the supply of parts if suppliers become insolvent or supply bottlenecks arise. 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.

The **KTM** production company in Mattighofen largely covers its requirements from the local procurement market. In 2017, about 45% of the purchasing volume was awarded to Austrian suppliers. As a result of local procurement, KTM plays an important role in creating and retaining value in the region.

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. With 2,736 employees working at its Mattighofen, Munderfing and Schalchen sites, KTM is one of the largest employers in Upper Austria.

The **WP Group** 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 proportion of expenditure spent on local suppliers at **Pankl's** principal sites was 9.2% in the 2017 financial year. The Austrian Pankl subsidiaries in Bruck and Kapfenberg were included as principal sites. 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.

## 4. EMPLOYEE INTERESTS

Talent management in the **KTM Industries Group** is pleasing. A further 818 employees were taken on in the 2017 financial year, 652 of which in Austria. As of December 31 2017, the Group employed 5,887 employees (previous year: 5,069 employees).

Finding qualified employees and retaining them in the concern in the long term poses a significant challenge, especially for the rural sites. Every employee in the KTM Industries Group forms part of the large team that drives the success of the concern 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 2017 in order to boost the employer brand, and particularly to appeal to young potential employees.

The onboarding process was optimized further in 2017 in order to enable a swift start and effective integration of new employees in the concern.

### RESULTS AND PERFORMANCE INDICATORS

	KTM	WP	Pankl
Number of employees	3,245	858	1,693
Fluctuation in %	6.2	5.7	9.2
Average age	34	38	33
Number of apprentices	124	3	69
Proportion of women in %	20	34	31

### OCCUPATIONAL SAFETY / EMPLOYEE HEALTH

The **KTM Industry 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 light-

ing, height requirements, positioning of work equipment, use of tools or aids). In 2017, 22 occupational accidents occurred at **KTM AG**, of which 18 accidents were attributed to road and test-related accidents. In **Pankl Racing Systems AG**, there were just seven mandatorily reportable (with sickness absence exceeding three days) occupational accidents.

As a preventative measure, vaccination programs were offered, and these were taken up by numerous employees. In 2017, a special focus was placed on sight tests in occupational medicine.

In **KTM AG**, an evaluation of psychological stress was carried out in the Austrian companies by means of online questionnaires, in which 68% of all employees with PC access participated. The occupational psychologists supervised the conducting and analysis, and the implementation of the resulting measures.

In **Pankl**, special training sessions / programs are being held in relation to reduction of safety risks, which take place mainly in production. A safety instruction matrix exists for this purpose, and all safety instructions are replaced at regular intervals. In the 2017 financial year, an in-house training program was held for managers on the topic of 'occupational safety' ('Pankl protected'), and this is currently being repeated.

Employee health is well provided for: in addition to the regular vaccination programs and various preventative tests, tea and fruit are also available for free to employees. In the in-house canteen, meals are cooked according to a 'green plate' principle, and a 'low-carb' alternative to the usual two menus is offered twice a week.

The 'Pankl in motion' program was created in June 2016, which provides employees with the opportunity to improve their own physical and mental wellbeing. A wide variety of activities are held under the three, often closely related, themes of exercise, nutrition and relaxation, which include sports activities, interesting presentations or workshops in which there is a great deal for employees to find out about, learn and experience.

### (FURTHER) TRAINING

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

The risk of managerial staff leaving the company is counteracted by efficient personnel management and the continuation of personnel development programs. In addition, the risk of a shortage of skilled staff is minimized in **KTM** by a comprehensive apprentice training program in the in-house apprentice workshop. The aim is to recruit employees from the region and to retain them in the long term.

## EMPLOYEE APPRAISALS

Employee appraisals form an important success factor for **KTM Industries Group**. They ensure performance-orientated collaboration, and make an important contribution towards employee motivation.

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.

## TALENT MANAGEMENT

Our performance is also supported by continuous training and further training based on requirements and specific target groups. On the one hand, knowledge is kept up to date and, on the other hand, strengths are further reinforced.

In **KTM / WP**, this 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. Overall, approximately 33,000 further training hours were invested in the Austrian KTM companies in 2017. This corresponds to approximately 1,800 participants.

Ongoing internal training is also offered within **Pankl** for all employees (e.g. English courses, Excel courses, courses on various special programs such as construction and calculation software, in-house training for managers in the form of the 'Junior Management Program', and shift manager and team manager training). In addition, employees are given the opportunity to attend external trainings / courses individually

tailored to the employees in question. During the 2017 financial year, over 11,700 training hours were completed, the total costs of which were around EUR 265,000.

## MANAGERS

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 AG** and have a high degree of practical relevance. In addition, participants networking with each other makes a significant contribution to strengthening everyday teamwork.

## APPRENTICES

Apprentice training forms an important aspect of HR strategy, as the employees make a significant contribution towards the concern'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, 2017, KTM employed **124 apprentices**, who were training in 9 vocational training programs:

- CAD design
- Process engineering
- Automotive engineering (motorcycle engineering)
- Metal engineering (with a focus on mechanical engineering)
- Industrial purchasers
- Office administrators
- Mechatronics (production engineering)
- Operational logistics administrators
- IT engineering

It is a central aim of the company to continue to employ apprentices when they have completed their training. In 2017 all 22 employees who had completed training were integrated into various specialized areas in KTM AG. This satisfies the company's requirement for specialized 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. For instance, in 2017, 22 employees in KTM AG successfully completed the “training to become trainers” course and five employees successfully completed a consolidation course on apprentice training.

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.

KTM AG was able to give four apprentices the opportunity to spend a period abroad in the UK for the first time in 2017 by virtue of the IFA (Internationaler Fachkräfteaustausch – International Young Workers Exchange). Two commercial apprentices and two technical apprentices provided 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 boosted their awareness of other cultures and particularly their self-confidence.

Within **Pankl**, 69 apprentices, 3 of whom were asylum seekers, were trained in Austria during the 2017 financial year. Of these, 51 apprentices were trained in the field of metal engineering with a focus on machining, 7 as office-based businesswomen, 5 in the field of information technology, 1 as an apprentice chef in our in-house canteen, 2 in operational logistics, 2 in raw materials technology and 1 in paint technology.

The tripartite training program for apprentices was continued during the last year, in which apprentices in the ‘Pankl apprentice college’ not only have their professional training in Pankl and in the vocational school, but also enjoy non-company specific training, which promotes and improves the personal and social skills of every individual apprentice. Furthermore, a higher qualification in the field of lean production was offered to four apprentices who showed special dedication.

Every apprentice completed 5 modules during their learning hours, during which teamwork, self-confidence, communication, dispute resolution, business sense and presentation skills were improved. This specific form of training is a tradition at Pankl, but also has strategic importance.

A health day for apprentices was created in 2017, in which apprentices were provided with preventative information regarding the risks associated with alcohol, energy drinks and smoking. A number of apprentices are also completing a school-leaving examination in parallel to their apprenticeship. The apprenticeship training was rounded off with a day’s walking on the Häuslalm, and an apprentice excursion to the BMW factory in Steyr.

### Results and performance indicators

#### Number of participants in (further) training in Austria

KTM .....	1,800 training participants
WP .....	122 training participants
Pankl .....	736 training participants

#### (Further) training hours per employee in Austria

KTM .....	Avg. 12 hours
WP .....	Avg. 8 hours
Pankl .....	Avg. 7 hours

### DIVERSITY

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 at December 31, 2017, 46 individuals with disabilities were employed in total within **KTM Industries Group**. Pankl is also training refugees in its apprentice workshop.

## 5. 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. KTM Industries Group expects its board members, managers and employees to respect human rights and to protect them in their everyday activities. Similarly, the Group requires its business partners to observe human rights. The aim of this is to improve observance of human rights at all sites by controlling and monitoring existing processes.

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.

### CODE OF CONDUCT

A Code of Conduct was rolled out within **KTM Industries Group** in the 2017 financial year, which applies to all board members, managers and employees of 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 identifies various compliance risks and lays down suitable measures for prevention, and for safeguarding and checking compliance. The following topic areas are covered in the contents of the Code of Conduct:

- Corruption and bribery
- Conflicts of interest
- Secondary jobs and shareholding
- 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

### FAIR PAY AND EMPLOYMENT STANDARDS IN THE SUPPLY CHAIN

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, and in particular that employment standards may be being violated in emerging and developing countries. Our long-term partners set their own high standards, however, in order to meet the requirements.

**Bajaj Auto Ltd.**, the strategic Indian partner of **KTM**, undertakes to continuously improve occupational safety, employee health, and environmental impact, and it also fulfils the applicable safety regulations, statutory health and environmental provisions and other regulations. For this reason, Bajaj created a proactive SHE (Safety, occupational health & environmental policy) Management System, which focuses on safety standards, occupational safety and environmental aspects relating to the activities, products and services of Bajaj. This is also intended to

minimize the generation of waste, and to conserve natural resources by means of improved technologies and the prevention of environmental pollution. Potential risks and hazards are identified, and safe working processes are followed using suitable equipment, tools and protective equipment. All employees of Bajaj are made aware of SHE management, which is intended to encourage them to comply with these obligations. Bajaj undertakes to create and also maintain a clean, healthy and safe working environment. This is also stated in its CSR report, which is published annually.

Furthermore, Bajaj has already been working for some time on measures to save and store water. In addition, efforts are under way in various regions of India to minimize waste, to compost it, recycle it or use it for biogas production. Bajaj works in cooperation with a wide range of partners in the area of health, and it supports projects that provide clean drinking water, lunches, toilet facilities and blood banks, as well as those that carry out breast cancer research and provide eye care.

What is more, Bajaj Auto has created two leading projects in the form of the Bajaj Education Initiative and an e-learning project. The BEI consists of 76 low-cost private and public schools in the region around Pune in India, and it supports them with the necessary infrastructure. The e-learning project has also already been implemented in over 1,550 schools to date. In addition, Bajaj supports the professional training of entrepreneurs, and awards scholarships for committed students. The advancement of women is also an important issue. In this regard, Bajaj is supporting a university that is only open to women, and it has set up a center for automation technology and a law faculty.

As before, Bajaj is satisfied that it provides its customers with products and services at a good cost/benefit ratio, and will therefore retain it and improve it further still. In the decision making, quality, safety and service are afforded equal importance to productivity, costs and delivery. These criteria are laid down in Bajaj in its own quality guideline.

Within **Pankl**, the purchasing staff are there to ensure that the selected suppliers take account of the core working standards, whereby during the course of supplier approval, a quality assurance agreement is concluded and Pankl has all statutory provisions confirmed.

## 6. TACKLING CORRUPTION

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 a financial risk for the concern in connection with risk of financial penalties, loss of orders or customers, and damage to reputation.

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.

**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. **KTM AG Group** also continuously implements improvement measures in its anti-corruption system.

**Pankl** has an internally applicable guideline on the topic of gift acceptance and dealing with customers/suppliers. It distinguishes between relations with individuals from the private sector and those with public servants, and sets the amount of permitted benefits.

Training on the topic of 'tackling corruption' is delivered twice a year for new employees, and is also delivered at other training events as required (e.g. after amendments of legislation).

There were no cases of non-compliance or proceedings relating to corruption within the **KTM Industries Group** during the 2017 financial year.

## 7. RESEARCH AND DEVELOPMENT

Within the demanding field of our products, customers expect a flexible approach and rapid response when it comes to implementing their current wishes and standards. This poses the risk that we no longer reflect the requirements of customers or we lose our competitiveness. In order to counteract this, it is necessary to work continuously to become more energy efficient, economical with resources and less polluting.

As a premium manufacturer of ready-to-race street and offroad motorcycles, **KTM Industries Group** places particular emphasis on the area of research and development. Innovative products and the consistent development of new technologies enable us to meet the high expectations of our customers and open up new markets in the long term.

**KTM AG** attaches great value to the early recognition of motorcycle trends, research and development of technology and functionality, and pursuing and implementing customer wishes so as to achieve innovative product development that reflects market demand. 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** and **Husqvarna Motorcycles** brands. The technologies, design methods and development processes we use undergo constant development, and our products' technical and functional standards are continuously improved. The experience and knowledge that we have obtained from racing are incorporated directly into series production and the development of new models.

In the 2017 financial year, the expense for **research and development** (before capitalization of development costs) in the **KTM Industries Group** stood at **EUR 118.6 million** (previous year: EUR 106.2 million). The products of all Group companies are associated with very high levels of performance; customers therefore have expectations of consistent (further) development. The product life cycle is very different for each customer.

In the Research and Development department, **KTM AG** employed an average of 540 staff in the 2017 financial year (previous year: 487 employees), representing 17% of total workforce. About EUR 107.2 million (previous year: EUR 92.6 million) was invested in research and development in the 2017 financial year, which translates to 8.1% of total revenue (unchanged compared to the previous year).

The financial year just gone saw a multitude of different projects in the offroad and street segments in operational KTM. First and foremost, there was the transition to series production of the KTM 1290 SUPER DUKE GT, with which KTM succeeded in redefining the sports touring segment. The model, which is equipped with a series of innovative safety systems and new kinds of comfort features, managed to consistently secure top marks in highly regarded comparative tests.

A particular highlight is the introduction of the world's first series-produced 2-stroke offroad motorcycles with electronic fuel injection. In addition to the large number of benefits for the customer, this also enabled us to ensure compliance with current emission standards.

Another key project was the further development of the KTM Adventure range of models. As well as revising numerous details, these models are noted in particular for their completely redeveloped full LED headlamp unit and the new TFT dashboard, which enables the rider to be linked up to the motorcycle for the first time. Alongside this, the development of new HUSQVARNA models in the street segment was further advanced. The vehicles, which were presented during the EICMA fair in November 2016, polarize opinion in particular due to their clear design approaches focusing on the bare essentials. During the 2017 financial year, numerous R&D projects were taken forward at various stages from concept development to the start of series production and successfully completed.

Pankl Racing Systems AG is also constantly doing its best to meet the high requirements. It is assisted in the area of Research and Development by e.g. heat treatment developments and process route optimization for improved material properties; only this makes lightweight construction possible (which means reduced use of semi-finished goods and lower fuel consumption for the end-customer as a result of less mass moved).

In the 2017 financial year, Pankl continued to expand its activities in the additive manufacturing field and established an innovation lab, covering the following areas:

- focus on high-performance components in AM, and establishing AM in high-performance applications (especially aviation and motorsport).
- Use of raw materials technology know-how to improve the mechanical and dynamic properties of components
- Use of HIP and in-house heat treatment
- Development of new powders and optimization of process parameters for these new powders, but also for existing ones
- Use of innovative design approaches for high-performance AM
- Components

The complete process chain is also in house:

- Pre-processing (design, topology optimization, FEM calculation)
- Printing (8 x metal printers using latest technology of EOS and ARCAM)
- Post-processing (heat treatment, HIP, surface optimization)

#### RESULTS AND PERFORMANCE INDICATORS:

	KTM/WP	Pankl
R&D employees on average in 2017	540	107
R&D proportion in %	8.1	11

Wels, in March 2018  
The Board of Directors

## STATEMENT BY THE EXECUTIVE BOARD

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial and earnings position of the Group as required by the applicable accounting standards and that the consolidated management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

We confirm to the best of our knowledge that the annual financial statements of the parent company give a true and fair view of the assets, liabilities, financial and earnings position of the parent company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the parent company, together with a description of the principal risks and uncertainties the parent company faces.

Wels, March 2018

The Executive Board of KTM Industries AG



Stefan Pierer, CEO



Friedrich Roithner, CFO



Wolfgang Hasser



Hubert Trunkenpolz



Harald Plöckinger

# FINANCIAL CALENDAR

<b>March 20, 2018</b>	<b>Publication of Annual Financial Report 2017</b>
April 16, 2018	Annual General Meeting Record Date
April 26, 2018	21st Annual General Meeting
May 2, 2018	Ex-Dividend Date
May 3, 2018	Dividend Record Date
May 4, 2018	Dividend Payment Date
<b>August 28, 2018</b>	<b>Report on the First Half-Year 2018</b>

## MORE INFORMATION ON THE KTM INDUSTRIES SHARE

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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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## **JAHRESABSCHLUSS**

ZUM 31. DEZEMBER 2017

Lagebericht

Bilanz

Gewinn- und Verlustrechnung

Anhang

Anlage 1 zum Anhang: Anlagenspiegel

Anlage 2 zum Anhang: Beteiligungsliste

Bestätigungsvermerk

Erklärung des Vorstandes

<b>für das Geschäftsjahr 2017 der KTM Industries AG, Wels</b>
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Da diese Gesellschaft eine geschäftsleitende Holdinggesellschaft ist, beinhaltet der Lagebericht neben den Informationen des Einzelabschlusses auf Basis UGB (Teil 1) auch die Informationen des Konzernabschlusses auf Basis IFRS (Teil 2).

## ***1) Einzelabschluss der KTM Industries AG (nach UGB):***

### **A. Geschäftsverlauf und Lage des Unternehmens**

Das Geschäftsjahr für den Einzelabschluss der KTM Industries AG umfasst den Zeitraum vom 1.1.2017 bis 31.12.2017.

Die KTM Industries AG besitzt zum Abschlussstichtag über die 100 prozentige Tochtergesellschaft K KraftFahrZeug Holding GmbH eine Mehrheitsbeteiligung an der KTM AG (51,7%). Weiters hält sie 75,9% der Anteile an der W Verwaltungs AG, (vormals: WP AG) und 94,5% der Anteile an der Pankl Racing Systems AG. Zum Stichtag 31.12.2017 hält die KTM Industries AG unverändert 100% der Anteile an der PF Beteiligungsverwaltungs GmbH sowie 12,33% an der ACstyria Mobilitätscluster GmbH. Die 24% Anteile an der AGM Durmont Austria GmbH wurden im Geschäftsjahr 2017 veräußert und die Anteile an der Wethje Carbon Composites GmbH von 18% auf 8,36% reduziert.

Zur Untermauerung und Stärkung der Strategiekompetenz „Designentwicklung und Produktinnovation“ in der KTM Industries-Gruppe wurden im Juni 2017 74% an der KTM Technologies GmbH und 26% an der Kiska GmbH von der operativen KTM AG in die KTM Industries AG gehoben. Weiters wurde im September 2017 eine 49,9% Beteiligung an der PEXCO GmbH, Schweinfurt/Deutschland erworben; ein Unternehmen, das seinen Schwerpunkt auf Elektromobilität legt.

Da die KTM Industries AG im Wesentlichen die Aufgaben einer geschäftsleitenden Holdinggesellschaft erfüllt, wird im Lagebericht auch auf die Entwicklungen des Geschäftsjahres 2017 ihrer Tochtergesellschaften sowie des Konzerns insgesamt eingegangen.

### **B. Ertrags- und Vermögenslage**

#### **1. Ergebnisanalyse**

Die KTM Industries AG hat im abgelaufenen Geschäftsjahr einen Jahresüberschuss von € 13,0 Mio. (Vorjahr: € 18,3 Mio.) erzielt. Positiv wirkten sich im Wesentlichen Dividendenerträge aus den Beteiligungsunternehmen in Höhe von € 36,1 Mio. aus. Dem stehen vor allem ausschüttungsbedingte Abschreibungen auf Anteile an verbundenen Unternehmen in Höhe von € 15,2 Mio. sowie die sonstigen betrieblichen Aufwendungen gegenüber. Diese betreffen im Wesentlichen Aufwendungen für konzerninterne Dienstleistungen, Aufwendungen für Vorstandstätigkeiten, Steuerberatungsaufwand sowie Rechts- und Beratungsaufwand.

#### **2. Bilanzanalyse**

Die Bilanzsumme zum 31.12.2017 erhöhte sich leicht und lag bei € 476,9 Mio. (Vorjahr: € 468,0 Mio.). Das Anlagevermögen hat sich im Geschäftsjahr 2017 auf € 381,6 Mio. verringert (Vorjahr: € 392,2 Mio.) und ist im Wesentlichen auf den Rückgang an Anteilen an verbundenen Unternehmen sowie an Wertpapieren (Wertrechten) des Anlagevermögens zurückzuführen. Die Beteiligungen erhöhten sich auf € 8,7 Mio. (Vorjahr: T€ 0).



Das Umlaufvermögen hat sich im Geschäftsjahr 2017 auf € 95,1 Mio. erhöht (Vorjahr: € 75,6 Mio.) und ist im Wesentlichen auf die Erhöhung der Forderungen gegenüber verbundenen Unternehmen zurückzuführen. Die Forderungen gegenüber verbundenen Unternehmen betragen zum Stichtag € 86,6 Mio. (Vorjahr: € 71,3 Mio.) und betreffen im Wesentlichen Finanzierungsforderungen, Forderungen aus phasengleicher Ergebnisübernahme sowie Forderungen aus laufenden Verrechnungen.

Das Eigenkapital hat sich weiter erhöht und beträgt zum Stichtag € 262,5 Mio. (Vorjahr: € 256,3 Mio.). Die Eigenkapitalquote beträgt 55,0% und liegt somit auf einem sehr hohen Niveau.

Die Verbindlichkeiten lagen zum Ende des Geschäftsjahres 2017 bei € 212,5 Mio. (Vorjahr: € 209,0 Mio.). Von den Verbindlichkeiten betreffen € 117,8 Mio. (Vorjahr: € 117,8 Mio.) Anleihen, € 24,5 Mio. (Vorjahr: € 24,5 Mio.) Schuldscheindarlehen, € 30,0 Mio. (Vorjahr: € 30,0 Mio.) Namensschuldverschreibungen, € 30 Mio. (Vorjahr: € 30,0 Mio.) Verbindlichkeiten gegenüber Kreditinstituten, € 30 Mio. (Vorjahr: € 30 Mio.) Verbindlichkeiten aus Lieferungen und Leistungen, € 0,2 Mio. (Vorjahr: € 1,472 Mio.) Verbindlichkeiten gegenüber verbundenen Unternehmen sowie € 8 Mio. (Vorjahr: € 3 Mio.) sonstige Verbindlichkeiten.

## C. Mitarbeiter

Im Jahresdurchschnitt beschäftigte die Gesellschaft 11 (Vorjahr: 10) MitarbeiterInnen.

## II) Konzernabschluss der KTM Industries AG (nach IFRS):

### 1. Wesentliche Ereignisse im Geschäftsjahr 2017

Die KTM Industries-Gruppe ist der größte europäische Sportmotorradhersteller und damit eine führende europäische Fahrzeug-Gruppe mit dem strategischen Fokus auf das Sportmotorradsegment und den automotiven high-tech Komponentenbereich. Innerhalb der Gruppe besteht ein hoher Grad an technologischer Vernetzung, welcher in Europa in dieser Form einzigartig ist. Strategische Partnerschaften auf operativer Ebene stärken die Wettbewerbsfähigkeit in unseren relevanten Märkten. All diese Faktoren sind die Grundlage für die hohe Innovationsstärke der KTM Industries-Gruppe und sichern den organischen Wachstumskurs nachhaltig ab. Für weitere Informationen zu den Unternehmensbereichen verweisen wir auf die Segmentberichterstattung des Konzernanhangs.

Im Geschäftsjahr 2017 konnte die KTM Industries-Gruppe ihr **starkes Wachstum** weiter fortsetzen und einen neuen Rekordumsatz in Höhe von € 1.533,0 Mio. erzielen, was einer Steigerung von € 190,0 Mio. entspricht. Das EBIT erreichte € 132,5 Mio. nach € 122,3 Mio. im Vorjahr. Unter Berücksichtigung der vom KTM-Partner Bajaj in Indien und Indonesien verkauften DUKE 200, DUKE 390, RC 200 und RC 390 wurden im Geschäftsjahr 2017 weltweit 238.334 Motorräder der Marken KTM und Husqvarna Motorcycles verkauft. Damit baute die KTM ihre Stellung als größter europäischer Motorradhersteller weiter aus.

Die Umsetzung der globalen Produktstrategie sowie die Expansion in weitere asiatische und süd-amerikanische Märkte wurden in 2017 konsequent weiterverfolgt. Zur Unterstützung dieser Strategie hat KTM ihre **strategischen Partnerschaften** ausgebaut beziehungsweise durch neue Kooperationsvereinbarungen erweitert. So hat Anfang Juli die KTM AG und ihr strategischer Partner **BAJAJ Auto Ltd.**, Indien, bekannt gegeben, die Marke „Husqvarna Motorcycles“ gemeinsam global auszurollen und die kleinen Hubraummodelle künftig in Indien zu produzieren. Mit dieser Ausdehnung der Kooperation auf die Marke Husqvarna Motorcycles kann der zukünftige Absatz nochmals deutlich gesteigert werden, wodurch die Partnerschaft zwischen KTM und Bajaj auf das nächste Level angehoben wird.

Zum weiteren Ausbau der Marktpräsenz am chinesischen Markt geht die KTM AG mit ihrem langjährigen Partner **CF Moto**, Hangzhou City, ein Joint-Venture ein. Durch das Joint Venture soll nicht nur der Auftritt von KTM am chinesischen Markt gestärkt, sondern auch Produkte gemeinsam entwickelt und produziert werden, um den globalen Expansionskurs weiter fortzusetzen.

Um den wichtigen Absatzmarkt Ozeanien (Australien und Neuseeland) strategisch weiter zu entwickeln, hat sich KTM im Juli 2017 mit 26% am **australischen Importeur** Motorcycle Distributors Australia Pty Ltd. beteiligt.

Im Rahmen der Zusammenarbeit mit der philippinischen **Ayala Corporation**, dem Partner und Importeur von KTM und Husqvarna Motorcycles auf den Philippinen, ist die Assemblierung von Modellen der KTM DUKE- und RC-Familie bis 400cm<sup>3</sup> planmäßig im ersten Halbjahr 2017 angelaufen. Somit wurden neue Distributionsmöglichkeiten im ASEAN-Raum eröffnet.

Auf Ebene der KTM Industries AG wurde eine weitere strategische Partnerschaft eingegangen. Im September 2017 beteiligte sich die KTM Industries AG mit 49,9% an der **PEXCO GmbH**. Die im Juli 2017 von der deutschen Unternehmerfamilie Puello gegründete Gesellschaft legt ihren Schwerpunkt auf eMobility. Ab 2018 steigt PEXCO mit Elektro-2 Rädern der Marke „Husqvarna“ und „Raymon“ in den Markt ein. Damit soll eine Technologieführerschaft im Bereich Zero Emission für Leichtgewichtfahrzeuge eingenommen und der nächste wichtige Schritt im Bereich der **eMobility** getätigt werden.

Zur Untermauerung und Stärkung der Strategiekompetenz „**Designentwicklung und Produktinnovation**“ in der KTM Industries-Gruppe wurden im Juni 2017 74% an der KTM Technologies GmbH und 26% an der Kiska GmbH von der operativen KTM AG in die strategische Führungsholding gehoben. Die KTM Technologies GmbH ist im Bereich Technologie, Produktentwicklung und Consulting tätig und setzt den Schwerpunkt auf "High Performance Composites" und „Leichtbau“. Die Verbindung von Fahrzeugbau-Know How sowie langjährige Erfahrungen im Bereich der Composite-Entwicklung und -Fertigung sind der zentrale Kern des Unternehmens. Die Kiska GmbH ist als größtes unabhängiges und eigentümergeführtes Designunternehmen in Europa in den Geschäftsbereichen Consultancy rund um die Themen Marketing, Marke und Design, Transportation Design, Product Design und Environmental Design tätig.

Um das weitere Wachstum der KTM Industries-Gruppe abzusichern und Synergiepotenzial zu realisieren wurde die **WP-Gruppe** als wichtigster Zulieferant der Motorradproduktion in Mattighofen im Jänner 2018 vollständig in die KTM AG integriert. Bei der **Pankl-Gruppe** war das Geschäftsjahr 2017 im Segment Racing/High Performance von zwei gegenläufigen Bewegungen geprägt. Im Racing war Pankl aufgrund der Formel 1-Reglementänderung mit einem sehr positiven ersten Halbjahr konfrontiert. Im zweiten Halbjahr haben die Ausstiege einiger Automobilkonzerne aus verschiedenen Rennserien für ein deutlich moderateres Geschäftsvolumen gesorgt. Genau gegenteilig verlief das High Performance Geschäft. Während im ersten Halbjahr Verzögerungen bei einigen Kundenprojekten den Geschäftsverlauf kennzeichneten, war, im zweiten Halbjahr eine deutliche Geschäftsbelebung zu verzeichnen.

2017 war das Jahr der höchsten Investitionen in der Geschichte der KTM-Industries Gruppe. So wurden im abgelaufenen Geschäftsjahr gesamt rund € 179 Mio. - vorwiegend an den österreichischen Standorten – zur Unterstützung des geplanten Wachstums investiert. Den Schwerpunkt der **Investitionen** in Betriebsanlagen und Infrastruktur bildete das neue High Performance Antriebswerk sowie die Investition in die additive Fertigung bei der Pankl in Kapfenberg und die Erweiterung der Forschungs- und Entwicklungsabteilung bei KTM in Mattighofen. Rund die Hälfte des Investitionsvolumens wurde für die Serienproduktentwicklung und Werkzeuge verwendet, wodurch die Grundlage für die Innovationskraft und das nachhaltige Wachstum gestärkt wurde.

Hervorzuheben sind auch die **Erfolge im Motorsport**, die die KTM AG bereits im Jänner 2017 verzeichnen konnte. Bereits zu Jahresbeginn konnte der KTM-Werksfahrer Sam Sunderland auf seiner KTM 450 RALLY den Sieg bei der Rallye Dakar feiern, übrigens der 16. Sieg für KTM in Folge bei diesem Motorrad-Klassiker. Neben dem seit Jahren erfolgreichen Einsatz in der Moto3, ging KTM in der Saison 2017 auch in der Moto2 an den Start. In der Königsklasse des Motorradrennsports – der MotoGP, der höchsten Rennklasse innerhalb der Motorrad-Weltmeisterschaft - war KTM ebenfalls erstmals vertreten. Die beiden KTM-Werksfahrer, der Spanier Pol Espargaro und der Brite Bradley Smith absolvierten die Saison 2017 sehr erfolgreich und konnten bereits die ersten WM-Punkte für KTM einfahren.

## **2. Wirtschaftliches Umfeld und Marktentwicklung**

Nach Einschätzungen des Internationalen Währungsfonds (IWF) vom Jänner 2018 wird sich die Weltwirtschaft leicht erholen. Der IWF sieht für das Jahr 2018 einen Anstieg der weltweiten Wirtschaftsleistung von 3,9%, wobei für Industrieländer ein Wachstum von 2,3% für 2018 und 2,2% 2019 erwartet wird.

Für die Eurozone wird eine Entwicklung von 2,2% für 2018 und 2,0% für 2019 prognostiziert. Die Entwicklung im US-amerikanischen Raum wird mit einem Anstieg von 2,7% für 2018 angekündigt. Für das Jahr 2019 sieht der IWF ebenfalls ein weltweites Wachstum von 3,9%.

Für Schwellen- und Entwicklungsländer wird ein Wachstum der Wirtschaftsleistung von 4,9% für das Jahr 2018 und 5,0% für das Jahr 2019 prognostiziert, wobei für Indien mit einem Wachstum von 7,4% für 2018 und 7,8% für 2019 die größte Entwicklung erwartet wird. Für den ASEAN-Raum wird für 2018 mit einem Wachstum von 5,3% gerechnet.

## Motorradmarkt

Der **europäische Gesamtmarkt**<sup>1</sup> verzeichnete im Vergleich zum Vorjahr mit rund 539.000 zugelassenen Fahrzeugen einen Rückgang von - 5,7%. Der Rückgang in 2017 im Vergleich zum Vorjahr ist im Wesentlichen durch eine atypisch hohe Zulassungswelle von EURO3-Fahrzeugen im vierten Quartal 2016 zu erklären und ist vorwiegend in den großen europäischen Märkten wie Deutschland (-19,3%), Großbritannien (- 14,3%) und Schweden (- 24,6%) feststellbar. Die Märkte in Frankreich (+ 3,4%) und Italien (+ 8,0%) zeigten dagegen eine positive Entwicklung der zugelassenen Fahrzeuge. Positiv herauszuheben ist ebenfalls Großbritannien, das in einem sehr schwierigen Marktumfeld einen deutlichen Zuwachs bei den Marktanteilen (+10,7%) vorweisen kann. KTM und Husqvarna bleiben 2017 bei einem zweistelligen Marktanteil bei den straßenzugelassenen Motorrädern in Europa.

Die Fahrzeuge der Marke KTM konnten in diesem schwierigen Marktumfeld in den wichtigen Märkten wie Großbritannien (+ 0,6 Prozentpunkt zum Vorjahr) und den Niederlanden (+ 1,4 Prozentpunkte zum Vorjahr) die Marktanteile steigern. In den Hauptmärkten in Deutschland, Frankreich und Italien wurde jedoch ein Rückgang verzeichnet. Am europäischen Gesamtmarkt beträgt der Marktanteil von KTM 8,7% (Vorjahr: 9,7%).

Der Marktanteil von Husqvarna Motorcycles konnte sich in Märkten wie Deutschland (+0,3 Prozentpunkte zum Vorjahr), Großbritannien (+0,2 Prozentpunkte zum Vorjahr) und der Schweiz (+0,2 Prozentpunkte zum Vorjahr) positiv entwickeln. Jedoch wurde eine leicht rückläufige Entwicklung der Marktanteile in Frankreich (-0,2 Prozentpunkte zum Vorjahr), Italien (- 0,5 Prozentpunkte zum Vorjahr) und Schweden (-2,6 Prozentpunkte zum Vorjahr) verzeichnet. Am europäischen Gesamtmarkt beträgt der Marktanteil von Husqvarna 1,4% (Vorjahr: 1,6%).

Die Zulassungen am **US-Gesamtmarkt**<sup>2</sup> entwickelten sich im Geschäftsjahr 2017 mit rund 391.000 Fahrzeugen leicht rückläufig (Vorjahr: 407.000 Fahrzeuge). KTM und Husqvarna konnten trotz des schrumpfenden Gesamtmarktes – getrieben durch den starken Einbruch von Harley-Davidson – die Marktanteile in den USA und Canada deutlich ausbauen. KTM steigerte die Marktanteile am US-Gesamtmarkt gegenüber dem Vorjahr um 0,6 Prozentpunkte auf 6,1%. Husqvarna erhöhte seine Marktanteile um 0,4 Prozentpunkte auf 1,9% am US-Gesamtmarkt.

In **Australien und Südafrika** konnten ebenfalls starke Zuwächse verzeichnet werden. KTM und Husqvarna erreichen in Australien einen Marktanteil von 13,6% (+ 0,6 Prozentpunkte zum Vorjahr) sowie am südafrikanischen Markt konnte ein Anteil von 16,4% (+ 3,1 Prozentpunkte zum Vorjahr) erzielt werden.

<sup>1</sup> Motorräder >= 120ccm ohne Motocross, Scooters und ATVs, inkl. Elektromotorräder

<sup>2</sup> Motorräder >= 120 ccm inklusive Motocross, ohne Scooters und ATVs, inkl. Elektromotorräder

## Racing/High Performance Markt

Im abgelaufenen Geschäftsjahr haben sich, nach fast neun Jahren durchgängiger Krisenstimmung, endlich auch in Europa die gesamtwirtschaftlichen Rahmenbedingungen verbessert. In den USA war ein drittes Jahr in Folge eine solide Konjunktorentwicklung zu verzeichnen. Die USA stellen mit 24,3% Anteil am Gesamtumsatz weiterhin den größten Absatzmarkt für die Pankl-Gruppe dar. Die größten Absatzmärkte in Europa sind Deutschland (19,0%), Österreich (13,2%) und Italien (12,3%). Nachdem sich die positive wirtschaftliche Entwicklung auch in Asien fortgesetzt hat, war 2017 global gesehen das wirtschaftlich beste Jahr seit langem. Und der wirtschaftliche Ausblick ist auch für 2018 eindeutig positiv.

Am **Rennsport-Markt** spezialisiert sich Pankl auf die Entwicklung, Konstruktion, Herstellung und das Testen von Kurbeltrieben, Kolben, Kolbenbolzen, Pleuel, Kurbelwellen und Turbo-Applikationen sowie komplette Antriebs- und Fahrwerkssysteme für den Rennsport. Pankl beliefert internationale Rennserien wie die Formel 1, NASCAR (National Association for Stock Car Auto Racing), MotoGP, WEC (World Endurance Championship), DTM (Deutsche Tourenwagen-Meisterschaft) sowie die WRC (World Rally Championship), wobei die Formel 1 hinsichtlich des Umsatzes nach wie vor die für Pankl wichtigste Rennserie darstellt. Der Racing-Markt erfordert enorme Flexibilität und ist durch einen sehr kurzfristigen Planungshorizont sowie einen kurzen Produktlebenszyklus geprägt.

Im Rennsport-Markt ist die Nachfrage vor allem von der weltweiten Konjunktorentwicklung im Allgemeinen und der Automobilkonjunktur im Speziellen beeinflusst. Die Konjunkturzyklen finden ihrerseits ihren Niederschlag in der Höhe der Rennsportbudgets und in der Anzahl der Teilnehmer. Die Organisatoren von Rennserien versuchen durch entsprechende Reglementänderungen die Attraktivität ihrer jeweiligen Rennserie für die Stakeholder zu erhöhen. So werden in wirtschaftlich schlechteren Zeiten beispielsweise die Kosten für die Teilnehmer durch Entwicklungs- und Testbeschränkungen begrenzt

Im Bereich **High Performance** entwickelt und fertigt Pankl Antriebs- und Motorkomponenten für Luxusautomobile, Motorkomponenten für den Aftermarket sowie High Performance Aluminiumschmiedeteile. Im 2017 in Betrieb genommenen High-Performance Antriebswerk werden Getriebe-komponenten für Motorräder gefertigt. Der sich in den letzten Jahren verstärkte Trend zur Entwicklung rennsportnaher Serienautomobile, hat dazu geführt, dass dieses Marktsegment für die Pankl-Gruppe zunehmend an Bedeutung gewonnen hat.

Das Know-how aus dem Rennsport fließt kontinuierlich in die Serienproduktion ein. Die Zielgruppe von Pankl sind jene OEMs (Original Equipment Manufacturer), die Kraftfahrzeuge (Straßensportwagen, Straßensportmotorräder) mit Hochleistungsmotoren in kleinen und mittleren Serien (einige hundert bis zu rund 30.000 Fahrzeuge pro Jahr) herstellen. Zum Kundenkreis im Bereich Straßensportwagen zählen unter anderem Porsche, Mercedes AMG, Ferrari, McLaren, GM, Audi, Bugatti und Lamborghini. Bauteile für den Motorradsport werden beispielsweise für Kunden wie Honda, Yamaha, KTM oder Ducati erzeugt.

### Aerospace Markt

Pankl Aerospace, mit Werken in den USA und Europa, beliefert als direkter Zulieferant die Luftfahrtindustrie mit komplexen Antriebskomponenten, Triebwerkswellen, Luftbetankungsrohren und Fahrwerksteilen für Flächenflugzeuge und Helikopter. Die Produkte müssen die höchsten Anforderungen erfüllen, da der sichere Betrieb der damit ausgestatteten Luftfahrzeuge- und Triebwerke davon abhängt. Das Produktportfolio umfasst die Entwicklung und Produktion von hochzuverlässigen Leichtbau-Antriebskomponenten und -systeme für über 60 verschiedene Triebwerks-, Flächenflugzeug- und Helikoptertypen.

Pankl ist qualifizierter und von zahlreichen namhaften OEMs zugelassener Hersteller von sogenannten Flight Safety Parts and -Systems (sicherheitskritischen Bauteilen) für die Marktführer der Luftfahrtindustrie.

### 3. Finanzielle Leistungsindikatoren

<b>Ertragskennzahlen</b>		<b>2017</b>	<b>2016</b>	<b>Vdg. in %</b>
Umsatzerlöse	in € Mio.	1.533,0	1.343,0	14%
Betriebsergebnis vor Abschreibung (EBITDA)	in € Mio.	218,9	198,4	10%
EBITDA-Marge	in %	14,3%	14,8%	
Ergebnis der betrieblichen Tätigkeit (EBIT)	in € Mio.	132,5	122,3	8%
EBIT-Marge	in %	8,6%	9,1%	
Ergebnis nach Steuern	in € Mio.	83,9	89,0	-6%
Ergebnis nach Minderheiten	in € Mio.	44,7	52,1	-14%
<b>Bilanzkennzahlen</b>		<b>31.12.2017</b>	<b>31.12.2016</b>	<b>Vdg. in %</b>
Bilanzsumme	in € Mio.	1.465,2	1.423,8	3%
Eigenkapital	in € Mio.	528,6	454,9	16%
Eigenkapitalquote	in %	36,1%	32,0%	
Working Capital Employed <sup>1)</sup>	in € Mio.	238,4	245,2	-3%
Nettoverschuldung <sup>2)</sup>	in € Mio.	375,0	364,6	3%
Gearing <sup>3)</sup>	in %	70,9%	80,1%	
<b>Cash-Flow und Investitionen</b>		<b>2017</b>	<b>2016</b>	<b>Vdg. in %</b>
Cash-Flow aus Betriebstätigkeit	in € Mio.	161,3	167,8	-4%
Cash-Flow aus Investitionstätigkeit	in € Mio.	-154,0	-158,8	-3%
Cash-Flow aus Finanzierungstätigkeit	in € Mio.	-118,0	139,2	<100%
Investitionen <sup>4)</sup>	in € Mio.	178,6	144,4	24%
<b>Mitarbeiter</b>		<b>31.12.2017</b>	<b>31.12.2016</b>	<b>Vdg. in %</b>
Mitarbeiter <sup>5)</sup>	Anzahl	5.887	5.069	16%
<b>Wertschaffung</b>		<b>31.12.2017</b>	<b>31.12.2016</b>	
ROCE (Return on Capital Employed) <sup>6)</sup>	in %	13,9%	13,9%	
ROE (Return on Equity) <sup>7)</sup>	in %	17,1%	21,2%	

<sup>1)</sup> Working Capital = Vorräte + Forderungen aus Lieferungen und Leistungen - Verbindlichkeiten aus Lieferungen und Leistungen

<sup>2)</sup> Nettoverschuldung = Finanzverbindlichkeiten (kurzfristig, langfristig) - Zahlungsmittel

<sup>3)</sup> Gearing = Nettoverschuldung/Eigenkapital

<sup>4)</sup> Zugänge von Sachanlagen und immateriellen Vermögenswerten laut Anlagespiegel

<sup>5)</sup> Mitarbeiterstand zum Stichtag (inklusive Leiharbeiter)

<sup>6)</sup> ROCE: EBIT/durchschnittliches Capital Employed

Capital Employed = Sachanlagen + Firmenwert + Immaterielle Vermögenswerte + Working Capital Employed

<sup>7)</sup> ROE = Ergebnis nach Steuern/durchschnittliches Eigenkapital

#### Geschäftsentwicklung und Analyse der Ertragskennzahlen

Im Geschäftsjahr 2017 erzielte die KTM Industries-Gruppe Umsatzerlöse in Höhe von € 1.533,0 Mio. (Vorjahr: € 1.343,0 Mio.) und ein Ergebnis der betrieblichen Tätigkeit (EBIT) in Höhe von € 132,5 Mio, welches im Vergleich zur Vorjahresperiode um rund 8% gestiegen ist (Vorjahr: € 122,3 Mio.).

Die im Vergleich zum Vorjahr geringere EBIT-Marge ist Einmaleffekten in 2016 und 2017 geschuldet. Das Vorjahres-EBIT war aufgrund des Verkaufes einer nicht betriebsnotwendigen Liegenschaft bei WP positiv beeinflusst. Im laufenden Geschäftsjahr dagegen waren Einmalaufwendungen in Höhe von ca. € 4 Mio. aus dem Hochfahren des Getriebewerkes in Kapfenberg im EBIT enthalten. Bereinigt um die beiden Effekte liegt die EBIT-Marge mit 8,9% zu 8,8% leicht über Vorjahr.

Das Ergebnis nach Steuern verringerte sich von € 89,0 Mio. auf € 83,9 Mio. Das Vorjahres-Ergebnis war infolge von aktivierten latenten Steuern auf Verlustvorträge positiv begünstigt. In 2017 erhöhte sich jedoch aufgrund des geänderten Steuergesetzes in den USA der latente Steueraufwand, was insgesamt verglichen zum Vorjahr zu einer deutlich höheren Steuerquote von 28,3 % verglichen mit dem Vorjahr von 18,3% führte.

Die Ertragskennzahlen verteilen sich auf die Kernbereiche wie folgt (exklusive Konsolidierungseffekte):

	KTM AG		WP Performance Systems GmbH		Pankl Racing Systems AG	
	2017	2016	2017	2016	2017	2016
	Mio. €	Mio. €	Mio. €	Mio. €	Mio. €	Mio. €
Umsatz	1.331,7	1.141,8	179,7	166,1	195,4	186,0
EBITDA	178,8	160,0	15,5	16,4	25,9	26,2
EBIT	113,1	102,8	10,2	11,8	11,8	13,2
Ergebnis nach Steuern	79,0	72,1	7,6	14,0	5,7	10,0

### KTM AG

Das Geschäftsjahr 2017 geht als weiteres Rekordjahr in die KTM-Geschichte ein. Durch die konsequent verfolgte Umsetzung der globalen Produktstrategie und die Expansion auf allen Kontinenten konnte KTM sowohl den Umsatz als auch den Absatz erneut steigern und somit auch im Jahr 2017 ein neuerliches Rekordniveau erreichen.

Im Geschäftsjahr 2017 erhöhte sich bei der KTM AG der Nettoumsatz um 16,6 % auf € 1.331,7 Mio. (Vorjahr: € 1.141,8 Mio.). Dies ist auf die Steigerung der Absatzmenge zurückzuführen. Rund 96 % der Umsatzerlöse wurden außerhalb Österreichs erzielt. Das EBIT konnte aufgrund der positiven Absatz- und Umsatzentwicklung im Vergleich zum Vorjahr um € 10,3 Mio. auf € 113,1 Mio. (Vorjahr: € 102,8 Mio.) gesteigert werden.

Mit 238.334 verkauften KTM und Husqvarna Motorrädern im Geschäftsjahr 2017 hat die KTM AG ihre Stellung als größter europäischer Motorradhersteller weiter ausgebaut. Der Absatz wurde um mehr als 17% gegenüber dem Vorjahr gesteigert.

Im ersten Halbjahr 2017 wurde die neue KTM DUKE Modellgeneration in den Markt eingeführt. Husqvarna stellte die neue 2018 Enduro Range sowie die 2018 Motorcross Range vor. Im Oktober enthüllte KTM die zweite Generation seiner FREERIDE E-XC des Modelljahres 2018. Auf der Motorradmesse EICMA in Mailand präsentierte KTM im November ein völlig neues Serienmotorrad, die KTM 790 DUKE, sowie den Prototypen der KTM 790 ADVENTURE R. Damit gab das österreichische Unternehmen einen Ausblick darauf, wie es sein Produktportfolio mit Hilfe seines neuen Reihen-2-Zylindermotors namens LC8c mit 799 ccm auszubauen gedenkt. Weiters stellte KTM auch die völlig neue Generation der KTM 450 RALLY vor. Weiters stellte Husqvarna Motorcycles die Naked Bikes Vitpilen 401 und Svartpilen 401, sowie die große Schwester Vitpilen 701 und das Concept Bike Svartpilen 701 vor.

**WP Performance Systems GmbH**

Das Geschäftsjahr 2017 der WP Gruppe war - auf Grund der Neuausrichtung der Gruppe mit einer noch engeren Vernetzung mit der KTM Gruppe vor allem in Richtung Produktstrategie - von strukturellen Veränderungen geprägt, wodurch die Gruppe den Umsatz auf € 179,7 Mio. steigern konnte. (Vorjahr: € 166,1 Mio.). Der Umsatzanstieg war in allen Produktparten und über einen Großteil der Kundensegmente festzustellen. WP konnte aufgrund des starken Wachstums von KTM - die WP Gruppe macht über 85% des Umsatzes mit KTM - ein über dem Markt liegendes Wachstum realisieren.

Das Betriebsergebnis (EBIT) mit € 10,2 Mio. (Vorjahr: € 11,8 Mio.) liegt unter dem Ergebnis des Vorjahres, dies ist aber vor allem auf den Ertrag aus der Veräußerung einer nicht betriebsnotwendigen Immobilie im Jahr 2016 zurückzuführen. Die Ertragslage des Konzerns war zudem durch Anlaufkosten für Neuprodukte und Kosten und Investitionen für den Ausbau und Modernisierung der Produktion und des Maschinenparks zur Sicherung und Ausbau der Fertigungskapazitäten gekennzeichnet.

Trotz eines verhaltenen Wachstums des Gesamtmarkts konnte WP im Bereich Fahrwerkskomponenten ein sehr starkes Mengen- und Umsatzwachstum vorweisen, was auf das starke Wachstum bei KTM zurückzuführen ist. Wie auch im Bereich Chassis ist der Bereich Engine Components von einer seit 2016 bestehenden intensiven Zusammenarbeit mit der KTM Gruppe geprägt, wodurch die permanente Neu- und Weiterentwicklung der Produkte gesichert ist.

**Pankl Racing Systems AG**

Die Umsatzerlöse der Pankl-Gruppe konnten im Geschäftsjahr 2017 gegenüber dem Vorjahr um 5,1% auf einen neuen Rekordwert von € 195,4 Mio. gesteigert werden. Im Segment Racing/High Performance konnten sowohl im Geschäftsbereich Racing als auch im Bereich High Performance Umsatzanstiege gegenüber 2016 verzeichnet werden. Auch im Segment Aerospace ist eine Umsatzsteigerung im Vergleich zu den Vorjahren zu verbuchen.

Trotz der Anlaufkosten in Höhe von € 4 Mio. für das neue High-Performance Antriebswerk erreichte die Pankl Gruppe ein operatives Ergebnis von € 11,8 Mio. (2016: € 13,2 Mio.) und befindet sich somit auf einem sehr guten Niveau. Die EBIT-Marge beläuft sich auf 6,0% vom Umsatz (2016: 7,1%).

Auf Grund des geänderten Formel 1-Reglements hat sich die Ertragslage im Bereich Racing positiv entwickelt. Das High-Performance Geschäft entwickelte sich unter Berücksichtigung der Anlaufkosten im abgelaufenen Jahr stabil. Insgesamt erwirtschaftete das Segment Racing/High Performance einen Umsatz in Höhe von € 169,0 Mio. nach € 161,5 Mio. in 2016, was einer Umsatzsteigerung von 4,6% entspricht. Aufgrund der Anlaufkosten des neuen High-Performance-Antriebswerks verringerte sich das operative Ergebnis (EBIT) von € 12,0 Mio. in 2016 auf € 10,7 Mio. in 2017. Dies entspricht einer EBIT Marge von 6,3% (2016: 7,4%).

Das Luftfahrtgeschäft zeigt sich trotz des anhaltend schwachen Helikoptergeschäfts positiv. Dies ist vor allem auf ein ansteigendes Triebwerkswellengeschäft zurückzuführen. Der Umsatz im Geschäftsjahr 2017 lag mit € 27,5 Mio. über dem Vorjahr (€ 25,5 Mio.). Auch beim operativen Betriebsergebnis (EBIT) zeigte sich ein leichter Anstieg auf € 1,2 Mio. (2016: € 1,1 Mio.). Die EBIT-Marge betrug unverändert 4,4% (2016: 4,4%).



**Bilanzanalyse**

Die Bilanzstruktur der KTM Industries-Gruppe setzt sich wie folgt zusammen:

	2017		2016	
	Mio. €	in %	Mio. €	in %
Langfristige Vermögenswerte	782,1	53%	692,3	49%
Kurzfristige Vermögenswerte	683,0	47%	731,5	51%
<b>Vermögenswerte</b>	<b>1.465,2</b>	<b>100%</b>	<b>1.423,8</b>	<b>100%</b>
Eigenkapital	528,6	36%	454,9	32%
Langfristige Schulden	461,5	31%	534,9	38%
Kurzfristige Schulden	475,1	32%	433,9	30%
<b>Eigenkapital und Schulden</b>	<b>1.465,2</b>	<b>100%</b>	<b>1.423,8</b>	<b>100%</b>

Die Bilanzsumme der KTM Industries-Gruppe erhöhte sich gegenüber dem Vorjahr um € 41,4 Mio. bzw. 3% auf € 1.465,2 Mio.

Einerseits steigerten sich die langfristigen Vermögenswerte aufgrund des weiterhin über den Abschreibungen liegenden Investitionsniveaus (+13,0%). Andererseits verringerten sich die kurzfristigen Vermögenswerte im Wesentlichen infolge der planmäßigen Tilgungen der in 2012 von der KTM AG (€ 85,0 Mio.) und in 2013 von der Pankl Racing Systems AG (€ 10,0 Mio.) begebenen Anleihen. Zudem wurde ein Teilbetrag des Schuldscheindarlehens der KTM Industries AG in Höhe von € 32,0 Mio. in 2017 vorzeitig rückgezahlt. Unter Berücksichtigung des wachstumsbedingten Anstiegs der Vorräte verringerten sich die kurzfristigen Vermögenswerte um -6,6%. Insgesamt blieb die Bilanzsumme über Vorjahr.

Das Eigenkapital erhöhte sich im Geschäftsjahr um € 73,6 Mio. von € 454,9 Mio. auf € 528,6 Mio. Zum einen wurde durch das Periodenergebnis in Höhe von € 83,9 Mio. und der eigenkapitalwirksamen Begebung eines Perpetual Bonds bei der Pankl Racing Systems AG in Höhe von € 10,0 Mio. das Eigenkapital gestärkt, andererseits führten Dividendenzahlungen zu einer Verringerung des Eigenkapitals. Trotz Bilanzverlängerung konnte aufgrund der sehr guten Ertragslage die Eigenkapitalquote von 32,0% auf 36,1% deutlich gesteigert werden.

**Liquiditätsanalyse**

Der Cashflow aus dem operativen Bereich lag im Geschäftsjahr 2017 bei € 161,3 Mio. und damit leicht unter dem Vorjahreswert von € 167,8 Mio.

Der Zahlungsmittelabfluss aus Investitionen betrug € -154,0 Mio. Das seit fast 4 Jahren bei einem deutschen Schiedsgericht anhängige Verfahren hinsichtlich Gewährleistungsansprüchen aus dem Verkauf der Peguform Gruppe im Jahr 2012 wurde im Februar 2017 nunmehr zu hundert Prozent zugunsten der KTM Industries-Gruppe entschieden. Der seit der Veräußerung der Beteiligung auf einem Treuhandkonto hinterlegte Restkaufpreis in Höhe von rund € 20,4 Mio. floss im Juni zur Gänze der KTM Industries zu. Zudem hat die KTM Industries AG im März 2017 ihren Minderheitenanteil (24%) an der AGM Durmont Austria GmbH an den bisherigen Mehrheitseigentümer AGM Gruppe zu einem Betrag von € 2,4 Mio. vollständig verkauft. Beide Devestitionen wirkten sich positiv auf den Investitions-Cash Flow aus.

Nach Berücksichtigung des Cashflows aus Finanzierungsaktivitäten in Höhe von € -118,0 Mio. verringerten sich die liquiden Mittel im Vergleich zum Vorjahr um € 114,5 Mio. (inklusive Fremdwährungseffekte von € -3,8 Mio.) auf € 169,1 Mio. Der Finanzierungs-Cash Flow war im Wesentlichen aufgrund der planmäßigen Tilgungen von Anleihen bei der KTM AG und Pankl Racing Systems AG sowie der Teilrückzahlung des Schuldscheindarlehens bei der KTM Industries AG negativ beeinflusst.

### **Investitionen**

Im abgelaufenen Geschäftsjahr wurden in der **KTM Industries-Gruppe** € 178,6 Mio. (Vorjahr: € 144,4 Mio.) in Sachanlagen und Immaterielle Vermögenswerte investiert.

Bei der **KTM AG** wurden im abgelaufenen Geschäftsjahr neben den gewohnt hohen Investitionen in Serienentwicklungsprojekte und in die Anschaffung von Werkzeugen erhebliche Kapazitäts- und Erweiterungsinvestitionen vorgenommen. Die Erweiterung des Logistikzentrums in Munderfing wurde fertiggestellt und der Ausbau der Entwicklungszentrale sowie die KTM Motohall in Mattighofen befinden sich in Bau. Ebenfalls wurde am Standort in Munderfing mit dem Bau des „House of Brands“ für Marketing und Vertrieb begonnen. Die KTM AG eröffnete Anfang Juli ein neues Entwicklungszentrum in Rosenheim, Deutschland. Die Fachkräfte am Standort werden sich vor allem auf die Elektronikentwicklung im Motorradbereich konzentrieren. Insgesamt wurden im Geschäftsjahr 2017 € 136,6 Mio. (Vorjahr: € 107,5 Mio.) in Sachanlagen und immaterielle Vermögenswerte investiert. Davon entfallen rund € 80,0 Mio. auf aktivierte Entwicklungskosten und Werkzeuge.

Die **WP-Gruppe** investierte im Geschäftsjahr 2017 in Sachanlagen und immaterielle Vermögenswerte € 6,9 Mio. (Vorjahr: € 12,8 Mio.). Im Wesentlichen betrafen die Investitionen den Ausbau und die Modernisierung der Produktion und des Maschinenparks sowie den Ausbau der Fertigungskapazitäten.

Das Geschäftsjahr der **Pankl Racing Systems AG** war in erster Linie von der erfolgreichen Inbetriebnahme des neu errichteten, hochmodernen High Performance Antriebswerkes in Kapfenberg geprägt. Mit dem innerhalb von zwei Geschäftsjahren errichteten, in die drei Teilbereiche Getriebekomponentenfertigung, Wärmebehandlung und additive Fertigung gegliederten Werk repräsentiert dieses Werk das bisher größte Investitionsprojekt der Firmengeschichte. Bis Oktober 2017 wurden die Anlagen in Betrieb genommen und Muster- und Freifahrbauteile produziert. Ab Mitte Oktober wurde mit der Serienproduktion begonnen. Anlaufkosten in plangemäßer Höhe von knapp über € 4 Mio. sind voll im Betriebsergebnis 2017 berücksichtigt. Bei der Pankl Racing Systems AG wurden im Geschäftsjahr 2017 somit € 35,7 Mio. in Sachanlagen und immaterielle Vermögenswerte investiert. Vor allem auf Grund der Investitionen in das neue Antriebswerk lag die Investitionssumme damit deutlich über den Abschreibungen.

## **4. Nichtfinanzielle Leistungsindikatoren**

Die Gesellschaft erstellte für die KTM Industries-Gruppe einen konsolidierten nichtfinanziellen Bericht gemäß § 267a UGB für das Geschäftsjahr 2017, welcher Angaben zu Konzepten, nichtfinanziellen Risiken, Due Diligence Prozessen sowie Ergebnissen und Leistungsindikatoren hinsichtlich Umwelt-, Sozial- und Arbeitnehmerbelangen, der Achtung von Menschenrechten, sowie der Bekämpfung von Korruption und Bestechung, enthält. Dieser Bericht wurde vom Aufsichtsrat gemäß § 96 AktG geprüft und ist im vorliegenden Geschäftsbericht unter „Kapitel Nachhaltigkeitsbericht“ zu finden.

## Forschung und Entwicklung

Der Aufwand für Forschung und Entwicklung (vor Aktivierung von Entwicklungsleistungen) lag im Geschäftsjahr 2017 in der **KTM Industries-Gruppe** bei € 127,8 Mio. (Vorjahr: € 106,2 Mio.). Die Produkte aller Konzernunternehmen bewegen sich in einem sehr anspruchsvollen Leistungsniveau, weshalb von den Kunden eine permanente Entwicklung und Weiterentwicklung gefordert wird. Der Produktlebenszyklus ist je nach Kunden stark abweichend.

In der Forschungs- und Entwicklungsabteilung beschäftigte die **KTM AG** im Geschäftsjahr 2017 durchschnittlich 540 Mitarbeiter (Vorjahr: 487 Mitarbeiter), das entspricht 17% der gesamten Belegschaft. Rund € 107,2 Mio. (Vorjahr: € 92,6 Mio.) wurden im Geschäftsjahr 2017 in die Forschung und Entwicklung investiert, dies entspricht 8,1% des Gesamtumsatzes (unverändert gegenüber dem Vorjahr).

Das abgelaufene Geschäftsjahr umfasste bei der operativen KTM eine Vielzahl verschiedener Projekte in den Off-road- und Street-Segmenten. Allem voran steht die Serienüberleitung der KTM 1290 Super-Duke GT, mit der es KTM gelungen ist, das Sporttouring-Segment neu zu definieren. Das mit einer Reihe innovativer Sicherheitssysteme und neuartiger Komfortfunktionen ausgestattete Modell konnte in renommierten Vergleichstests durchwegs Bestnoten einfahren.

Besonders hervorzuheben ist die Einführung der weltweit ersten serienmäßig produzierten 2-Takt-Offroad-Motorräder mit Kraftstoffeinspritzung. Neben zahlreichen Vorteilen für den Kunden konnte somit auch eine Konformität mit gegenwärtigen Emissionsstandards gewährleistet werden.

Ein weiteres zentrales Projekt stellte die Weiterentwicklung der KTM Adventure Modellreihe dar. Neben der Überarbeitung unzähliger Details zeichnen sich diese Modelle insbesondere durch ihre gänzlich neuentwickelte Voll-LED Scheinwerfereinheit und das neue TFT-Dashboard, das erstmals eine Vernetzung des Fahrers mit dem Motorrad ermöglicht, aus. Parallel dazu wurde die Entwicklung neuer HUSQVARNA Modelle im Straßensegment weiter vorangetrieben. Die im Rahmen der EICMA im November 2016 vorgestellten Fahrzeuge polarisieren insbesondere durch klare, auf das Wesentliche reduzierte Designansätze. Im Geschäftsjahr 2017 wurde eine Vielzahl an F&E-Projekten in verschiedenen Stadien von Konzeptentwicklungen bis hin zu Serienanläufen vorangetrieben und erfolgreich abgeschlossen.

Die im Jahr 2016 gestartete und 2017 intensiviertere engere Vernetzung der **WP-Gruppe** mit der KTM-Gruppe hat eine intensive Zusammenarbeit im Bereich Forschung und Entwicklung zur Folge. In den Produktsegmenten Fahrwerk, Kühler, Rahmen und Auspuff wird gemeinsam mit KTM ständig an neuen Entwicklungen und Verbesserungen am bestehenden Produktportfolio gearbeitet.

Forschung und Entwicklung nimmt auch in der **Pankl-Gruppe** eine zentrale Rolle ein. Die Gesamtaufwendungen für die intensiven Forschungs- und Entwicklungstätigkeiten beliefen sich im Geschäftsjahr 2017 auf € 15,3 Mio. (Vorjahr: € 13,2 Mio.).

Die Pankl Racing Systems AG gibt laufend ihr Bestes, den hohen Ansprüchen gerecht zu werden. Dabei hilft im Bereich „Forschung & Entwicklung“ z.B. Wärmebehandlungs-Entwicklungen und Prozessrouten-Optimierung für bessere Materialeigenschaften - dadurch erst kann Leichtbau ermöglicht werden (dies bedeutet weniger Vormaterialeinsatz und geringeren Treibstoffverbrauch beim Endkunden durch geringere bewegte Masse).

Im Geschäftsjahr 2017 hat Pankl seine Aktivitäten im Bereich „Additive Fertigung“ (additive manufacturing - AM) weiter ausgebaut und ein „Innovation-Lab“ eingerichtet, welches folgende Bereiche umfasst:

- Fokus des Innovation Labs sind High-Performance Bauteile hergestellt in AM, sowie die Etablierung von AM in High-Performance Anwendungen (besonders Luftfahrt und Motorsport).
- Nutzung des Werkstofftechnik Know-Hows zur Verbesserung der mechanischen und dynamischen Eigenschaften von Bauteilen
- Verwendung von HIPen (Hot Isostatic Pressing) und in-house Wärmebehandlung
- Entwicklung von neuen Pulvern sowie Optimierung der Prozessparameter für diese neuen Pulver, aber auch für bestehende
- Einbindung von innovativen Designansätzen für High-Performance AM
- Bauteile-Kompetenz

Auch die komplette Prozesskette befindet sich in House:

- Pre-Prozessing (Design, Topologieoptimierung, FEM Berechnung)
- Drucken (8 x Metalldrucker neuester Technologie von EOS & ARCAM)
- Post-Prozessing (Wärmebehandlung, HIPen, Oberflächenoptimierung)

## **5. Risikobericht und Finanzinstrumente**

Für die Ausführungen zum Risikobericht und zum internen Kontroll- und Risikomanagementsystems im Hinblick auf den Rechnungslegungsprozess sowie Finanzinstrumente verweisen wird auf den Konzernanhang (Kapitel VII und VIII) der KTM Industries AG.

## **6. Angaben gemäß § 243a (Abs. 1) UGB**

1. Das Grundkapital beträgt EUR 225.386.742. Es ist zerlegt in 225.386.742 Stück auf Inhaber lautende, nennbetragslose Stückaktien mit Stimmrecht, wobei jede Stammaktie am Grundkapital in gleichem Umfang beteiligt ist. Die Aktien gewähren die gewöhnlichen nach dem österreichischen Aktiengesetz den Aktionären zustehenden Rechte. Dazu zählt das Recht auf die Auszahlung der in der Hauptversammlung beschlossenen Dividende sowie das Recht auf Ausübung des Stimmrechtes in der Hauptversammlung. Sämtliche Aktien der Gesellschaft sind zum Handel an der Wiener Börse zugelassen. Seit dem 14. November 2016 notieren die Aktien der Gesellschaft auch an der SIX SWISS EXCHANGE (Zürich, Schweiz).
2. Dem Vorstand sind keine Beschränkungen bekannt, die Stimmrechte oder die Übertragung von Aktien betreffen.
3. Nach Kenntnis der Gesellschaft bestand per 31. Dezember 2017 folgende direkte oder indirekte Beteiligung am Kapital der KTM Industries AG, die zumindest 10 von Hundert betragen:  
  
Pierer Konzerngesellschaft mbH: 63,61%
4. Es gibt keine Aktien mit besonderen Kontrollrechten.
5. Es bestehen derzeit keine Mitarbeiterbeteiligungsmodelle.
6. Es bestehen keine über das Gesetz hinausgehenden Bestimmungen hinsichtlich der Mitglieder des Vorstandes und des Aufsichtsrates.

7. Möglichkeiten, Aktien auszugeben oder zurückzukaufen:

In der Hauptversammlung vom 27. April 2017 wurden folgende Beschlüsse gefasst:

- a) Die Ermächtigung des Vorstandes mit Zustimmung des Aufsichtsrates bis 01.04.2022 Finanzinstrumente im Sinne des § 174 AktG, insbesondere Wandelschuldverschreibungen, Gewinnschuldverschreibungen und Genussrechte, mit einem Gesamtnennbetrag von EUR 150.000.000,00, die auch das Bezugs- und/oder das Umtauschrecht auf den Erwerb von insgesamt bis zu 25.000.000 Aktien der Gesellschaft einräumen können und/oder auch so ausgestaltet sind, dass ihr Ausweis als Eigenkapital erfolgen kann, auch in mehreren Tranchen und in unterschiedlicher Kombination, auszugeben.
- b) Für die Bedienung der Umtausch- und/oder Bezugsrechte kann der Vorstand das bedingte Kapital und/oder eigene Aktien verwenden.
- c) Ausgabebetrag und Ausgabebedingungen der Finanzinstrumente sind vom Vorstand mit Zustimmung des Aufsichtsrates festzusetzen, wobei der Ausgabebetrag nach Maßgabe anerkannter finanzmathematischer Methoden sowie des Kurses der Aktien der Gesellschaft in einem anerkannten Preisfindungsverfahren zu ermitteln ist.
- d) Der Vorstand ist berechtigt, das Bezugsrecht der Aktionäre auf die Finanzinstrumente im Sinne des § 174 AktG mit Zustimmung des Aufsichtsrates auszuschließen.
- e) Die bedingte Erhöhung des Grundkapitals der Gesellschaft gemäß § 159 Abs 2 Z 1 AktG um bis zu EUR 25.000.000,00 durch Ausgabe von bis zu 25.000.000 auf Inhaber lautende Stammaktien ohne Nennwert (Stückaktien) zur Ausgabe an Gläubiger von Finanzinstrumenten gemäß § 174 AktG, die unter Ausnutzung der in dieser Hauptversammlung eingeräumten Ermächtigung von der Gesellschaft ausgegeben werden, soweit die Gläubiger der Finanzinstrumente von ihrem Umtausch und/oder Bezugsrecht auf Aktien der Gesellschaft Gebrauch machen. Der Ausgabebetrag und das Umtauschverhältnis sind nach Maßgabe anerkannter finanzmathematischer Methoden sowie des Aktienkurses in einem anerkannten Preisfindungsverfahren zu ermitteln. Die neu ausgegebenen Aktien der bedingten Kapitalerhöhung sind im gleichen Maße wie die bereits bestehenden Aktien der Gesellschaft dividendenberechtigt. Der Vorstand ist ermächtigt mit Zustimmung des Aufsichtsrates die weiteren Einzelheiten der Durchführung der bedingten Kapitalerhöhung festzusetzen. Der Aufsichtsrat ist ermächtigt, Änderungen der Satzung, die sich durch die Ausgabe von Aktien aus dem bedingten Kapital ergeben, zu beschließen.
- f) Der Vorstand wird gem § 65 Abs 1 Z 8 sowie Abs 1a und 1b AktG ermächtigt, auf den Inhaber lautende Stückaktien der Gesellschaft im Ausmaß von bis zu 10% des Grundkapitals der Gesellschaft während einer Geltungsdauer von 30 Monaten ab Beschlussfassung sowohl über die Börse als auch außerbörslich zu erwerben, wobei der niedrigste Gegenwert nicht mehr als 20% unter und der höchste Gegenwert nicht mehr als 10% über dem durchschnittlichen Börsenschlusskurs der letzten 3 Börsenwerktage vor Erwerb der Aktien liegen darf. Der Handel mit eigenen Aktien ist als Zweck des Erwerbs ausgeschlossen. Die Ermächtigung kann ganz oder teilweise oder auch in mehreren Teilbeträgen und in Verfolgung eines oder mehrerer Zwecke durch die Gesellschaft, durch Tochterunternehmen oder für Rechnung der Gesellschaft durch Dritte ausgeübt werden.
- g) Den Erwerb über die Börse kann der Vorstand beschließen, doch muss der Aufsichtsrat im Nachhinein von diesem Beschluss in Kenntnis gesetzt werden. Der außerbörsliche Erwerb unterliegt der vorherigen Zustimmung des Aufsichtsrats.

- h) Der Vorstand wird für die Dauer von fünf Jahren ab Beschlussfassung gem § 65 Abs 1b AktG ermächtigt, mit Zustimmung des Aufsichtsrats für die Veräußerung bzw. Verwendung eigener Aktien eine andere Art der Veräußerung als über die Börse oder durch ein öffentliches Angebot, unter sinngemäßer Anwendung der Regelungen über den Bezugsrechtsausschluss der Aktionäre, zu beschließen und die Veräußerungsbedingungen festzusetzen. Die Ermächtigung kann ganz oder teilweise oder in mehreren Teilbeträgen und in Verfolgung eines oder mehrerer Zwecke durch die Gesellschaft, durch ein Tochterunternehmen oder für Rechnung der Gesellschaft durch Dritte ausgeübt werden, insbesondere als Gegenleistung beim Erwerb von Unternehmen, Betrieben, Teilbetrieben oder Anteilen an einer oder mehreren Gesellschaften im In- oder Ausland.
  - i) Der Vorstand wird ferner ermächtigt mit Zustimmung des Aufsichtsrats erforderlichenfalls das Grundkapital durch Einziehung dieser eigenen Aktien ohne weiteren Hauptversammlungsbeschluss gem § 65 Abs 1 Z 8 letzter Satz iVm § 122 AktG herabzusetzen. Der Aufsichtsrat ist ermächtigt Änderungen der Satzung, die sich durch die Einziehung von Aktien ergeben, zu beschließen.
8. Vereinbarungen der Gesellschaft, die bei einem Kontrollwechsel infolge eines Übernahmeangebotes wirksam werden, sich ändern oder enden sowie deren Wirkungen werden seitens der Gesellschaft nicht bekannt gegeben, da dies der Gesellschaft erheblich schaden würde.
9. Es existieren keine Entschädigungsvereinbarungen zwischen der Gesellschaft und ihren Vorstands- und Aufsichtsratsmitgliedern oder Arbeitnehmern für den Fall eines öffentlichen Übernahmeangebotes.

## **7. Ausblick**

Die Entwicklungsstrategie der KTM Industries-Gruppe setzt zukünftig weiterhin auf organisches Wachstum in ihren Kernbereichen durch Ausbau der Marktanteile und globales Wachstum, wobei ein starker Fokus auf den Emerging Markets liegt. Innerhalb der Konzernbereiche wird weiterhin auf die wechselseitige Nutzung der Synergiepotenziale sowie auf die Weiterentwicklung und Ausweitung der Kooperationsprojekte gesetzt.

Aufgrund der derzeitigen Auftragslage geht das Management in seiner Einschätzung auch für das Geschäftsjahr 2018 weiterhin von einer positiven Geschäftsentwicklung aus. Wie schon in den letzten Jahren werden sich auch in Zukunft die Märkte in den verschiedenen Kontinenten unterschiedlich entwickeln. Aus diesem Grund wird auf die kontinuierliche Überprüfung und kritische Beurteilung der Markt-, Produktivitäts- und Kostensituation Wert gelegt, um gegebenenfalls Sofortmaßnahmen zur Stabilisierung der angestrebten Ertragslage durchzuführen.

Insgesamt kann für alle Geschäftsbereiche der KTM Industries-Gruppe für das Geschäftsjahr 2018 ein positiver Ausblick gegeben werden.

Die **KTM AG** erwartet regional betrachtet das größte Wachstum in absoluten Zahlen in den Regionen Europa und Nord Amerika. Die größten relativen Wachstumsraten werden in der ASEAN Region und in Indien erwartet. Das geplante Wachstum wird im Wesentlichen von KTM und Husqvarna Straßenmotorrädern erwartet. Bei Husqvarna Motorcycles steht im Geschäftsjahr 2018 die Rückkehr ins Straßensegment mit der Einführung der Vitpilen 401, Svartpilen 401 und Vitpilen 701 im Fokus. Bei KTM wird durch die Einführung des neuen 2-Reihenzyinders DUKE 790 ein neues Segment erschlossen. Mittelfristig hat sich KTM das Ziel gesetzt, den jährlichen Absatz weltweit auf 400.000 Stück zu steigern und Husqvarna Motorcycles zum drittgrößten europäischen Motorradhersteller zu entwickeln.

Auch in 2018 wird KTM wieder massiv in den Motorsport investieren. Neben den bekannten Rennserien aus dem Offroad Bereich und der Rallye Dakar wird der Schwerpunkt auf die zweite Saison in der MotoGP liegen. Auch 2018 wird KTM mit den Fahrern Pol Espargaró und Bradley Smith in der MotoGP-Rennserie an den Start gehen. Mit der Moto2- und Moto3- Rennserie ist KTM somit in allen drei Rennklassen vertreten. Auch bei der Rallye Dakar setzte KTM seine unglaubliche Erfolgsgeschichte fort. Im Januar 2018 sicherte Red Bull KTM Werksfahrer Matthias Walkner mit seiner neuen KTM 450 RALLY dem österreichischen Hersteller bereits den 17. Sieg in Folge bei dem berüchtigten Rennen.

Die Investitionsschwerpunkte für 2018 umfassen insbesondere neue Serienentwicklungsprojekte sowie Infrastruktur- und Erweiterungsinvestitionen. Im Geschäftsjahr 2018 wird die Fertigstellung der Erweiterung des Forschungs- und Entwicklungszentrums in Mattighofen mit einer Gesamtinvestition von rund EUR 30 Million, verteilt auf 2 Jahre, erfolgen. Durch diese Erweiterungsinvestition werden mittelfristig rund 100 neue, hochqualifizierte Arbeitsplätze am Standort in Mattighofen geschaffen. Auch die Fertigstellung des „House of Brands“ für das Marketing und den Vertrieb der Konzernmarken KTM, Husqvarna Motorcycles und WP am Standort in Munderfing ist Ende 2018 geplant.

Nach der vollständigen Übernahme der **WP-Gruppe** durch die KTM AG im Jänner 2018, soll diese im Geschäftsjahr 2018 vollständig integriert werden und somit Effizienzsteigerungen erzielt sowie Synergiepotentiale gehoben werden. Der Auftragsstand liegt bei der WP-Gruppe in allen Geschäftsbereichen auf dem Niveau des Vorjahres, weshalb in diesem Jahr zumindest mit einem gleichbleibenden Umsatz zu rechnen ist. Vorrangiges Ziel ist in diesem Jahr die Konsolidierung des Unternehmens auf dem nun angestiegenen Umsatzniveau und eine Verbesserung der operativen Ergebnismarge. Die WP-Gruppe konzentriert sich auch weiterhin auf den Aufbau von strategischen Partnerschaften. So werden die Serienlieferungen mit dem indischen Partner im Bereich Suspension, aber auch mit dem Partner in China im Bereich Rahmen im Geschäftsjahr 2018 fortgeführt. Weiterhin wird auch am Ausbau des Kühlerstandortes in Dalian (China) gearbeitet.

Im abgelaufenen Geschäftsjahr konnten bei der **Pankl Racing Systems AG** sowohl im Segment Racing/High Performance als auch im Segment Aerospace die operativen Ergebnisse verbessert werden. Die Inbetriebnahme und der erfolgreiche Start der Serienproduktion im neuen High Performance Antriebswerk waren absolute Highlights. Insgesamt wird für 2018 von einem zumindest 10%igen Umsatzwachstum ausgegangen. Diese Annahme wird durch Rekordauftragsstände gestützt. Aufgrund von Produktivitätssteigerungen und vor allem durch den Wegfall der Anlaufkosten wird damit von einer deutlichen Ergebnisverbesserung ausgegangen.

Durch die insgesamt stabile finanzielle Situation der Tochterunternehmen, mit soliden Eigenkapitalquoten und einer fristenkongruenten Finanzierung, werden sich für die Unternehmen der KTM Industries-Gruppe auch 2018 neue Chancen am Markt ergeben.

Wels, am 7. März 2018

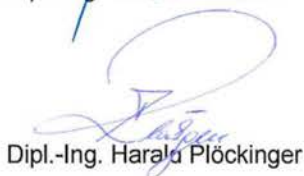
Der Vorstand der KTM Industries AG



Dipl.-Ing. Stefan Plerer



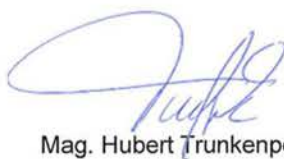
Mag. Wolfgang Plasser



Dipl.-Ing. Harald Plöckinger



Mag. Friedrich Roithner



Mag. Hubert Trunkenpolz



## Bilanz zum 31. Dezember 2017

### Aktiva

	31.12.2017 EUR	31.12.2016 TEUR
<b>A. Anlagevermögen:</b>		
I. Immaterielle Vermögensgegenstände:		
Konzessionen, gewerbliche Schutzrechte und ähnliche Rechte und Vorteile sowie daraus abgeleitete Lizenzen	736,81	3
II. Sachanlagen:		
Andere Anlagen, Betriebs- und Geschäftsausstattung	560.795,70	624
III. Finanzanlagen:		
1. Anteile an verbundenen Unternehmen (davon Umgründungsmehrwert EUR 34.275.720,66; Vorjahr: TEUR 34.276)	368.535.845,27	386.389
2. Beteiligungen	8.701.000,00	0
3. Wertpapiere (Wertrechte) des Anlagevermögens	3.836.032,20	5.173
	<u>381.072.877,47</u>	391.562
	<b>381.634.409,98</b>	392.189
<b>B. Umlaufvermögen:</b>		
I. Forderungen und sonstige Vermögensgegenstände:		
1. Forderungen aus Lieferungen und Leistungen	11.584,10	20
<i>davon mit einer Restlaufzeit von mehr als einem Jahr</i>	0,00	0
2. Forderungen gegenüber verbundenen Unternehmen	86.612.137,28	71.260
<i>davon mit einer Restlaufzeit von mehr als einem Jahr</i>	52.234.185,37	40.990
3. Forderungen gegenüber Unternehmen, mit denen ein Beteiligungsverhältnis besteht	1.000.000,00	67
<i>davon mit einer Restlaufzeit von mehr als einem Jahr</i>	1.000.000,00	0
4. Sonstige Forderungen und Vermögensgegenstände	6.872.653,42	1.544
<i>davon mit einer Restlaufzeit von mehr als einem Jahr</i>	284.260,09	1.236
	<u>94.496.374,80</u>	72.891
II. Kassenbestand, Guthaben bei Kreditinstituten	595.886,39	2.705
	<b>95.092.261,19</b>	75.597
<b>C. Rechnungsabgrenzungsposten</b>	<b>190.881,47</b>	215
	<u><b>476.917.552,64</b></u>	468.000

**Passiva**

	31.12.2017 EUR	31.12.2016 TEUR
<b>A. Eigenkapital:</b>		
I. Eingefordertes und eingezahltes Nennkapital (Grundkapital):		
Gezeichnetes Nennkapital	225.386.742,00	225.387
II. Kapitalrücklagen:		
Gebundene	9.949.091,87	9.949
III. Gewinnrücklage:		
Gesetzliche Rücklage	2.028.553,96	1.380
IV. Bilanzgewinn (davon Gewinnvortrag EUR 12.812.847,09; Vorjahr: TEUR 2.092)	<u>25.139.087,92</u>	19.574
	<b>262.503.475,75</b>	256.290
<b>B. Rückstellungen:</b>		
1. Abfertigungsrückstellung	114.600,00	70
2. Sonstige Rückstellungen	<u>1.362.169,77</u>	1.993
	<b>1.476.769,77</b>	2.063
<b>C. Verbindlichkeiten:</b>		
1. Anleihen	117.800.000,00	117.800
<i>davon mit einer Restlaufzeit bis zu einem Jahr</i>	<i>57.800.000,00</i>	<i>0</i>
<i>davon mit einer Restlaufzeit von mehr als einem Jahr</i>	<i>60.000.000,00</i>	<i>117.800</i>
2. Schuldscheindarlehen	24.500.000,00	24.500
<i>davon mit einer Restlaufzeit bis zu einem Jahr</i>	<i>0,00</i>	<i>0</i>
<i>davon mit einer Restlaufzeit von mehr als einem Jahr</i>	<i>24.500.000,00</i>	<i>24.500</i>
3. Namensschuldverschreibungen	30.000.000,00	30.000
<i>davon mit einer Restlaufzeit bis zu einem Jahr</i>	<i>0,00</i>	<i>0</i>
<i>davon mit einer Restlaufzeit von mehr als einem Jahr</i>	<i>30.000.000,00</i>	<i>30.000</i>
4. Verbindlichkeiten gegenüber Kreditinstituten	30.000.000,00	30.000
<i>davon mit einer Restlaufzeit bis zu einem Jahr</i>	<i>0,00</i>	<i>0</i>
<i>davon mit einer Restlaufzeit von mehr als einem Jahr</i>	<i>30.000.000,00</i>	<i>30.000</i>
5. Verbindlichkeiten aus Lieferungen und Leistungen	243.981,33	1.472
<i>davon mit einer Restlaufzeit bis zu einem Jahr</i>	<i>243.981,33</i>	<i>1.472</i>
<i>davon mit einer Restlaufzeit von mehr als einem Jahr</i>	<i>0,00</i>	<i>0</i>
6. Verbindlichkeiten gegenüber verbundenen Unternehmen	7.973.422,52	2.997
<i>davon mit einer Restlaufzeit bis zu einem Jahr</i>	<i>7.973.422,52</i>	<i>2.997</i>
<i>davon mit einer Restlaufzeit von mehr als einem Jahr</i>	<i>0,00</i>	<i>0</i>
7. Sonstige Verbindlichkeiten	2.031.246,31	2.257
<i>davon aus Steuern</i>	<i>83.864,52</i>	<i>83</i>
<i>davon im Rahmen der sozialen Sicherheit</i>	<i>23.120,27</i>	<i>17</i>
<i>davon mit einer Restlaufzeit bis zu einem Jahr</i>	<i>1.763.050,49</i>	<i>1.996</i>
<i>davon mit einer Restlaufzeit von mehr als einem Jahr</i>	<i>268.195,82</i>	<i>260</i>
	<b>212.548.650,16</b>	209.025
<i>davon mit einer Restlaufzeit bis zu einem Jahr</i>	<i>67.780.454,34</i>	<i>6.465</i>
<i>davon mit einer Restlaufzeit von mehr als einem Jahr</i>	<i>144.768.195,82</i>	<i>202.560</i>
<b>D. Rechnungsabgrenzungsposten</b>	<b>388.656,96</b>	622
	<b><u>476.917.552,64</u></b>	468.000

## Gewinn- und Verlustrechnung für das Geschäftsjahr 2017

	2017 EUR	2016 TEUR
1. Umsatzerlöse	11.382.402,96	9.906
2. Sonstige betriebliche Erträge:		
a) Erträge aus dem Abgang vom und der Zuschreibung zum Anlagevermögen mit Ausnahme der Finanzanlagen	0,00	27
b) Erträge aus der Auflösung von Rückstellungen	396.782,12	20
c) Übrige	<u>2.516,14</u>	0
	399.298,26	46
3. Aufwendungen für Material und sonstige bezogene Herstellungsleistungen:		
Aufwendungen für bezogene Leistungen	-6.903.559,42	-6.385
4. Personalaufwand:		
a) Gehälter	-1.614.869,66	-1.221
b) Soziale Aufwendungen	-288.861,45	-290
<i>davon für Abfertigungen und Leistungen an         betriebliche Mitarbeitervorsorgekassen</i>	-66.717,80	-65
<i>davon für gesetzlich vorgeschriebene Sozialabgaben         sowie vom Entgelt abhängige Abgaben und Pflichtbeiträge</i>	<u>-200.907,67</u>	-197
	-1.903.731,11	-1.511
5. Abschreibungen:		
Auf immaterielle Gegenstände des Anlagevermögens und Sachanlagen	-71.275,62	-82
6. Sonstige betriebliche Aufwendungen:		
a) Steuern, soweit sie nicht unter Steuern vom Einkommen und vom Ertrag fallen	-12.131,42	-5
b) Übrige	<u>-3.689.109,27</u>	-5.556
	<u>-3.701.240,69</u>	-5.561
7. Zwischensumme aus Z 1 bis Z 6 <b>(Betriebsergebnis)</b> (Übertrag)	<b>-798.105,62</b>	-3.587

	2017 EUR	2016 TEUR
Übertrag:	<u>-798.105,62</u>	-3.587
8. Erträge aus Beteiligungen (davon aus verbundenen Unternehmen EUR 36.062.453,00; Vorjahr: TEUR 24.288)	36.062.453,00	24.288
9. Sonstige Zinsen und ähnliche Erträge (davon aus verbundenen Unternehmen EUR 956.251,17; Vorjahr: TEUR 653)	985.524,10	791
10. Erträge aus dem Abgang von und der Zuschreibung zu Finanzanlagen	667.759,61	4.566
11. Aufwendungen aus Finanzanlagen und aus Wertpapieren des Umlaufvermögens:		
a) Abschreibungen	-16.153.217,88	0
b) Aufwendungen aus verbundenen Unternehmen	<u>-167,15</u>	0
	-16.153.385,03	0
12. Zinsen und ähnliche Aufwendungen (davon betreffend verbundene Unternehmen EUR 3.002.000,00; Vorjahr: TEUR 975)	<u>-7.785.755,71</u>	-7.758
13. Zwischensumme aus Z 8 bis Z 12 ( <b>Finanzergebnis</b> )	<u><b>13.776.595,97</b></u>	21.887
<b>14. Ergebnis vor Steuern</b>	<b>12.978.490,35</b>	18.300
15. Steuern vom Einkommen und vom Ertrag (aus Steuerumlage)	<u>-3.500,00</u>	-4
<b>16. Ergebnis nach Steuern = Jahresüberschuss</b>	<b>12.974.990,35</b>	18.296
17. Zuweisung zu Gewinnrücklagen	-648.749,52	-915
18. Auflösung von Kapitalrücklagen	0,00	101
19. Gewinnvortrag aus dem Vorjahr	<u>12.812.847,09</u>	2.092
<b>20. Bilanzgewinn</b>	<u><b>25.139.087,92</b></u>	19.574

**Anhang für das Geschäftsjahr 2017 der  
KTM Industries AG,  
Wels**

**I. Anwendung der unternehmensrechtlichen Vorschriften und allgemeine Angaben**

Der vorliegende Jahresabschluss für das Geschäftsjahr 2017 ist nach den Vorschriften des Unternehmensgesetzbuches in der gegenwärtigen Fassung aufgestellt worden.

Die Gewinn- und Verlustrechnung ist in Staffelform nach dem Gesamtkostenverfahren aufgestellt.

Die bisherige Form der Darstellung wurde bei der Erstellung des vorliegenden Jahresabschlusses beibehalten.

Soweit es zur Vermittlung eines möglichst getreuen Bildes der Vermögens-, Finanz- und Ertragslage erforderlich ist, wurden im Anhang zusätzliche Angaben gemacht.

Bei der Gesellschaft handelt es sich gemäß § 221 Abs 3 2. Satz UGB um eine große Kapitalgesellschaft.

Die Gesellschaft ist ein konsolidierungspflichtiges Mutterunternehmen im Sinn des § 244 UGB und hat einen Konzernabschluss, der beim Landes- als Handelsgericht Wels unter der Nummer FN 78112 x hinterlegt wird, aufzustellen.

Die Gesellschaft steht mit der Pierer Konzerngesellschaft mbH, Wels (oberstes Konzernmutterunternehmen), und deren verbundenen Unternehmen in einem Konzernverhältnis und wird in deren Konzernabschluss einbezogen. Dieser Konzernabschluss wird beim Landes- als Handelsgericht Wels unter der Nummer FN 134766 k hinterlegt und stellt den Konzernabschluss für den größten Konzernkreis dar.

## **II. Bilanzierungs- und Bewertungsmethoden**

Der Jahresabschluss wurde unter Beachtung der Grundsätze ordnungsmäßiger Buchführung sowie der Generalnorm, ein möglichst getreues Bild der Vermögens-, Finanz- und Ertragslage des Unternehmens zu vermitteln, aufgestellt.

Bei der Erstellung des Jahresabschlusses wurde der Grundsatz der Vollständigkeit eingehalten.

Bei der Bewertung wurde von der Fortführung des Unternehmens ausgegangen. Der Liquiditätsplan der KTM Industries AG sieht in den 12 Monaten nach dem Bilanzerstellungszeitpunkt keinen zusätzlichen Finanzierungsbedarf vor. Sämtliche Tilgungen, Zinszahlungen und operativen Aufwendungen können aus den liquiden Mitteln gedeckt werden.

Die operativen Gesellschaften der KTM Industries AG-Gruppe sind eigenständig mittel- und langfristig finanziert.

Bei Vermögensgegenständen und Schulden wurde der Grundsatz der Einzelbewertung angewandt.

Dem Vorsichtsgrundsatz wurde Rechnung getragen, indem insbesondere nur die am Abschlussstichtag verwirklichten Gewinne ausgewiesen werden.

Alle erkennbaren Risiken und drohenden Verluste, die im Geschäftsjahr 2017 oder in einem früheren Geschäftsjahr entstanden sind, wurden berücksichtigt.

### **Immaterielle Vermögensgegenstände**

Immaterielle Vermögensgegenstände werden zu Anschaffungskosten aktiviert und in längstens 3 bis 4 Jahren abgeschrieben. Selbst erstellte immaterielle Vermögensgegenstände und geringwertige Vermögensgegenstände (Einzelanschaffungswert unter je EUR 400,00) werden sofort als Aufwand erfasst.

### **Sachanlagevermögen**

Sachanlagen werden zu Anschaffungs- oder Herstellungskosten, abzüglich planmäßiger Abschreibungen, bewertet. Geringwertige Vermögensgegenstände (Einzelanschaffungswert bis EUR 400,00) werden im Zugangsjahr aktiviert und voll abgeschrieben.

Die Ermittlung der planmäßigen Abschreibungen erfolgt nach der linearen Abschreibungsmethode unter Zugrundlegung folgender Nutzungsdauern:

	<u>Nutzungsdauer in Jahren</u>
Büro und Geschäftsausstattung	3 - 10
Investitionen in Fremdgebäude	10

Außerplanmäßige Abschreibungen auf einen zum Abschlussstichtag niedrigeren beizulegenden Wert werden vorgenommen, soweit der Ansatz mit einem niedrigeren Wert erforderlich ist.

## **Finanzanlagevermögen**

Das Finanzanlagevermögen wird zu Anschaffungskosten, vermindert um außerplanmäßige Abschreibungen - soweit diese notwendig sind, um dauernden Wertminderungen Rechnung zu tragen - angesetzt. Die im Jahresabschluss ausgewiesenen wesentlichen Anteile an verbundenen Unternehmen, Beteiligungen und Wertpapiere (Wertrechte) des Anlagevermögens wurden auf ihre Werthaltigkeit untersucht. Bei jenen Anteilen an verbundenen Unternehmen und Beteiligungen deren Aktien an der Börse gehandelt werden und der Börsenkurs zum Bilanzstichtag unter den anteiligen Anschaffungskosten liegt, wurden auf Basis der vorliegenden Unternehmensplanungen überschlägige Unternehmenswertermittlungen durchgeführt. Daraus ergaben sich keine Abwertungserfordernisse.

**Forderungen und sonstige Vermögensgegenstände** werden mit dem Nennbetrag, vermindert um notwendige Wertberichtigungen angesetzt.

Die **Abfertigungsrückstellungen** betreffen vertraglich vereinbarte Abfertigungen und werden vereinfachend nach finanzmathematischen Grundsätzen auf Basis eines Rechnungszinssatzes von 2,2 % (Vorjahr: 2,6 %) und geplanten Gehaltserhöhungen von 2,0 % (Vorjahr: 1,1 %) ermittelt. Der Ansammlungszeitraum läuft bis zum Ende der vertraglichen Vereinbarung.

Der Rechnungszinssatz für Abfertigungsrückstellungen wird aus dem 10-jährigen Durchschnittszinssatz entsprechend der Veröffentlichung der Deutschen Bundesbank abgeleitet.

Die Zinsaufwendungen betreffend Abfertigungsrückstellungen sowie die Auswirkungen aus einer Änderung des Zinssatzes werden im betreffenden betrieblichen Aufwand erfasst.

Bei der Bemessung der **Rückstellungen** wurden entsprechend den gesetzlichen Erfordernissen alle erkennbaren Risiken und drohenden Verluste berücksichtigt.

**Verbindlichkeiten** werden mit ihrem Erfüllungsbetrag angesetzt.



### III. Erläuterungen zur Bilanz

#### Anlagevermögen

Die Aufgliederung des Anlagevermögens und seine Entwicklung im Geschäftsjahr sind im Anlagenspiegel angeführt (vergleiche Anlage 1 zum Anhang).

Der Umgründungsmehrwert in Höhe von EUR 34.275.720,66 wird dem indirekt gehaltenen Tochterunternehmen KTM AG, Mattighofen, zugeordnet.

Die Finanzanlagen haben sich insbesondere durch folgende Transaktionen verändert:

Mit Notariatsakt vom 30.6.2017 hat die KTM Industries AG, Wels, 26 % Anteile an der Kiska GmbH, Anif, erworben.

Die KTM Industries AG, Wels, hat mit Notariatsakt vom 30.6.2017 74 % Anteile an der KTM Technologies GmbH, Anif, erworben.

Mit Notariatsakt vom 8.9.2017 hat die KTM Industries AG, Wels, 49,9 % Anteile an der PEXCO GmbH, Schweinfurt, Deutschland, erworben.

An der W Verwaltungs AG, Wels (vormals: WP AG, Munderfing) hält die Gesellschaft unverändert 75,86 % Anteile.

Die Gesellschaft hält zum Stichtag unverändert 94,53 % am Grundkapital der Pankl Racing Systems AG, Kapfenberg.

Die Gesellschaft hat im Geschäftsjahr ihre direkt gehaltenen 0,28 % Anteile an der KTM AG, Mattighofen, verkauft.

Die KTM Industries AG, Wels, hält zum Stichtag 31.12.2017 indirekt über die 100,00 % Tochtergesellschaft der K KraftFahrZeug Holding GmbH, Wels, 51,68 % am Grundkapital und an den Stimmrechten der KTM AG, Mattighofen.

Die KTM Industries AG hat im Rahmen des Shareholders Agreement vom 11.8.2014 eine Put/Call-Option auf den Verkauf von weiteren 23 % Anteilen an der Wethje Carbon Composites GmbH abgeschlossen. Die Put-Option wurde von der KTM Industries AG am 2.10.2017 ausgeübt. Im Jänner und August 2017 erfolgte bei der Wethje Carbon Composites GmbH eine Kapitalerhöhung unter Ausschluss der Gesellschaft. Die KTM Industries AG ist nach den Kapitalerhöhungen mit 8,36 % Anteile an der Wethje Carbon Composites GmbH beteiligt.

An der Wethje Immobilien GmbH, Vilshofen-Pleinting, Deutschland, hält die Gesellschaft unverändert 6 % Anteile.

Die Gesellschaft hat mit Share Purchase Agreement vom 30.3.2017 24 % Anteile an der AGM Durmont Austria GmbH, Hartberg, für die im Geschäftsjahr 2015 eine Put-/Call-Option abgeschlossen wurde, verkauft.

Die KTM Industries AG, Wels, hält unverändert 12,33 % Anteile an der AC styria Mobilitätscluster GmbH (vormals: AC styria Autocluster GmbH), Grambach. Im Geschäftsjahr 2017 hat die KTM Industries AG, Wels, einen Zuschuss in Höhe von EUR 50.000,00 an die Gesellschaft geleistet.

Im Geschäftsjahr wurden ausschüttungsbedingte Abschreibungen auf Anteile an verbundenen Unternehmen in Höhe von EUR 15.250.00,00 (Vorjahr: TEUR 0) und Zuschreibungen auf Anteile an verbundenen Unternehmen in Höhe von EUR 0,00 (Vorjahr: TEUR 1.849) sowie Abschreibungen auf Wertpapiere (Wertrechte) des Anlagevermögens in Höhe von EUR 903.217,88 (Vorjahr: TEUR 1.817) vorgenommen.

Aus der Nutzung von in der Bilanz nicht ausgewiesenen Sachanlagen besteht auf Grund von langfristigen Miet-, Pacht- und Leasingverträgen für das Geschäftsjahr 2018 eine Verpflichtung von EUR 198.365,26 (Vorjahr: TEUR 335). Der Gesamtbetrag der Verpflichtungen für die nächsten 5 Jahre beträgt EUR 818.277,70 (Vorjahr: TEUR 1.543).

### **Forderungen und sonstige Vermögensgegenstände**

Die Forderungen gegenüber verbundenen Unternehmen betreffen Finanzierungsforderungen in Höhe von EUR 70.991.800,41 (Vorjahr: TEUR 47.698), Forderungen aus phasengleicher Ergebnisübernahme EUR 12.000.000,00 (Vorjahr: TEUR 20.000), Forderungen aus laufenden Verrechnungen und sonstige Forderungen in Höhe von EUR 3.620.336,87 (Vorjahr: TEUR 3.563).

Die Forderungen gegenüber Unternehmen, mit denen ein Beteiligungsverhältnis besteht, betreffen Finanzierungsforderungen in Höhe von EUR 1.000.000,00 (Vorjahr: TEUR 0). Im Vorjahr waren Forderungen aus laufenden Verrechnungen und sonstige Forderungen in Höhe von TEUR 68 ausgewiesen.

Die sonstigen Forderungen und Vermögensgegenstände in Höhe von EUR 6.872.653,42 (Vorjahr: TEUR 1.544) betreffen im Wesentlichen Forderungen aus Steuern in Höhe von EUR 6.579.526,94 (Vorjahr: TEUR 185) Forderungen aus Versicherungsleistungen für ehemalige Mitarbeiter in Höhe von EUR 268.195,82 (Vorjahr: TEUR 260). Im Vorjahr waren Forderungen aus Anteilsverkäufen in Höhe von TEUR 1.080 beinhaltet.

### **Eingefordertes und eingezahltes Nennkapital (Grundkapital)**

Das eingeforderte und eingezahlte Nennkapital (Grundkapital) der Gesellschaft beträgt EUR 225.386.742,00 und ist in 225.386.742 Stück auf Inhaber lautende nennbetragslose Stückaktien, von denen jede eine gleiche Beteiligung am Grundkapital repräsentiert, aufgeteilt.

Die Aktien der Gesellschaft notieren an der Wiener sowie an der Schweizer Börse.

## Rückstellungen

Die sonstigen Rückstellungen in Höhe von EUR 1.362.169,77 (Vorjahr: TEUR 1.993) beinhalten im Wesentlichen Rückstellungen für Prämien in Höhe von EUR 542.820,00 (Vorjahr: TEUR 297), Rückstellungen für Rechts- und Beratungskosten in Höhe von EUR 667.560,00 (Vorjahr: TEUR 186), Rückstellungen für nicht konsumierte Urlaube und Zeitguthaben in Höhe von EUR 60.609,77 (Vorjahr: TEUR 67), sonstige Rückstellungen in Höhe von EUR 52.180,00 (Vorjahr: TEUR 114), Rückstellungen für Aufsichtsratsvergütungen in Höhe von EUR 39.000,00 (Vorjahr: TEUR 28) sowie im Vorjahr für Haftungen und Risiken im Zusammenhang mit dem Beteiligungsportfolio in Höhe von TEUR 1.300.

## Verbindlichkeiten

Die Gesellschaft hat im September 2012 eine Anleihe in Höhe von EUR 75.000.000,00 mit einer Laufzeit von 6 Jahren und einer Verzinsung von 4,625 % (ISIN AT0000A0WQ66) begeben. Im Dezember 2016 wurde die Anleihe um EUR 17.200.000,00 auf EUR 57.800.000,00 reduziert.

Die KTM Industries AG hat im Juli 2016 eine nachrangige 5,00 % Anleihe ohne feste Laufzeit (Ewige Anleihe) in Höhe von 40 Mio EUR begeben. Im Dezember 2016 wurde die Nominale von 40 Mio EUR um 20 Mio EUR auf ein Emissionsvolumen von 60 Mio EUR aufgestockt.

Die KTM Industries AG hat im Juli 2015 ein Schuldscheindarlehen in Höhe von EUR 56.500.000,00 begeben, welches in Höhe von TEUR 44.000 mit einer Laufzeit von 5 Jahren und in Höhe von TEUR 12.500 mit einer Laufzeit von 7 Jahren abgeschlossen wurde. Mit Kündigungsschreiben vom 13.12.2016 mit Wirkung zum 16.1.2017 wurde ein Teilbetrag des Schuldscheindarlehens in Höhe von TEUR 32.000, davon TEUR 25.500 mit Laufzeit 5 Jahren und TEUR 6.500 mit Laufzeit 7 Jahren, rückgeführt. Das Schuldscheindarlehen wird in Höhe von TEUR 24.500 mit einem fixen Zinssatz verzinst.

Die Verbindlichkeiten gegenüber Kreditinstituten in Höhe von EUR 30.000.000,00 betreffen einen Kredit mit fixem Zinssatz und einer Endfälligkeit im Juli 2021.

Am 17.7.2015 hat die KTM Industries AG eine Namensschuldverschreibung in Höhe von EUR 30.000.000,00 mit einer fixen Verzinsung und einer Laufzeit von 10 Jahren begeben.

Die Verbindlichkeiten gegenüber verbundenen Unternehmen belaufen sich auf EUR 7.973.422,52 (Vorjahr: TEUR 2.997) und betreffen in Höhe von EUR 6.429.900,04 (Vorjahr: TEUR 0) Verbindlichkeiten aus umsatzsteuerlichen Organschaftsverhältnissen, Zinsen aus der Anleihe in Höhe von EUR 1.413.698,63 (Vorjahr: TEUR 1.414), sonstige Verbindlichkeiten in Höhe von EUR 36.000,00 (Vorjahr: TEUR 1.469), Lieferungen und Leistungen in Höhe von EUR 88.323,85 (Vorjahr: TEUR 111), Verbindlichkeiten aus Finanzierung in Höhe von EUR 2.002.000,00 (Vorjahr: TEUR 0) abzüglich Forderungen aus phasengleicher Ergebnisübernahme EUR 2.000.000,00 (Vorjahr: TEUR 0), sowie Verbindlichkeiten aus Steuerumlagen in Höhe von EUR 3.500,00 (Vorjahr: TEUR 4).

Die sonstigen Verbindlichkeiten in Höhe von EUR 2.031.246,31 (Vorjahr: TEUR 2.257) betreffen im Wesentlichen Zinsen aus den begebenen Anleihen, Schuldscheindarlehen und Namensschuldverschreibungen in Höhe von EUR 1.465.063,02 (Vorjahr: TEUR 1.741) sowie sonstige Verbindlichkeiten in Höhe von EUR 566.183,29 (Vorjahr: TEUR 516).

In den sonstigen Verbindlichkeiten sind Verbindlichkeiten in Höhe von EUR 268.195,82 (Vorjahr: TEUR 260) mit einer Restlaufzeit von mehr als fünf Jahren enthalten.

Im Posten "Sonstige Verbindlichkeiten" sind Aufwendungen in Höhe von EUR 1.751.986,32 (Vorjahr: TEUR 1.996) enthalten, die nach dem Stichtag zahlungswirksam werden.

#### IV. Erläuterung zur Gewinn- und Verlustrechnung

##### Umsatzerlöse

Die Umsatzerlöse beinhalten die Weiterverrechnungen laufender Projekte und Erlöse für Dienstleistungen. Im Geschäftsjahr wurden im Inland EUR 11.287.714,72 (Vorjahr: TEUR 9.636), in anderen EU Ländern EUR 94.688,24 (Vorjahr: TEUR 257) und in Drittländern EUR 0,00 (Vorjahr: TEUR 13) Umsatz erzielt.

##### Personalaufwand

Die Aufwendungen für Abfertigungen und Leistungen an betriebliche Mitarbeiterversorgungskassen betreffen in Höhe von EUR 22.317,80 (Vorjahr: TEUR 20) Leistungen an betriebliche Mitarbeiterversorgungskassen.

Die Aufwendungen für Abfertigungen und Leistungen an betriebliche Mitarbeiterversorgungskassen setzen sich wie folgt zusammen:

	2017 EUR	2016 EUR
Vorstände Mitarbeiterversorgungskasse	8.373,75	8.159,78
Veränderung Abfertigungsrückstellung Vorstände	25.400,00	10.800,00
Sonstige Arbeitnehmer	<u>32.944,05</u>	<u>45.901,12</u>
	<u>66.717,80</u>	<u>64.860,90</u>

##### Sonstige betriebliche Aufwendungen

Die übrigen sonstigen betrieblichen Aufwendungen betreffen im Wesentlichen Aufwendungen für konzerninterne Dienstleistungen, Aufwendungen für Vorstandstätigkeiten, Steuerberatungsaufwand sowie Rechts- und Beratungsaufwand.

### **Erträge aus Beteiligungen**

Die Erträge aus Beteiligungen in Höhe von EUR 36.062.453,00 (Vorjahr: TEUR 24.288) betreffen Dividendenerträge aus verbundenen Unternehmen.

### **Sonstige Zinsen und ähnliche Erträge**

Sonstige Zinsen und ähnliche Erträge betreffen im Wesentlichen Zinsen aus Darlehen in Höhe von EUR 985.401,71 (Vorjahr: TEUR 774).

### **Erträge aus dem Abgang von und der Zuschreibung zu Finanzanlagen**

Die Erträge resultieren aus dem Abgang von Finanzanlagen in Höhe von EUR 667.759,61 (Vorjahr: TEUR 2.717). Im Vorjahr waren Erträge aus der Zuschreibung zu Finanzanlagen in Höhe von TEUR 1.849 enthalten.

### **Aufwendungen aus Finanzanlagen und aus Wertpapieren des Umlaufvermögens**

Die Aufwendungen aus Finanzanlagen und aus Wertpapieren des Umlaufvermögens betreffen in Höhe von EUR 15.250.000,00 (Vorjahr: TEUR 0) ausschüttungsbedingte Abschreibungen von verbundenen Unternehmen sowie Abschreibungen aus Wertpapieren des Anlagevermögens in Höhe von EUR 903.217,88 (Vorjahr: TEUR 0).

### **Steuern vom Einkommen und vom Ertrag**

Die Gesellschaft ist seit der Veranlagung 2014 Gruppenmitglied der Unternehmensgruppe gemäß § 9 KStG der Pierer Konzerngesellschaft mbH, Wels.

Die steuerlichen Ergebnisse der Gruppenmitglieder werden dem Gruppenträger zugerechnet. Die zu leistenden Steuerumlagen zwischen dem Gruppenträger und jedem einzelnen Gruppenmitglied wurde in Form von einer Gruppen- und Steuerumlagevereinbarung geregelt.

Die Steuern vom Einkommen und vom Ertrag enthalten die voraussichtlich an die Gruppenträger zu zahlende Mindestkörperschaftsteuer.

Die KTM Industries AG, Wels, bildet seit 1.10.2017 eine Organschaft im umsatzsteuerlichen Sinn mit den Gruppenmitgliedern.

Zur Unternehmensgruppe gehören folgende Gesellschaften (Gruppenmitglieder):

KTM Technologies GmbH, Anif  
KTM AG, Mattighofen  
KTM Sportmotorcycle GmbH, Mattighofen  
KTM Österreich GmbH, Mattighofen  
KTM Sportcar GmbH, Mattighofen  
KTM Immobilien GmbH, Mattighofen  
KTM Logistikzentrum GmbH, Mattighofen  
Husqvarna Motorcycles GmbH, Mattighofen  
Pankl Racing Systems AG, Kapfenberg  
Pankl Systems Austria GmbH, Kapfenberg  
Pankl Aerospace Systems Europe GmbH, Kapfenberg  
WP Performance Systems GmbH, Munderfing  
WP Immobilien GmbH, Munderfing  
WP Components GmbH, Munderfing  
WP Performance Sports GmbH, Mattighofen



Es existieren temporäre Unterschiede zwischen steuerlichen und unternehmensrechtlichen Wertansätzen im Wesentlichen auf Grund von Bewertungsunterschieden im Sachanlagevermögen und bei der Bewertung von Personalrückstellungen. Da zum Bilanzstichtag weder passive latente Steuern zur Gegenverrechnung, als auch substantielle Hinweise für die Rechtfertigung eines Ansatzes aktiver latenter Steuern vorliegen, wurden keine aktiven latenten Steuern angesetzt.

### **Mitarbeiter**

(im Jahresdurchschnitt)

Im Jahresdurchschnitt beschäftigte die Gesellschaft 11 (Vorjahr: 10) Angestellte, davon 3 (Vorjahr: 3) Teilzeitbeschäftigte.

Da der Abschlussprüfer der Gesellschaft auch Abschlussprüfer des Konzernabschlusses der KTM Industries AG ist, wird hinsichtlich der auf das Geschäftsjahr 2017 entfallenden Aufwendungen für den Abschlussprüfer auf die entsprechenden Angaben im Konzernanhang dieser Gesellschaft verwiesen.

### **V. Finanzrisikomanagement**

Ein wesentliches Ziel des Finanzrisikomanagements in der KTM Industries AG-Gruppe ist es, die jederzeitige Zahlungsfähigkeit und die finanzielle Flexibilität sicherzustellen. Zu diesem Zweck wird eine Liquiditätsreserve in Form von ungenutzten Kreditlinien (Bar- und Avalkredite) und bei Bedarf in Form von Barbeständen bei Banken von hoher Bonität vorgehalten.

Der langfristige Liquiditätsbedarf der Gruppe wurde durch die Emission von Unternehmensanleihen sowie die Aufnahme von Bankkrediten sichergestellt.

Die operativen Gesellschaften sind durch kurz- bzw langfristige Finanzierungen selbst finanziert.

Die im Geschäftsjahr 2012 begebene Anleihe der KTM AG mit einem Nominalen von 85,0 Mio EUR und einem fixen Kupon von 4,375 % wies eine Laufzeit bis April 2017 auf. Im April 2017 wurde die Anleihe planmäßig getilgt.

Im Juni 2016 hat die KTM AG ein Schuldscheindarlehen mit einem gesamten Emissionsvolumen von 120 Mio EUR und Laufzeiten von fünf bis zehn Jahren erfolgreich platziert.

Die im August 2013 begebene 3,25% Anleihe der Pankl Racing Systems AG mit einer Laufzeit von 2013 bis 2017 über 10 Mio. EUR wurde plangemäß im August 2017 rückgeführt. Zur Eigenkapitalstärkung und Finanzierung der in 2017 getätigten Erwerbe in ihren Kernbeteiligungen hat die Pankl Racing Systems AG im Oktober 2017 eine nachrangige 5,00 % Anleihe ohne feste Laufzeit (Ewige Anleihe) in Höhe von 10 Mio. EUR begeben.

Die WP-Gruppe ist durch kurz- und langfristige Lombarddarlehensverträge bzw Bankkredite finanziert.

## **VI. Ergänzende Angaben**

Es wird vorgeschlagen, aus dem Bilanzgewinn in Höhe von EUR 25.139.087,92 eine Dividende von EUR 0,03 je Aktie, das sind in Summe EUR 6.761.602,26 auszuschütten und den Restbetrag auf neue Rechnung vorzutragen.

Nach dem Bilanzstichtag sind folgende wesentliche Ereignisse eingetreten:

Die KTM Industries AG hat mit Aktienkaufvertrag vom 9.1.2018 ihre Anteile von 75,86 % (3.793.074 Stk.) an der W Verwaltungs AG, Wels (vormals: WP AG, Munderfing) an die KTM AG, Mattighofen, verkauft.

Als Mitglieder des **Aufsichtsrats** waren im Geschäftsjahr 2017 die nachstehenden Herren bestellt:

Josef B l a z i c e k (Vorsitzender)

Dr. Ernst C h a l u p s k y (Stellvertreter des Vorsitzenden)

Mag. Gerald K i s k a

Mag. Klaus R i n n e r b e r g e r

Im Geschäftsjahr 2017 erhielten die Mitglieder des Aufsichtsrats Vergütungen in Höhe von TEUR 39 (Vorjahr: TEUR 28). Die Mitglieder des Vorstands erhielten für das Geschäftsjahr 2017 Bezüge in Höhe von insgesamt TEUR 3.974 (Vorjahr: TEUR 3.711), davon wurden für Tätigkeiten der Vorstände innerhalb des Konzerns TEUR 2.716 (Vorjahr: TEUR 2.839) weiterverrechnet. Weiters erhielten die Mitglieder des Vorstands Bezüge aus Vorperioden in Höhe von TEUR 349 (Vorjahr: TEUR 403), davon wurden für Tätigkeiten der Vorstände aus Vorperioden innerhalb des Konzerns TEUR 124 (Vorjahr: TEUR 195) weiterverrechnet.

Als kollektiv vertretungsbefugte **Vorstandsmitglieder** waren im Geschäftsjahr 2017 die nachstehenden Herren bestellt:

Dipl.-Ing. Stefan Pierer  
Ing. Alfred Hörtenhuber (bis zum 31.12.2017)  
Mag. Wolfgang Plasser  
Dipl.-Ing. Harald Plöckinger (ab 1.1.2018)  
Mag. Friedrich Roithner  
Mag. Hubert Trunkenpolz (ab 1.1.2018)

Wels, am 7. März 2018

Der Vorstand



Dipl.-Ing. Stefan Pierer



Mag. Wolfgang Plasser



Dipl.-Ing. Harald Plöckinger



Mag. Friedrich Roithner



Mag. Hubert Trunkenpolz

Anlage 1 zum Anhang: Anlagenspiegel  
Anlage 2 zum Anhang: Beteiligungsliste

## Anlagenpiegel zum 31. Dezember 2017

	Anschaffungs- und Herstellungskosten				Abschreibungen			Buchwerte	
	Stand am 1.1.2017 EUR	Zugänge EUR	Abgänge EUR	Stand am 31.12.2017 EUR	Stand am 1.1.2017 EUR	Zu- gänge EUR	Ab- gänge EUR	Stand am 31.12.2017 EUR	Stand am 31.12.2016 EUR
<b>I. Immaterielle Vermögensgegenstände:</b>									
1. Konzessionen, gewerbliche Schutzrechte und ähnliche Rechte und Vorteile sowie daraus abgeleitete Lizenzen	349.171,14	0,00	0,00	349.171,14	345.990,86	2.443,47	0,00	736,81	3.180,28
<b>II. Sachanlagen:</b>									
1. Andere Anlagen, Betriebs- und Geschäftsausstattung	1.346.767,23	5.910,74	1.984,61	1.350.693,36	723.050,12	68.832,15	1.984,61	560.795,70	623.717,11
2. Beteiligungen	386.388.687,29 <sup>1)</sup>	1.020.000,00	3.622.842,02	383.785.845,27	0,00	15.250.000,00	0,00	368.535.845,27 <sup>1)</sup>	386.388.687,29
3. Wertpapiere (Wertrechte) des Anlagevermögens	0,00	8.701.000,00	0,00	8.701.000,00	0,00	0,00	0,00	8.701.000,00	0,00
	10.307.933,72	50.000,00	2.301.572,11	8.056.361,61	5.134.443,25	903.217,88	1.817.331,72	3.836.032,20	5.173.490,47
	<b>396.696.621,01</b>	<b>9.771.000,00</b>	<b>5.924.414,13</b>	<b>400.543.206,88</b>	<b>5.134.443,25</b>	<b>16.153.217,88</b>	<b>1.817.331,72</b>	<b>381.072.877,47</b>	<b>391.562.177,76</b>
	<b>398.392.559,38</b>	<b>9.776.910,74</b>	<b>5.926.398,74</b>	<b>402.243.071,38</b>	<b>6.203.484,23</b>	<b>16.224.493,50</b>	<b>1.819.316,33</b>	<b>381.634.409,98</b>	<b>392.189.075,15</b>

1) davon Umgründungsmehrwert EUR 34.275.720,66

## Beteiligungsliste

Die Gesellschaft hält bei folgenden Unternehmen mindestens 20,00 % Anteilsbesitz:

Beteiligungsunternehmen	Kapital- anteil %	Stichtag	Eigenkapital EUR	Ergebnis des letzten Geschäfts- jahres 1) EUR
<b>Verbundene Unternehmen:</b>				
K KraftFahrZeug Holding GmbH, Wels	100,00	31.12.2017	195.812.131,47	10.446.930,27
PF Beteiligungsver- waltungs GmbH, Wels	100,00	31.12.2017	2.099.946,50	2.026.824,34
Pankl Racing Sys- tems AG, Kapfenberg	94,53	31.12.2017	82.107.698,17	15.837.232,58
KTM Technologies GmbH, Anif	74,00	31.12.2017	1.154.353,52	861.336,72
W Verwaltungs AG, Wels (vormals: WP AG, Munderfing)	75,86	31.12.2017	33.321.638,47	2.989.705,96
<b>Beteiligungen:</b>				
PEXCO GmbH, Schweinfurt, Deutschland	49,90	31.12.2017	7.975.326,00	-2.024.674,00
Kiska GmbH, Anif	26,00	31.03.2017	4.994.295,97	1.842.388,03

1) Jahresüberschuss / -fehlbetrag

## **Bestätigungsvermerk**

### **Bericht zum Jahresabschluss**

#### **Prüfungsurteil**

Wir haben den Jahresabschluss der

**KTM Industries AG,  
Wels,**

bestehend aus der Bilanz zum 31. Dezember 2017, der Gewinn- und Verlustrechnung für das an diesem Stichtag endende Geschäftsjahr und dem Anhang, geprüft.

Nach unserer Beurteilung entspricht der Jahresabschluss den gesetzlichen Vorschriften und vermittelt ein möglichst getreues Bild der Vermögens- und Finanzlage zum 31. Dezember 2017 sowie der Ertragslage der Gesellschaft für das an diesem Stichtag endende Geschäftsjahr in Übereinstimmung mit den österreichischen unternehmensrechtlichen Vorschriften.

#### **Grundlage für das Prüfungsurteil**

Wir haben unsere Abschlussprüfung in Übereinstimmung mit der EU-Verordnung Nr. 537/2014 (im Folgenden EU-VO) und mit den österreichischen Grundsätzen ordnungsgemäßer Abschlussprüfung durchgeführt. Diese Grundsätze erfordern die Anwendung der International Standards on Auditing (ISA). Unsere Verantwortlichkeiten nach diesen Vorschriften und Standards sind im Abschnitt "Verantwortlichkeiten des Abschlussprüfers für die Prüfung des Jahresabschlusses" unseres Bestätigungsvermerks weitergehend beschrieben. Wir sind von der Gesellschaft unabhängig in Übereinstimmung mit den österreichischen unternehmensrechtlichen und berufsrechtlichen Vorschriften und wir haben unsere sonstigen beruflichen Pflichten in Übereinstimmung mit diesen Anforderungen erfüllt. Wir sind der Auffassung, dass die von uns erlangten Prüfungsnachweise ausreichend und geeignet sind, um als Grundlage für unser Prüfungsurteil zu dienen.

#### **Besonders wichtige Prüfungssachverhalte**

Besonders wichtige Prüfungssachverhalte sind solche Sachverhalte, die nach unserem pflichtgemäßen Ermessen am bedeutsamsten für unsere Prüfung des Jahresabschlusses des Geschäftsjahres waren. Diese Sachverhalte wurden im Zusammenhang mit unserer Prüfung des Jahresabschlusses als Ganzem und bei der Bildung unseres Prüfungsurteils hierzu berücksichtigt, und wir geben kein gesondertes Prüfungsurteil zu diesen Sachverhalten ab.

## **Werthaltigkeit der Anteile an verbundenen Unternehmen, der Beteiligungen, der Wertpapiere (Wertrechte) des Anlagevermögens sowie der Forderungen gegenüber verbundenen Unternehmen**

Siehe Anhang "Bilanzierungs- und Bewertungsmethoden"; "Erläuterungen zur Bilanz" sowie Anlage 1 und 2 zum Anhang.

### **Das Risiko für den Abschluss**

Die Anteile an verbundenen Unternehmen mit einem Bilanzausweis in Höhe von 368,5 Mio EUR, die Beteiligungen in Höhe von 8,7 Mio EUR, die Wertpapiere (Wertrechte) des Anlagevermögens in Höhe von 3,8 Mio EUR sowie die Forderungen gegenüber verbundenen Unternehmen in Höhe von 86,6 Mio EUR stellen rund 98 % des ausgewiesenen Vermögens im Jahresabschluss der KTM Industries AG zum 31. Dezember 2017 dar.

Anlassbezogen werden Finanzanlagen sowie in diesem Zusammenhang auch Forderungen gegenüber verbundenen Unternehmen von der Gesellschaft einer Werthaltigkeitsüberprüfung unterzogen. Auslöser einer anlassbezogenen Überprüfung ist einerseits eine wesentliche statische Unterdeckung bei der Gegenüberstellung des Beteiligungsansatzes mit dem anteiligen Eigenkapital zum Stichtag und andererseits das Vorliegen von externen und internen Einflussfaktoren, die eine erhebliche Wertminderung auslösen können. Im Anlassfall wird eine Bewertung auf Basis von diskontierten Netto-Zahlungsmittelzuflüssen, die im Wesentlichen von zukünftigen Umsatz- und Margenerwartungen und von abgeleiteten Diskontierungszinssätzen abhängig sind durchgeführt. Diese Bewertung ist mit bedeutenden Schätzunsicherheiten insbesondere betreffend langfristige Planungsannahmen sowie Marktunsicherheiten behaftet.

Für den Abschluss besteht das Risiko einer Überbewertung dieser Bilanzposten.

### **Unsere Vorgehensweise in der Prüfung**

Wir haben die oben beschriebene statische Unterdeckung hinsichtlich des Vorliegens eines Anlassfalles untersucht und das Vorliegen anderer Einflussfaktoren, die einen Anlassfall auslösen könnten, kritisch hinterfragt. Das Unternehmen hat in drei Fällen eine anlassbezogene Werthaltigkeitsprüfung durchgeführt.

Wir haben die der Bewertung zugrunde gelegten Umsätze, Margen, Jahresergebnisse sowie Investitionen mit der aktuellen und vom Aufsichtsrat zur Kenntnis genommenen Fünfjahresplanung des Konzerns abgeglichen sowie die Berechnungsmethodik beurteilt. Um die Angemessenheit der Planungen beurteilen zu können, haben wir uns ein Verständnis über den Planungsprozess verschafft und die verwendeten Annahmen und Ermessensentscheidungen mit der historischen Entwicklung abgeglichen. Wir haben die Annahmen und Ermessensentscheidungen in Gesprächen mit dem Management erörtert und uns in diesem Zuge ein Verständnis darüber verschafft, wie historische Erfahrungen die Planung des Managements beeinflussen.

Die bei der Bestimmung der Diskontierungszinssätze herangezogenen Annahmen haben wir durch Abgleich mit markt- und branchenspezifischen Richtwerten (Peer-Group-Daten) auf Angemessenheit beurteilt; darüber hinaus haben wir das zur Ermittlung der Diskontierungssätze verwendete Berechnungsschema nachvollzogen.

Durch Sensitivitätsanalysen haben wir ermittelt, ob die getesteten Buchwerte bei möglichen Veränderungen der Annahmen in realistischen Bandbreiten noch ausreichend durch die jeweiligen erzielbaren Beträge gedeckt sind. Es wurde beurteilt, ob die langfristige Entwicklung des Rentabilitätsniveaus und die geplanten Investitionen in der Rentenphase konsistent und plausibel erscheinen.

Diese Prüfungshandlungen haben wir unter Einbezug unserer Bewertungsspezialisten vorgenommen.

Abschließend haben wir untersucht, ob die Erläuterungen des Unternehmens zu Finanzanlagen und Forderungen gegenüber verbundenen Unternehmen im Anhang vollständig und sachgerecht sind.

### **Verantwortlichkeiten der gesetzlichen Vertreter und des Prüfungsausschusses für den Jahresabschluss**

Die gesetzlichen Vertreter sind verantwortlich für die Aufstellung des Jahresabschlusses und dafür, dass dieser in Übereinstimmung mit den österreichischen unternehmensrechtlichen Vorschriften ein möglichst getreues Bild der Vermögens-, Finanz- und Ertragslage der Gesellschaft vermittelt. Ferner sind die gesetzlichen Vertreter verantwortlich für die internen Kontrollen, die sie als notwendig erachten, um die Aufstellung eines Jahresabschlusses zu ermöglichen, der frei von wesentlichen – beabsichtigten oder unbeabsichtigten – falschen Darstellungen ist.

Bei der Aufstellung des Jahresabschlusses sind die gesetzlichen Vertreter dafür verantwortlich, die Fähigkeit der Gesellschaft zur Fortführung der Unternehmenstätigkeit zu beurteilen, Sachverhalte im Zusammenhang mit der Fortführung der Unternehmenstätigkeit – sofern einschlägig – anzugeben, sowie dafür, den Rechnungslegungsgrundsatz der Fortführung der Unternehmenstätigkeit anzuwenden, es sei denn, die gesetzlichen Vertreter beabsichtigen, entweder die Gesellschaft zu liquidieren oder die Unternehmenstätigkeit einzustellen, oder haben keine realistische Alternative dazu.

Der Prüfungsausschuss ist verantwortlich für die Überwachung des Rechnungslegungsprozesses der Gesellschaft.

### **Verantwortlichkeiten des Abschlussprüfers für die Prüfung des Jahresabschlusses**

Unsere Ziele sind, hinreichende Sicherheit darüber zu erlangen, ob der Jahresabschluss als Ganzes frei von wesentlichen – beabsichtigten oder unbeabsichtigten – falschen Darstellungen ist und einen Bestätigungsvermerk zu erteilen, der unser Prüfungsurteil beinhaltet. Hinreichende Sicherheit ist ein hohes Maß an Sicherheit, aber keine Garantie dafür, dass eine in Übereinstimmung mit der EU-VO und mit den österreichischen Grundsätzen ordnungsgemäßer Abschlussprüfung, die die Anwendung der ISA erfordern, durchgeführte Abschlussprüfung eine wesentliche falsche Darstellung, falls eine solche vorliegt, stets aufdeckt. Falsche Darstellungen können aus dolosen Handlungen oder Irrtümern resultieren und werden als wesentlich angesehen, wenn von ihnen einzeln oder insgesamt vernünftigerweise erwartet werden könnte, dass sie die auf der Grundlage dieses Jahresabschlusses getroffenen wirtschaftlichen Entscheidungen von Nutzern beeinflussen.

Als Teil einer Abschlussprüfung in Übereinstimmung mit der EU-VO und mit den österreichischen Grundsätzen ordnungsgemäßer Abschlussprüfung, die die Anwendung der ISA erfordern, üben wir während der gesamten Abschlussprüfung pflichtgemäßes Ermessen aus und bewahren eine kritische Grundhaltung.



Darüber hinaus gilt:

- Wir identifizieren und beurteilen die Risiken wesentlicher – beabsichtigter oder unbeabsichtigter – falscher Darstellungen im Abschluss, planen Prüfungshandlungen als Reaktion auf diese Risiken, führen sie durch und erlangen Prüfungsnachweise, die ausreichend und geeignet sind, um als Grundlage für unser Prüfungsurteil zu dienen. Das Risiko, dass aus dolosen Handlungen resultierende wesentliche falsche Darstellungen nicht aufgedeckt werden, ist höher als ein aus Irrtümern resultierendes, da dolose Handlungen betrügerisches Zusammenwirken, Fälschungen, beabsichtigte Unvollständigkeiten, irreführende Darstellungen oder das Außerkraftsetzen interner Kontrollen beinhalten können.
- Wir gewinnen ein Verständnis von dem für die Abschlussprüfung relevanten internen Kontrollsystem, um Prüfungshandlungen zu planen, die unter den gegebenen Umständen angemessen sind, jedoch nicht mit dem Ziel, ein Prüfungsurteil zur Wirksamkeit des internen Kontrollsystems der Gesellschaft abzugeben.
- Wir beurteilen die Angemessenheit der von den gesetzlichen Vertretern angewandten Rechnungslegungsmethoden sowie die Vertretbarkeit der von den gesetzlichen Vertretern dargestellten geschätzten Werte in der Rechnungslegung und damit zusammenhängende Angaben.
- Wir ziehen Schlussfolgerungen über die Angemessenheit der Anwendung des Rechnungslegungsgrundsatzes der Fortführung der Unternehmenstätigkeit durch die gesetzlichen Vertreter sowie, auf der Grundlage der erlangten Prüfungsnachweise, ob eine wesentliche Unsicherheit im Zusammenhang mit Ereignissen oder Gegebenheiten besteht, die erhebliche Zweifel an der Fähigkeit der Gesellschaft zur Fortführung der Unternehmenstätigkeit aufwerfen kann. Falls wir die Schlussfolgerung ziehen, dass eine wesentliche Unsicherheit besteht, sind wir verpflichtet, in unserem Bestätigungsvermerk auf die dazugehörigen Angaben im Jahresabschluss aufmerksam zu machen oder, falls diese Angaben unangemessen sind, unser Prüfungsurteil zu modifizieren. Wir ziehen unsere Schlussfolgerungen auf der Grundlage der bis zum Datum unseres Bestätigungsvermerks erlangten Prüfungsnachweise. Zukünftige Ereignisse oder Gegebenheiten können jedoch die Abkehr der Gesellschaft von der Fortführung der Unternehmenstätigkeit zur Folge haben.
- Wir beurteilen die Gesamtdarstellung, den Aufbau und den Inhalt des Jahresabschlusses einschließlich der Angaben sowie ob der Jahresabschluss die zugrunde liegenden Geschäftsvorfälle und Ereignisse in einer Weise wiedergibt, dass ein möglichst getreues Bild erreicht wird.
- Wir tauschen uns mit dem Prüfungsausschuss unter anderem über den geplanten Umfang und die geplante zeitliche Einteilung der Abschlussprüfung sowie über bedeutsame Prüfungsfeststellungen, einschließlich etwaiger bedeutsamer Mängel im internen Kontrollsystem, die wir während unserer Abschlussprüfung erkennen, aus.
- Wir geben dem Prüfungsausschuss auch eine Erklärung ab, dass wir die relevanten beruflichen Verhaltensanforderungen zur Unabhängigkeit eingehalten haben und uns mit ihm über alle Beziehungen und sonstigen Sachverhalte austauschen, von denen vernünftigerweise angenommen werden kann, dass sie sich auf unsere Unabhängigkeit und – sofern einschlägig – damit zusammenhängende Schutzmaßnahmen auswirken.

- Wir bestimmen von den Sachverhalten, über die wir uns mit dem Prüfungsausschuss ausgetauscht haben, diejenigen Sachverhalte, die am bedeutsamsten für die Prüfung des Jahresabschlusses des Geschäftsjahres waren und daher die besonders wichtigen Prüfungssachverhalte sind. Wir beschreiben diese Sachverhalte in unserem Bestätigungsvermerk, es sei denn, Gesetze oder andere Rechtsvorschriften schließen die öffentliche Angabe des Sachverhalts aus oder wir bestimmen in äußerst seltenen Fällen, dass ein Sachverhalt nicht in unserem Bestätigungsvermerk mitgeteilt werden sollte, weil vernünftigerweise erwartet wird, dass die negativen Folgen einer solchen Mitteilung deren Vorteile für das öffentliche Interesse übersteigen würden.

## **Sonstige gesetzliche und andere rechtliche Anforderungen**

### **Bericht zum Lagebericht**

Der Lagebericht ist auf Grund der österreichischen unternehmensrechtlichen Vorschriften darauf zu prüfen, ob er mit dem Jahresabschluss in Einklang steht und ob er nach den geltenden rechtlichen Anforderungen aufgestellt wurde.

Die gesetzlichen Vertreter sind verantwortlich für die Aufstellung des Lageberichtes in Übereinstimmung mit den österreichischen unternehmensrechtlichen Vorschriften.

Wir haben unsere Prüfung in Übereinstimmung mit den Berufsgrundsätzen zur Prüfung des Lageberichtes durchgeführt.

### **Urteil**

Nach unserer Beurteilung ist der Lagebericht nach den geltenden rechtlichen Anforderungen aufgestellt worden, enthält die nach § 243a UGB zutreffenden Angaben, und steht in Einklang mit dem Jahresabschluss.

### **Erklärung**

Angesichts der bei der Prüfung des Jahresabschlusses gewonnenen Erkenntnisse und des gewonnenen Verständnisses über die Gesellschaft und ihr Umfeld haben wir keine wesentlichen fehlerhaften Angaben im Lagebericht festgestellt.

## **Sonstige Informationen**

Die gesetzlichen Vertreter sind für die sonstigen Informationen verantwortlich. Die sonstigen Informationen beinhalten alle Informationen im Geschäftsbericht, ausgenommen den Jahresabschluss, den Lagebericht und die diesbezüglichen Bestätigungsvermerke. Der Geschäftsbericht wird uns voraussichtlich nach dem Datum des Bestätigungsvermerks zur Verfügung gestellt.

Unser Prüfungsurteil zum Jahresabschluss deckt diese sonstigen Informationen nicht ab und wir werden keine Art der Zusicherung darauf geben.

In Verbindung mit unserer Prüfung des Jahresabschlusses ist es unsere Verantwortung, diese sonstigen Informationen zu lesen, sobald diese vorhanden sind und abzuwägen, ob sie angesichts des bei der Prüfung gewonnenen Verständnisses wesentlich in Widerspruch zum Jahresabschluss stehen oder sonst wesentlich falsch dargestellt erscheinen.

## **Zusätzliche Angaben nach Artikel 10 EU-VO**

Wir wurden von der Hauptversammlung am 27. April 2017 als Abschlussprüfer gewählt und am 20. Dezember 2017 vom Aufsichtsrat mit der Abschlussprüfung der KTM Industries AG beauftragt. Wir sind ohne Unterbrechung seit dem Jahresabschluss zum 31. Dezember 2014 Abschlussprüfer der Gesellschaft.

Wir erklären, dass das Prüfungsurteil im Abschnitt "Bericht zum Jahresabschluss" mit dem zusätzlichen Bericht an den Prüfungsausschuss nach Artikel 11 der EU-VO in Einklang steht.

Wir erklären, dass wir keine verbotenen Nichtprüfungsleistungen (Artikel 5 Abs 1 der EU-VO) erbracht haben und dass wir bei der Durchführung der Abschlussprüfung unsere Unabhängigkeit von der geprüften Gesellschaft gewahrt haben.

## **Auftragsverantwortlicher Wirtschaftsprüfer**

Der für die Abschlussprüfung auftragsverantwortliche Wirtschaftsprüfer ist Herr Mag. Ernst Pichler.

Linz, am 7. März 2018

KPMG Austria GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Ernst Pichler  
Wirtschaftsprüfer

Die Veröffentlichung oder Weitergabe des Jahresabschlusses mit unserem Bestätigungsvermerk darf nur in der von uns bestätigten Fassung erfolgen. Dieser Bestätigungsvermerk bezieht sich ausschließlich auf den deutschsprachigen und vollständigen Jahresabschluss samt Lagebericht. Für abweichende Fassungen sind die Vorschriften des § 281 Abs 2 UGB zu beachten.

# ERKLÄRUNG DES VORSTANDES

Wir bestätigen nach bestem Wissen, dass der im Einklang mit den maßgebenden Rechnungslegungsstandards aufgestellte Konzernabschluss ein möglichst getreues Bild der Vermögens-, Finanz- und Ertragslage des Konzerns vermittelt, dass der Konzernlagebericht den Geschäftsverlauf, das Geschäftsergebnis und die Lage des Konzerns so darstellt, dass ein möglichst getreues Bild der Vermögens-, Finanz- und Ertragslage des Konzerns entsteht, und dass der Konzernlagebericht die wesentlichen Risiken und Ungewissheiten beschreibt, denen der Konzern ausgesetzt ist.

Wir bestätigen nach bestem Wissen, dass der im Einklang mit den maßgebenden Rechnungslegungsstandards aufgestellte Jahresabschluss des Mutterunternehmens ein möglichst getreues Bild der Vermögens-, Finanz- und Ertragslage des Unternehmens vermittelt, dass der Lagebericht den Geschäftsverlauf, das Geschäftsergebnis und die Lage des Unternehmens so darstellt, dass ein möglichst getreues Bild der Vermögens-, Finanz- und Ertragslage entsteht, und dass der Lagebericht die wesentlichen Risiken und Ungewissheiten beschreibt, denen das Unternehmen ausgesetzt ist.

Wels, im März 2018

Der Vorstand der KTM Industries AG



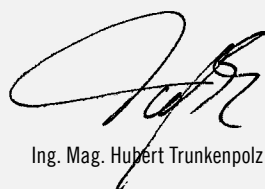
Dipl.-Ing. Stefan Pierer, CEO



Mag. Friedrich Roithner, CFO



Mag. Wolfgang Plasser



Ing. Mag. Hubert Trunkenpolz



DI Harald Plöckinger