

**KTM**

Industries AG ■

# ANNUAL REPORT 2016



# HIGHLIGHTS 2016

**Sixth Consecutive  
Results Record**

**Revenue Increase  
to €1.3 billion**

**Increase of  
516 employees**

**Record Investments  
at the Austrian facilities**

**First-time listing on the  
SIX Swiss Exchange  
in Zurich**

**KTM**

Industries AG ■



Matthias Walkner  
KTM 450 RALLY Dakar 2017 - Marcin Kin

KTM Industries AG

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# KEY FIGURES

REVENUE

**+10%**

EBITDA

**+11%**

EBIT

**+8%**

EMPLOYEES

**+11%****Earnings ratios**

		2015	2016	Change in %
Revenue	in € million	1,223.6	1,343.0	10
EBITDA	in € million	178.4	198.4	11
EBIT	in € million	112.9	122.3	8
Result of the financial year	in € million	65.0	89.0	37
EBITDA margin	in %	14.6%	14.8%	-
EBIT margin	in %	9.2%	9.1%	-

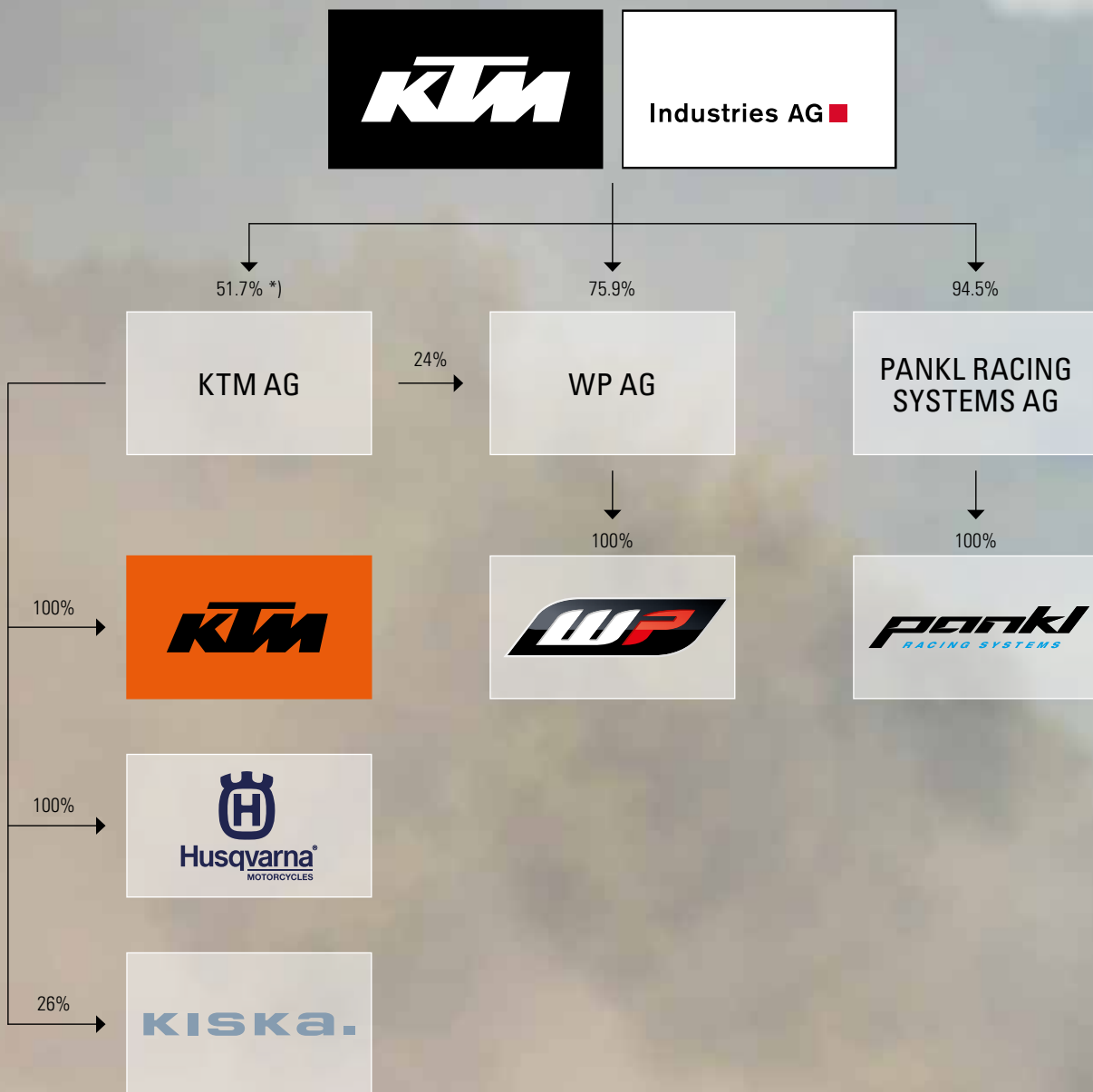
**Balance sheet ratios**

		12/31/2015	12/31/2016	Change in %
Balance sheet total	in € million	1,175.9	1,391.8	18
Equity	in € million	386.6	454.9	18
Equity ratio	in %	32.9%	32.7%	-
Net debt	in € million	387.4	364.6	-6
Gearing	in %	100.2%	80.1%	-

**Employees**

		12/31/2015	12/31/2016	Change in %
Number of employees as of balance sheet date (incl. temporary workers and externals)		4,553	5,069	11

Simplified presentation as of 12/31/2016



## Other shareholdings:

100% K KraftFahrZeug Holding GmbH (formerly: CROSS KraftFahrZeug Holding GmbH)

100% PF Beteiligungsverwaltungs GmbH

24% AGM Durmont Austria GmbH (formerly: Durmont Teppichbodenfabrik GmbH)

18% Wethje Carbon Composites GmbH

12.3% ACstyria Autocluster GmbH

\*) indirectly through K KraftFahrZeug Holding GmbH

# GROUP STRUCTURE





# FOREWORD

## OF THE EXECUTIVE BOARD

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. Its globally recognized brands KTM, Husqvarna Motorcycles, WP and Pankl make it a technology and market leader in its respective segments. As in prior years, the main focus was the Company's strategic further growth in the 2016 financial year.

The prior financial year was also characterized by further acquisitions of shares in Pankl Racing Systems AG, which strengthen its strategic positioning within the KTM Industries Group over the long term. KTM Industries AG thus increased its equity holding in Pankl Racing Systems AG from previously 55.9% to 94.5%. Furthermore, as of the reporting date December 31, 2016, KTM Industries AG held 51.7% in KTM AG and (indirectly and directly) 88.3% in WP AG.

### **Successful Debut on the SIX Swiss Exchange in Zurich**

Its first-time listing on the SIX Swiss Exchange in November 2016 made KTM Industries AG the second Austrian company on the Zurich stock exchange. The SIX Swiss Exchange is therefore a principal stock exchange for KTM Industries shares, which however can also still be traded on the Vienna Stock Exchange.

### **KTM Industries AG achieved Sixth Consecutive Results Record**

In the 2016 financial year the KTM Industries Group generated record revenue of €1,343.0 million (+10%) after €1,223.6 million in the prior year. EBIT increased to €122.3 million (+8%) after €112.9 million in the prior year. The net result after tax increased from €65.0 million to €89.0 million (+37%). The balance sheet total increased from €1,175.9 million to €1,391.8 million; the equity ratio is 32.7%.



As part of the Group's growth, an additional 516 employees were hired in the 2016 financial year, of which 428 were in Austria. In 2016 the KTM Industries Group employed more than 5,000 people, more than 75% of which were in Austria. After streamlining the Group structure, restructuring and after changing the name of CROSS Industries AG to KTM Industries AG in the prior financial year, the Company is continuing to focus intensively on the automotive niche areas.

### **Record Investments at the Austrian facilities**

€144 million was invested in model development, plants and infrastructure in the prior year for the further growth course. Of particular note are the exhaust production and the Motor Sport Center in Munderfing, the expansion of production capacities in the KTM main facility in Mattighofen and the new high-performance drivetrain plant at Pankl in Kapfenberg.

### **Positive Development in all Operating Areas**

All operating areas significantly increased both revenue and profit in the prior financial year:

#### **KTM AG**

Having sold 203,423 motorcycles, KTM AG is again – in terms of volume – number one in Europe ahead of BMW and Triumph with its brands KTM and Husqvarna, and is the fastest growing motorcycle manufacturer in the world. The strong export ratio stands at over 95%, while over 50% of its products are sold outside Europe.

In the prior financial year KTM AG generated revenue of €1,141.8 million (+11.7%), selling 167,550 vehicles, which corresponds to an increase of 10%. A total of 203,423 vehicles of the KTM and Husqvarna brands have been sold worldwide, including the DUKE 200, DUKE 390, RC 200 and RC 390 sold by Indian KTM partner Bajaj. 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.

#### **WP AG**

WP AG, a technology leader in the Power Sports segment, also considerably increased its revenues in the 2016 financial year to €166.1 million (+14.9%) and its EBIT to €12.1 million (prior year: €9.7 million), generating new record values. WP AG established a newly constructed modern exhaust production in 2016 at the Munderfing site, thus concluding its long-term modernization project. The close links to KTM AG realized in 2016 will secure the further growth of the vehicle group.

The products of the WP Group are associated with very high levels of performance; customers therefore have expectations of consistent further development.

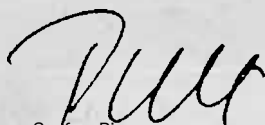
#### **Pankl Racing Systems AG**

Pankl Racing Systems AG also again surpassed its prior records in revenues in the 2016 financial year. Pankl achieved a revenue increase of 7% to €186.0 million. Primarily due to a very strong fourth quarter, Pankl Racing Systems AG closed the 2016 financial year with record results, while the new Formula One regulations were in particular responsible for a significant boost. The tangible productivity improvements in many areas, which in combination with the increased demand led to disproportional profit improvements, were particularly pleasing.

#### **Outlook**

The KTM Industries Group will continue to focus on organic growth in its core areas in the 2017 financial year, through further expansion of its market shares and global growth, while concentrating more intensively on the emerging markets in addition to introducing new models. Within the group divisions the focus is still on the mutual utilization of synergy potentials and on further development of cooperative projects. The investment volume will continue to rise in the 2017 financial year, while the focus will be on new vehicle models and infrastructure and expansion investments in development.

Wels, March 2017



Stefan Pierer  
Chief Executive Officer

## 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 January 31, 2018

**Wolfgang Plasser**

Appointed until May 31, 2022

# 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 AG (51.7%)



**1953**

KTM – Kronreif Trunkenpolz Mattighofen  
The three letters “KTM” appeared for the first time to represent the company

**1984**

Motocross World Championship win  
An Austrian wins the Motocross World Championship on an Austrian manufactured KTM race bike

**1992**

Stefan Pierer takes over KTM

**2001**

First Dakar Rally victory on KTM  
Since then only KTM-mounted riders have won this event

**2000**

First KTM street bikes are sold



**2008**

Introduction of the RC8  
KTM's first true super bike tore-up the rulebook in terms of design and handling performance

**2012**

Acquisition of steel frame and exhaust production

**2015**

KTM goes electric  
KTM as the leader of offroad motorcycling, has also set a new bar for electric bikes with the release of the innovative KTM FREERIDE E-SX, E-XC and E-SM

**2007**

Start of cooperation with Bajaj group

**2013**

Acquisition of Husqvarna Motorcycles  
Introduction of Motorcycle Stability Control developed with Bosch

**2016**

15th consecutive Dakar victory





# KTM AG (51.7%)

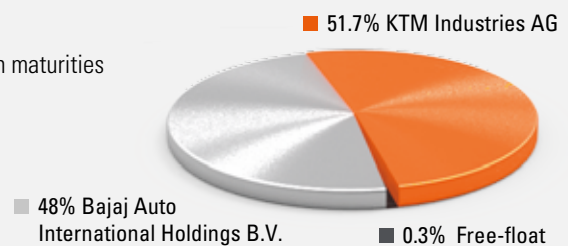
## Business Development

The financial year 2016 will go down as another record year in KTM's history. Group revenue of €1,141.8 million (+11.7% on the prior year) was reached; around 95% of the revenues were generated outside of Austria. Taking into account the KTM DUKE 200, KTM DUKE 390, KTM RC 200 and KTM RC 390 sold in India by our partner Bajaj, sales were increased in the 2016 financial year to 203,423 vehicles (+11.1% on the prior year) globally. KTM therefore generated EBITDA in the prior financial year of €160.0 million (+13.1% on the prior year) and EBIT of €102.8 million (+8.1% on the prior year).

In June 2016, a €120 million bonded loan issue was successfully placed, with maturities of between five and ten years.

As of December 31, 2016 the number of employees stood at 2,931.

## KTM Share



In April 2016, KTM AG's principal shareholder made a public takeover bid for all free-floating shares in KTM AG to accompany the withdrawal of KTM AG shares from the Third Market (MTF) of the Vienna Stock Exchange. At the end of June 24, 2016, the shares were withdrawn from the Third Market of the Vienna Stock Exchange and converted from bearer shares to registered shares in autumn 2016.

## Outlook

For 2017 KTM expects to see slight growth in the global motorcycle market. With new products, consistent strategy implementation and by focusing on commercial business development to expand the quantity and quality of our sales partners, KTM expects to continue to gain market shares.

## Key Figures

<b>Earnings Ratios</b>		2015	2016	Change in %
Revenue	in € million	1,022.5	1,141.8	12%
EBITDA	in € million	141.5	160.0	13%
EBIT	in € million	95.1	102.8	8%
Net result after tax	in € million	63.9	72.1	13%

<b>Balance Sheet Ratios</b>		12/31/2015	12/31/2016	Change in %
Balance sheet total	in € million	848.9	1,056.5	24%
Equity	in € million	379.8	428.0	13%
Equity ratio		44.7%	40.5%	-
Net debt	in € million	97.2	80.9	-17%
Gearing		25.6%	18.9%	-

<b>Stock Exchange Indicators</b>		2015	2016	Change in %
Number of shares	units	10,845,000	10,845,000	-
Market capitalization	in € million	1,323.1	*)	-
End-of-month share quotation	in €	122.0	*)	-

\*) last trading day of the KTM AG share on the Vienna Stock Exchange was 6/24/2016

## WP AG (88.3%)



### // 1977

WP Suspension was founded in the Netherlands

First Motocross World Championship win with Heinz Kinigadner (KTM)

### // 1984





**// 1994**

First Formula 1 title with Michael Schumacher (Benetton)

WP introduces Closed Cartridge Technology

**// 1998**

**// 2003**

Development EDS (Electronic Damping System)

**// 2007**

Achieved more than 200 driver and designer World Championship titles

WP Radiator becomes subsidiary of WP Group

**// 2010**

Acquisition of steel frame and exhaust production

**// 2012**

**// 2014**

Start of production of semi-active suspension

Product launch of AER Technology

**// 2015**

**// 2016**

Expansion of the location Munderfing for all production areas completed





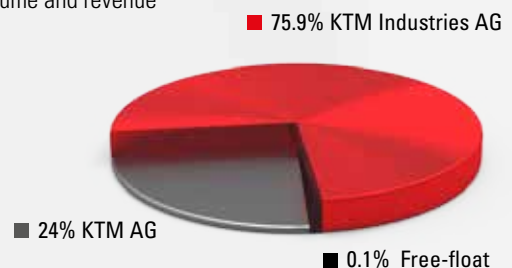
# WP AG (88.3%)

## Business Development

The WP Group's 2016 financial year was characterized by strong revenue growth and strategic reorientation. The group's revenue was increased to €166.1 million (prior year: €144.6 million). The rise in revenue could be seen in all product divisions and across a majority of customer segments. WP grew faster than the market due to KTM's strong growth. Earnings before taxes stood at €11.4 million, a significant increase on the prior year (prior year: €8.7 million).

Despite subdued growth across the market as a whole, WP showed very strong volume and revenue growth in the area of chassis components, which was due to KTM's strong growth. Close collaboration with KTM is crucial for WP's further growth, which is why the R&D and Factory Racing divisions were for strategic reasons incorporated into the KTM Group in 2016.

As of December 31, 2016 the number of employees stood at 615.



## WP Share

In April 2016, WP AG's principal shareholder made a voluntary public takeover bid for all free-floating shares in WP AG to accompany the withdrawal of WP AG shares from the Second Regulated Market of the Vienna Stock Exchange. At the end of June 10, 2016, the shares were withdrawn from the Second Regulated Market of the Vienna Stock Exchange and converted from bearer shares into registered shares in autumn 2016.

## Outlook

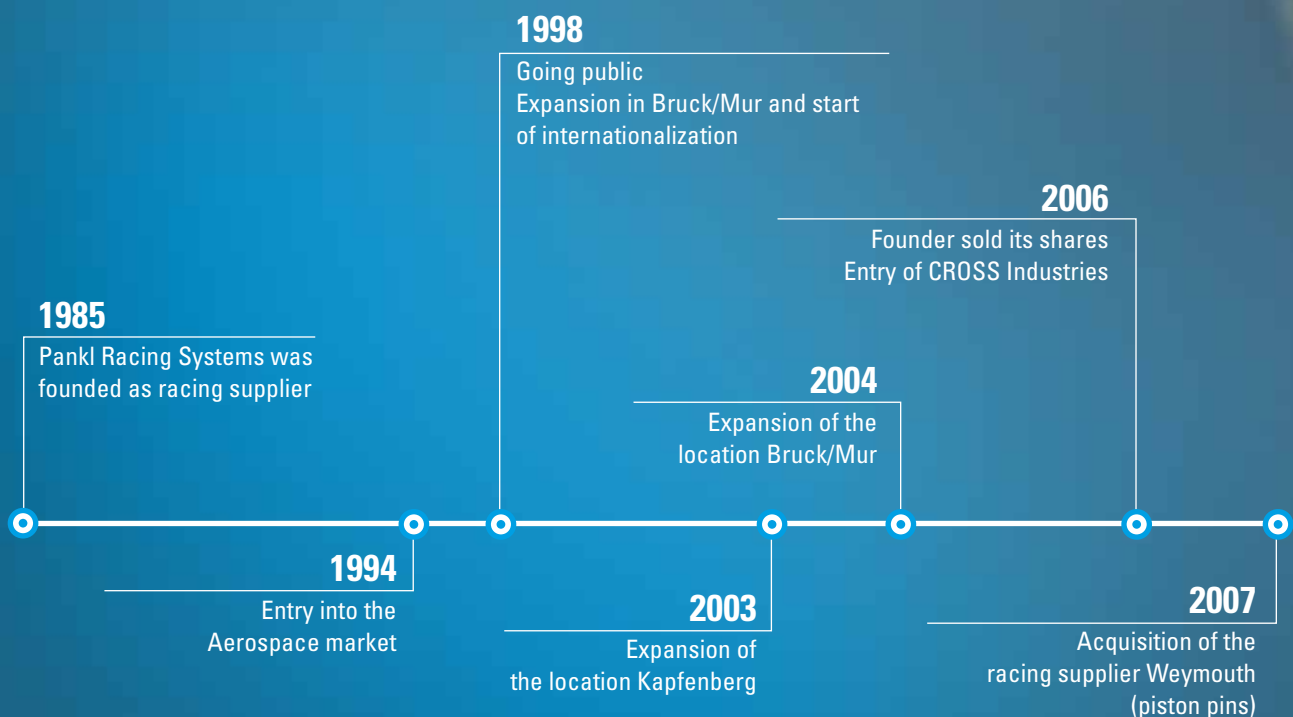
The order level in all areas of business is above that of the prior year, and for this reason we expect at least the same level of revenue in 2017. The primary goal in this year is the consolidation of the concern at the now increased revenue level and an improvement in the operating earnings margin.

## Key Figures

<b>Earnings Ratios</b>		<b>2015</b>	<b>2016</b>	<b>Change in %</b>
Revenue	in € million	144.6	166.1	15%
EBITDA	in € million	13.6	16.6	23%
EBIT	in € million	9.7	12.1	25%
Net result after tax	in € million	7.1	14.2	100%
<b>Balance Sheet Ratios</b>		<b>12/31/2015</b>	<b>12/31/2016</b>	<b>Change in %</b>
Balance sheet total	in € million	99.6	106.5	7%
Equity	in € million	42.3	53.5	26%
Equity ratio		42.4%	50.2%	-
Net debt	in € million	20.0	24.9	24%
Gearing		47.3%	46.5%	-
<b>Stock Exchange Indicators</b>		<b>2015</b>	<b>2016</b>	<b>Change in %</b>
Number of shares	units	5,000,000	5,000,000	-
Market capitalization	in € million	70.5	*)	-
End-of-month share quotation	in €	14.10	*)	-

\*) last trading day of the WP AG share on the Vienna Stock Exchange was 6/10/2016

# PANKL RACING SYSTEMS AG (94.5%)





**2008**

Setting up a factory in Topolcany  
Acquisition of Northbridge  
Motorsport (connecting rod screws)  
Acquisition of Carrillo Industries  
(steel connecting rods)

**2013**

Completion of High Performance  
serial production in Bruck/Mur  
New production area for the racing  
segment in Kapfenberg  
Additional new production and office  
areas for the aerospace division in Kapfenberg

**2014**

Expansion of the forging  
hall for new automated  
press lines

**2010**

Combination of  
the US companies  
CP and Carrillo

**2012**

Acquisition of 51% in  
Pankl APC Turbosystems GmbH  
(turbocharger – formerly APC Advanced  
Propulsion Concepts Mannheim GmbH)

**2016**

Groundbreaking  
of the High  
Performance  
drivetrain systems  
in Kapfenberg



# PANKL RACING SYSTEMS AG (94.5%)

## Business Development

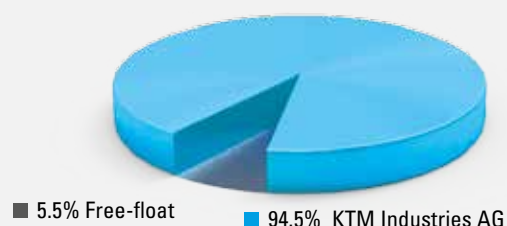
In the 2016 financial year the Pankl Group's revenues were increased 7% on the prior year to a new record of €186.0 million (prior year: €173.6 million). The Pankl Group's operating result rose primarily due to the strong final quarter caused by improved Formula 1 business due to new regulations, reaching a new record level of €13.2 million (prior year: €10.2 million). The EBIT margin stands at 7.1% (prior year: 5.9%). Profit after taxes stood at €10.0 million following €7.9 million in the prior year.

In the racing business, the Pankl Group benefited, primarily in the fourth quarter of the 2016 financial year, from the changes to regulations in Formula 1 for the 2017 season. The high-performance business grew robustly over the prior year. The aviation business stabilized as far as was possible, but the 2016 financial year was also characterized by a difficult market environment for helicopters.

As of December 31, 2016 the number of employees stood at 1,514.

## Pankl Share

Over the reporting period of twelve months, the highest closing price stands at €35.0 and the lowest at €26.5. The Pankl share closed at €34.0 on December 31, 2016. With 3,150,000 shares admitted to trading, the market capitalization stood at €107.1 million as of December 31, 2016.



## Outlook

At the start of the 2017 financial year, the order levels of the Pankl subsidiaries are above that of the prior year. Above all, the start up of the new high performance drivetrain plant in Kapfenberg, the largest investment in the corporation's history by far, will be of outstanding significance in 2017.

## Key Figures

<b>Earnings Ratios</b>		<b>2015</b>	<b>2016</b>	<b>Change in %</b>
Revenue	in € million	173.6	186.0	7%
EBITDA	in € million	23.6	26.2	11%
EBIT	in € million	10.2	13.2	29%
Net result after tax	in € million	7.9	10.0	26%

<b>Balance Sheet Ratios</b>		<b>12/31/2015</b>	<b>12/31/2016</b>	<b>Change in %</b>
Balance sheet total	in € million	180.7	195.6	8%
Equity	in € million	82.9	80.2	-3%
Equity ratio		45.9%	41.0%	-
Net debt	in € million	69.1	73.4	6%
Gearing		83.4%	91.5%	-

<b>Stock Exchange Indicators</b>		<b>2015</b>	<b>2016</b>	<b>Change in %</b>
Number of shares	units	3,150,000	3,150,000	-
Market capitalization	in € million	86.6	107.1	24%
End-of-month share quotation	in €	27.5	34.0	24%

# SHARE & INVESTOR RELATIONS

## Successful Debut on the SIX Swiss Exchange in Zurich

KTM Industries AG is the second Austrian concern to be listed on the SIX Swiss Exchange in Zurich, being listed since November 14, 2016. The Swiss Exchange therefore became a principal stock exchange for KTM Industries shares, which can also still be traded on the Vienna Stock Exchange.

KTM Industries AG is aiming for a broad concentration of trading in its shares on the SIX Swiss Exchange. The planned change from the "prime market" segment to the "standard market" segment on the Vienna Stock Exchange at the end of March 2017 should also create the conditions necessary for the shares to be accepted into the Swiss Performance Index (SPI). To increase the trading liquidity of the shares and to expand the shareholder group, the principal shareholder, Pierer Industrie AG, sold some of its equity holding (27,205,398 shares, equivalent to around 12.1% of the company's share capital) in the first quarter of 2017 to qualified investors and institutional investors as part of an offer without prospectus.

Bank Vontobel AG was commissioned by the execution of the first-time listing and the international private placement without prospectus sought.

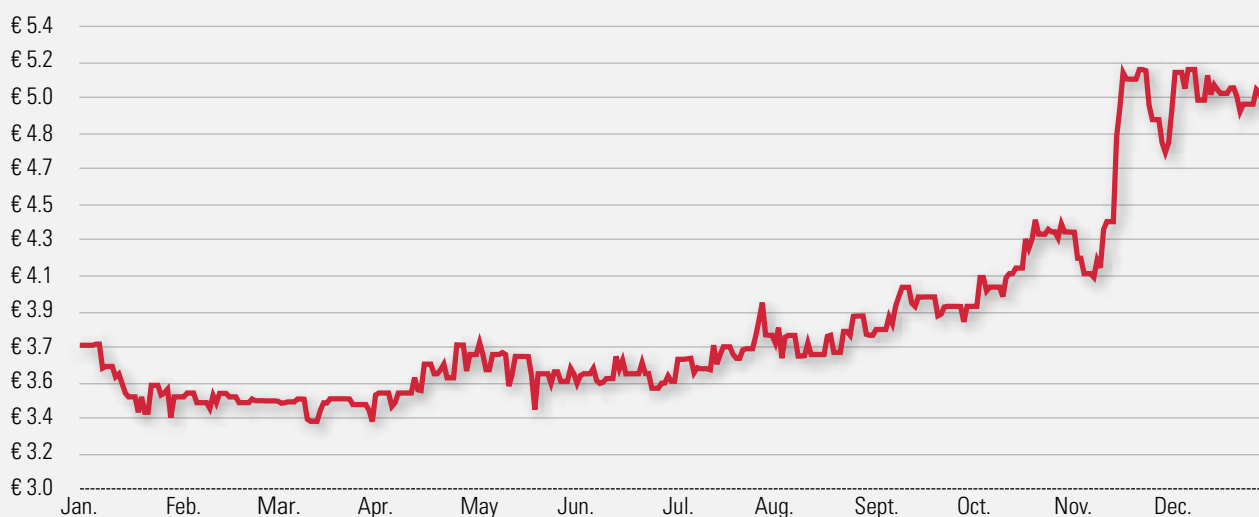
## Development of the KTM Industries Share

The KTM Industries share was launched on November 14, 2016 on the SIX Swiss Exchange for the first time at a price of CHF 4.90 and closed at CHF 5.35 on the last day of trading (12/30/2016), which was equivalent to value growth of around 9.2% in those six weeks. The highest closing price on the SIX Swiss Exchange was CHF 5.79 and the lowest was CHF 5.14. The market capitalization stood at CHF 1,205.8 million as of 12/31/2016.

On the Vienna Stock Exchange, the share's closing price on the first trading day of the 2016 financial year was €3.75, and €5.10 on the last day of trading (12/30/2016). The highest closing price in the 2016 financial year was €5.18 and the lowest was €3.35. The market capitalization stood at €1,149.2 million as of 12/31/2016.

## Development of the KTM Industries Share 01/01/2016 - 12/31/2016

Vienna Stock Exchange





### Shareholder Structure as of 12/31/2016

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.

Following the successfully executed private placement on February 23, 2017 the free float increased from around 25.11% to 37.18%.

Pierer Industrie AG continues to hold an equity holding of around 62.82% of the company's share capital.



### Dividend

On April 27, 2017 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 €0.23 this means a distribution ratio of 13%. 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 will be 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.

### More information on the KTM Industries Share

Investor Relations: Mag. Michaela Friepess  
 Telephone: +43 7242 69 402  
 Fax: +43 7242 69 402 109  
 E-mail: [info@ktm-industries.com](mailto:info@ktm-industries.com)  
 ISIN: AT0000820659  
 Stock exchange code: KTMI  
 Reuters: KTMI:VI  
 Bloomberg: KTMI:AV  
 Stock category: No-par ordinary bearer shares

### CLOSING PRICE EURO

**5.10**

2'10

### CLOSING PRICE CHF

**5.35**

2'32



# CORPORATE GOVERNANCE

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## 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 2015. 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 company is further obligated to fulfil the standards of the Code due to the listing of its shares in the Prime Market segment of the Vienna Stock Exchange.

The Corporate Governance Report for the 2016 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 non-compliance 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 controlling and reporting system enabling 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, 2016.

"C-Rule 21": The company and its main direct subsidiaries comply with the provisions of the Compliance Decree for Issuers (ECV). As a result of the large number of subsidiaries, the application of the decree cannot be extended to all subsidiaries; due to the size of the KTM Industries Group, this would result in unmanageable administrative expenses. Following extensive discussions and involvement of the subsidiaries, the Executive Board of the company has therefore decided to refrain from an application to all subsidiaries.

"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 2016 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 “related party transactions”, 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, quarterly reports, 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, which are held approximately every two to four weeks, 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):

#### DI Stefan Pierer (CEO), born 1956

- Initial appointment: June 02, 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 AG

Mandates on supervisory boards or comparable functions in other foreign and domestic companies, not 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)

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

- Initial appointment: June 02, 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 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:

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>■ Member of the Executive Board of KTM AG (until July 21, 2016)</li> <li>■ Member of the Executive Board of Pierer Industrie AG</li> </ul> | <ul style="list-style-type: none"> <li>■ Chairman of the Supervisory Board of KTM AG (since July 21, 2016)</li> <li>■ Member of the Supervisory Board of WP AG</li> <li>■ Member of the Supervisory Board of Pankl Racing Systems AG</li> </ul> |
|---|---|

Mandates on supervisory boards or comparable functions in other foreign and domestic companies, not included in the consolidated financial statements:

- Member of the Supervisory Board of Wirtschaftspark Wels Errichtungs- und Betriebs-Aktiengesellschaft
- Member of the Supervisory Board of All for One Steeb AG (D) (until August 11, 2016)

**Ing. Alfred Hörtenhuber**, born 1955

- Initial appointment: June 02, 2015
- End of the current term of office: January 31, 2018
- Responsible for the strategic/operational management of the WP Group

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 Executive Board of the KTM Industries Group and, since October 2010, 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 WP AG
- Member of the Supervisory Board of Pankl Racing Systems AG

Mandates on supervisory boards or comparable functions in other foreign and domestic companies, not included in the consolidated financial statements:

- None

**Mag. Wolfgang Plasser**, born 1962

- Initial appointment: June 02, 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 his roles at KPMG, at the Investment Bank Austria and as CFO at Vossen AG, as well as at 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

Mandates on supervisory boards or comparable functions in other foreign and domestic companies, not included in the consolidated financial statements:

- None

**Working procedures of the Supervisory Board:**

During the 2016 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 four meetings during the 2016 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 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. Finally, the independence 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:

- KTM AG (until July 21, 2016) (the KTM AG shares were delisted on June 24, 2016), Pankl Racing Systems AG, All for One Steeb AG (Germany)

#### **Dr. 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:

- KTM AG (the KTM AG shares were delisted on June 24, 2016)

**Mag. 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:

- WP AG (until July 20, 2016) (the WP AG shares were delisted on June 10, 2016)

**Mag. 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:

**Mag. Klaus Rinnerberger**  
Chairman

**Josef Blazicek**  
Deputy Chairman

**Dr. 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 approval of the annual financial report, 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 2016 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.

Dr Ernst Chalupsky is shareholder and managing director of Saxinger, Chalupsky & Partner Rechtsanwälte GmbH. The KTM Industries Group is advised by Saxinger, Chalupsky & Partner Rechtsanwälte GmbH concerning legal affairs. The consulting services used are based on standard terms and conditions.

Consulting and other services offered by Kiska GmbH, the managing partner of which is the Supervisory Board member Gerald Kiska, are used in accordance with standard terms.

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 2016 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 below on page 37). 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 €4.24 million during the 2016 financial year (previous year: €4.52 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 2016 financial year, no loans or advance payments were granted to Members of the Executive Board. As of balance sheet date December 31, 2016, no loans or advance payments to current or previous Executive Board members exist. During the 2016 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 2016 financial year (group level):

	Fixed (in EUR)	Fixed in %	Variable (in EUR)	Variable in %	Total
Stefan Pierer	375,519	20	1,480,100 <sup>(1)</sup>	80	1,855,619
Friedrich Roithner	199,102	26	573,447 <sup>(2)</sup>	74	772,549
Alfred Hörtenhuber *)	290,070	53	258,144 <sup>(3)</sup>	47	548,214
Wolfgang Plasser *)	393,684	59	270,250 <sup>(4)</sup>	41	663,934
<b>Total</b>	<b>1,258,375</b>	<b>33</b>	<b>2,581,941</b>	<b>67</b>	<b>3,840,316</b>

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

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

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

<sup>(4)</sup> 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 403k.

\*) Alfred Hörtenhuber concluded an employee/Executive Board contract with KTM Industries AG; since October 1, 2015, he has been charged to WP AG pursuant to a posting agreement.

Wolfgang Plasser was appointed to the Executive Board of KTM Industries upon registration of the merger on June 2, 2015. As a result of his membership of the Executive Board of Pankl Racing Systems AG, his full annual salary has been quoted for easy comparison. 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 of the company, they are not subject to a voting prohibition in the Annual General Meeting, regarding the voting on the remuneration of the members of the Supervisory Board.

As part of the 19th Annual General Meeting held on April 27, 2016, the total remuneration for the 2015 financial year for the Supervisory Board was resolved to be EUR 53,000. The total remuneration paid to the Supervisory Board during the 2015 financial year actually amounted to €46,000. 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 2016 financial year, the total remuneration of the Supervisory Board was recognized in the income statement in the amount of EUR 28,000. 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 20th Annual General Meeting for the 2016 financial year, which is scheduled to take place on April 27, 2017. The individual distribution should be divided as follows, subject to the approval of the Annual General Meeting:

Supervisory Board member	Remuneration
<b>Josef Blazicek</b>	
■ Chairman of the Supervisory Board	EUR 16,000
■ Deputy chairman of the Audit Committee	
<b>Dr. Ernst Chalupsky</b>	EUR 8,000
■ Deputy chairman of the Supervisory Board	
■ Member of the Audit Committee	
<b>Mag. Gerald Kiska</b>	EUR 4,000
■ Member of the Supervisory Board	
<b>Mag. Klaus Rinnerberger</b>	EUR 0
■ Member of the Supervisory Board	
■ Chairman of the Audit Committee	
<b>Total</b>	<b>EUR 28,000</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 2016 financial year, no loans or advance payments were granted to members of the Supervisory Board. As of balance sheet date December 31, 2016, no loans or advance payments to current or previous Supervisory Board members exist. During the 2016 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 2016 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

We do not expect a woman to be appointed to the Executive Board for the time being, as there are no plans to expand the Executive Board and existing contracts are not due to expire for some time. Equal treatment of female and male employees and equal career opportunities are a matter of course for KTM Industries AG. A specific program to promote the career advancement of women has not been set up.

## 04 Audits and external evaluation

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, was appointed by the 19th 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, 2016 until December 31, 2016. 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 (not including subgroups) EUR 120,000 (previous year: EUR 115,000), and audit of the annual financial statements EUR 28,800 (previous year: EUR 28,000). Other consultancy services carried out in connection with audit-related services amount to EUR 186,580.

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 previous 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.

## 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.
- **General Meeting:** The 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

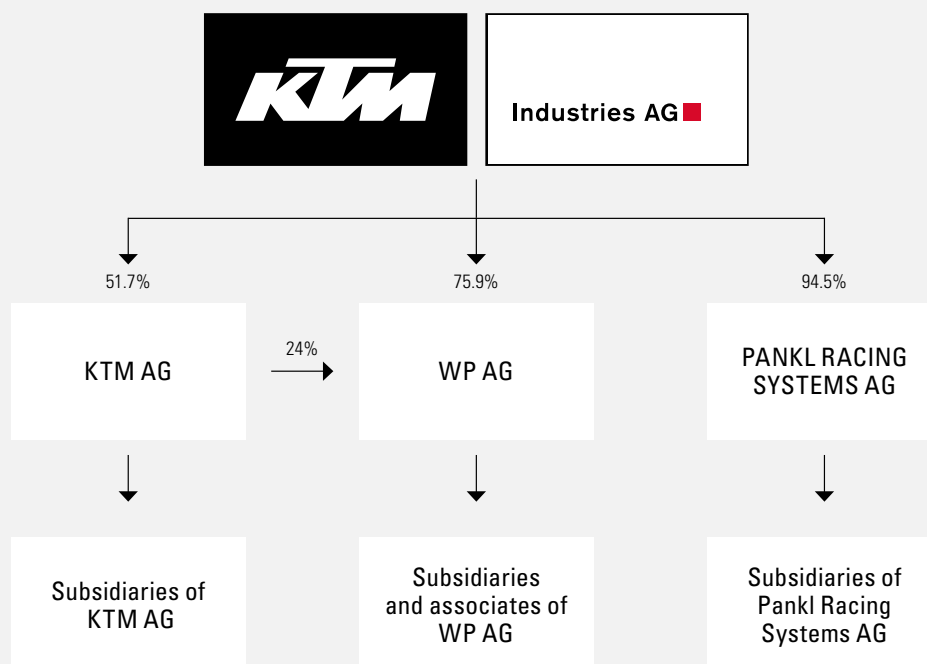
KTM Industries AG, with registered office in 4600 Wels, Edisonstraße 1, Austria, has had its primary listing on the SIX Swiss Exchange since November 14, 2016 (ISIN: AT0000820659, Security Number: 504.289). KTM Industries AG has share capital of EUR 225,386,742, divided into 225,386,742 voting bearer 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.at/index.php/corporate-governance/satzung-der-gesellschaft>).

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 consists of core divisions, namely (i) vehicle manufacturing, through its holdings in the KTM Group and (ii) high performance, through its holdings in the Pankl Group and WP Group.

The structure of the KTM Industries Group is shown in simplified form in the chart below:



The KTM Industries Group comprises the following core areas:

### **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 and Husqvarna Motorcycles GmbH as well as holdings in KTM Technologies GmbH, Kiska GmbH and the sales subsidiaries of the KTM Group and Husqvarna Group.

The KTM Group is a global manufacturer of Offroad and Street vehicles. Its products are sold under the "KTM-Group" and "Husqvarna" 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).

The Group's products are sold worldwide via 28 sales subsidiaries and two joint ventures (in Dubai and New Zealand) to over 2,000 independent dealers and importers.

### **WP Group**

WP AG has its registered office in Munderfing, Austria and is the holding company for the WP Group. It has no operating activities other than the acquisition and retention of equity holdings. The core business of the company is the acquisition and administration of industrial companies and holdings in such companies, the management of companies belonging to the WP Group, the provision of services for those companies, and the provision of corporate advisory services. The company's long-term profits derive from the main investee companies.

The share capital of WP AG is EUR 5,000,000. KTM Industries holds a direct interest of approximately 75.9% in WP AG and a further interest of approximately 24% via KTM AG.

The parent company of the WP Group for operational purposes is WP Performance Systems GmbH, which has its registered office in Munderfing, Austria. WP 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 Bruck an der Mur, Austria, is the parent company of the Pankl Group, which comprises 15 companies in total. It is primarily 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 December 31, 2016, Pankl Racing Systems AG had a market capitalization of approximately EUR 107.1 million.

In Austria, Pankl Racing Systems AG holds Pankl Aerospace Systems Europe GmbH, Pankl Beteiligungs GmbH, Pankl Schmiedetechnik GmbH & Co KG, Pankl Drivetrain Systems GmbH & Co KG, Pankl Engine Systems GmbH & Co KG, Capital Technology Beteiligungs GmbH and the holding in Pankl APC Turbosystems GmbH. Outside Austria, the Pankl Group has 100% interests in Pankl Racing Systems UK Ltd., Pankl Holdings, Inc. and their 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.

For more information on the divisions of KTM Industries AG, see pages 12-23 of the Annual Report.

A detailed list of the active non-listed subsidiaries of KTM Industries AG can be found in the schedule of equity holdings (pages 158-162)

## 1.2. Significant shareholders

The shareholder structure of KTM Industries AG as at December 31, 2016 was as follows:

Pierer Group:

■ Pierer Industrie AG	74.89%
■ Pierer Konzerngesellschaft mbH	1.14%
Free float	23.97%

As at December 31, 2016, the Pierer Group thus held approximately 76.03% 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.

Between the listing of KTM Industries AG on the SIX Swiss Exchange on 11/14/2016 and the reporting date of 12/31/2016, no transactions were carried out that were notifiable pursuant to articles 120 et seq. of the Financial Markets Infrastructure Act (FMIA).

For the sake of completeness, it is noted that on February 23, 2017 (i.e. after the reporting date), Pierer Industrie AG, which is controlled by Stefan Pierer, a member of the Executive Board of KTM Industries AG, sold 27,205,398 shares in KTM Industries AG to institutional investors at a price of CHF 4.90 by way of an international private placement carried out without the issue of a prospectus. These shares represent a holding of approximately 12.07% in KTM Industries AG. Also on February 23, 2017, Pierer Konzerngesellschaft mbH bought 304,878 shares (about 0.14%) at a price of EUR 4.42 and sold 139,428 shares (about 0.06%) at a price of EUR 4.59. On February 23, 2017, the holding of the Pierer Group in KTM Industries AG thus fell below the threshold of 66 <sup>2</sup>/<sub>3</sub>% and is now approximately 64.04%.

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 seqq. of the Financial Markets Infrastructure Act (FMIA) 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 General Meeting as well as the right to vote at General Meetings.

### 2.2 Authorized and conditional capital in particular

#### Authorized capital:

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

1) Source: Articles of association of KTM Industries AG, which is available on the website: <http://www.ktm-industries.com/index.php/en/corporate-governance/articles-association>

#### Conditional capital:

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

2) Source: Articles of association of KTM Industries AG, which is available on the 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 370.9 million at December 31, 2014, EUR 386.6 million at December 31, 2015 and EUR 454.9 million at December 31, 2016. Information on changes in equity is set out in the consolidated statement of changes in equity in the Annual Report (pages 88-89).

3) 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>

## 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 General Meeting of KTM Industries AG is entitled to exclude all or part of the profit or retained earnings from distribution. Should the 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 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.

4) 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>

#### 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 General Meetings:**

#### **Right to attend**

Every shareholder has the right to attend the General Meetings, as shareholders exercise their rights at General Meetings. Shareholders are entitled to attend 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 General Meeting. Shareholders do not need to attend the 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 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(2) 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 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 General Meeting. Where a motion is proposed at the 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 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 a related 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 General Meeting.

**Right to speak**

Every shareholder has the right to express his opinion at the General Meeting. The 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 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 holdings 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 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.

5) 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>

**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 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.

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

**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.

### 3. Supervisory Board

#### 3.1 / 3.2 / 3.3 / 3.4 Members of the Supervisory Board, other activities, 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 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 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 2000 to 2003, he was Head of Syndications at ICE Securities Ltd. in London. Subsequently, until 2006, he was managing shareholder at OCEAN Equities Ltd. Until 2005, he was also a partner in the QINO Group in Switzerland, where he was involved in the management of subsidiaries in Switzerland. Mr. Blazicek has been a shareholder in the Vienna-based management consultancy OCEAN Consulting GmbH since 2004.

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 General Meeting ruling upon the financial year 2020.

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

- 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, M.B.L.-HSG** (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 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
- 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.

**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 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 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.

**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 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.

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.

<b>Supervisory Board</b>	<b>Company</b>	<b>Position</b>	<b>Still serving</b>
<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	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
	QCP Swiss AG	Member of Board of Directors	Yes
	Update software AG	Member of Supervisory Board	No
	Triplan AG	Member of Supervisory Board	No
	Semper Constantia Privatbank AG	Member of Supervisory Board	No
	BF HOLDING AG	Member of Supervisory Board	No
	KTM Motorrad AG	Member of Supervisory Board	No
	KTM-Sportmotorcycle AG	Member/deputy chairman of Supervisory Board	No
	PS GmbH (company dissolved)	General Manager	No
	WP Immobilien GmbH (formerly CROSS Immobilien AG)	Member of Supervisory Board	No
	CROSS Motorsport Systems AG (now WP AG)	Member of Supervisory Board	No
	OCEAN Advisory GmbH	General Manager	No
	OCEAN Consulting GmbH	Shareholder	Yes
	Qino Management & Advisory Ltd.	Non-executive Director	Yes
<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	Partner/General Manager	Yes
	KTM Motorrad AG	Member of Supervisory Board	No

<b>Supervisory Board</b>	<b>Company</b>	<b>Position</b>	<b>Still serving</b>
	WP Immobilien GmbH (formerly CROSS Immobilien AG)	Member of Supervisory Board	No
	CROSS Motorsport Systems AG (now WP AG)	Member of Supervisory Board	No
	Beteiligungsverwaltungsgesellschaft mbH	Shareholder	No
	PBS Holding AG	Member of Supervisory Board	No
	Zielpunkt GmbH	Member of Supervisory Board	No
	BOW Beteiligungs GmbH	General Manager	No
	ZIP Warenhandel AG	Member/deputy chairman of Supervisory Board	No
	Unternehmens Invest Aktiengesellschaft	Chairman of Supervisory Board	No
<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
	Österreichische DESIGN Privatstiftung	Member of Executive Board	Yes
	KTM Technologies GmbH	General Manager	Yes
	Pierer Industrie AG	Member of Supervisory Board	Yes
	WP AG	Member of Supervisory Board	No
	WP Immobilien GmbH (formerly CROSS Immobilien AG)	Member of Supervisory Board	No
<b>Klaus Rinnerberger</b>			
	KTM Industries AG	Member of Supervisory Board	Yes
	KTM Industries AG	Member of Executive Board	No
	Pierer Industrie AG	Member of Executive Board	Yes
	Schachinger Logistik Holding GmbH	Member of Advisory Board	Yes
	Industrieholding GmbH	Member of Advisory Board	Yes
	Industrieholding GmbH	Chairman of Advisory Board	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, Pages 33-34)

#### **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, Page 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 32-33).

### **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 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 four occasions during 2016, 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 32-33).

### **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 December 31, 2016.

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 currently consists 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 AG

#### 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 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 KTM AG (until July 21, 2016)
- Member of the Executive Board of Pierer Industrie AG
- Chairman of the Supervisory Board of KTM AG (since July 21, 2016)
- Member of the Supervisory Board of 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:**

- Member of the Supervisory Board of Wirtschaftspark Wels Errichtungs- und Betriebs-Aktiengesellschaft
- Member of the Supervisory Board of All for One Steeb AG, (Germany) (until August 11, 2016)

**Ing. 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.

**Responsibility:**

- Strategic/operational management of the WP Group

**Weitere wesentliche Funktionen im Konzern:**

- Member of the Executive Board of 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 CEO 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
	CROSS Motorsport Systems AG (now WP AG)	Member of Executive Board	No
	WP AG	Chairman of Supervisory Board	Yes
	Pierer Konzerngesellschaft mbH	Shareholder/General Manager	Yes
	KTM AG	Chairman of Executive Board	Yes
	KTM Motorrad AG	Chairman of Executive Board	No
	Pierer Industrie AG	Chairman of Executive Board	Yes
	Workspace Unternehmerzentrum GmbH (formerly Pierer Informatik GmbH)	General Manager	Yes
	K KraftFahrZeug Holding GmbH GmbH (formerly CROSS KraftFahr-Zeug Holding GmbH)	General Manager	Yes
	PF Beteiligungsverwaltungs GmbH	General Manager	Yes
	PIERER Immobilien GmbH	General Manager	Yes
	Pierer Anlagenbau GmbH	General Manager	Yes
	PS GmbH (company dissolved)	General Manager	No
	Swisspartners AG	Member of Board of Directors	Yes
	Pierer Swiss AG	Member of Board of Directors	Yes
	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

Member of Executive Board	Company	Position	Still serving
	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
	Unternehmens Invest Aktiengesellschaft	Chairman of Executive Board	No
	WP Immobilien GmbH (formerly CROSS Immobilien AG)	Chairman of Executive Board, Chairman of Supervisory Board	No
	CROSS Finanzierungs GmbH (company dissolved)	General Manager	No
	CROSS Integration GmbH (company dissolved)	General Manager	No
	Knünz Invest Beteiligungs GmbH	General Manager	No
	Oberbank Mattigtal Immobilienleasing GmbH	General Manager	No
	P&K Beteiligungs GmbH (company dissolved)	General Manager	No
	PF Beteiligungsverwaltungs GmbH	General Manager	No
	Peguform Holding GmbH	General Manager	No
	Pierer Finanzierungsgesellschaft m.b.H. (company dissolved)	General Manager	No
	Seestern Holding GmbH <small>(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)</small>	General Manager	No
	UIAG Automotive Beteiligungs GmbH	General Manager	No
	Austria Email Aktiengesellschaft	Member/deputy chairman of Supervisory Board	No
	BEKO Holding AG	Member of Supervisory Board	No
	Eternit-Werke Ludwig Hatschek Aktiengesellschaft	Member of Supervisory Board	No
	Unternehmens Invest Aktiengesellschaft	Member of Supervisory Board	No
	WP Components GmbH	Chairman of Supervisory Board	No
<b>Friedrich Roithner</b>			
	KTM Industries AG	Deputy Chairman of the Executive Board	Yes
	WP AG	Member/deputy chairman of Supervisory Board	Yes



Member of Executive Board	Company	Position	Still serving
	CROSS Motorsport Systems AG (now WP AG)	Member of Executive Board	No
	CROSS Motorsport Systems GmbH (now WP AG)	General Manager	No
	KTM AG	Member of Executive Board	No
	KTM AG	Member of Supervisory Board	Yes
	Pierer Industrie AG	Member of Executive Board	Yes
	Workspace Unternehmerzentrum GmbH (formerly Pierer Informatik GmbH)	General Manager	Yes
	K KraftFahrZeug Holding GmbH (formerly CROSS KraftFahrZeug Holding GmbH)	General Manager	Yes
	Durmont Teppichbodenfabrik 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
	Unternehmens Invest Aktiengesellschaft	Member of Executive Board	No
	WP Immobilien GmbH (formerly CROSS Immobilien AG)	Chairman of the Executive Board, General Manager	No
	CROSS Automotive Beteiligungs GmbH (now CROSS Industries AG)	General Manager	No
	CROSS Automotive Holding GmbH (now CROSS Industries AG)	General Manager	No
	CROSS Finanzierungs GmbH (company dissolved)	General Manager	No
	CROSS Integration GmbH (company dissolved)	General Manager	No
	CROSS Lightweight Technologies Holding GmbH (company dissolved)	General Manager	No
	KTM Immobilien GmbH	General Manager	No
	KTM Sportmotorcycle GmbH	General Manager	No
	Oberbank Mattigtal Immobilienleasing GmbH	General Manager	No
	PF Beteiligungsverwaltungs GmbH	General Manager	No
	Peguform Holding GmbH	General Manager	No
	Seestern Holding GmbH <small>(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)</small>	General Manager	No
	UIAG Automotive Beteiligungs GmbH	General Manager	No
	BEKO Holding AG	Member of Supervisory Board	No
	WP Components	Member/deputy chairman of Supervisory Board	No
	Pierer Invest Beteiligungs GmbH (company dissolved)	General Manager	No

Member of Executive Board	Company	Position	Still serving
<b>Alfred Hörtenhuber</b>			
	KTM Industries AG	Member of Executive Board	Yes
	WP AG	Member of Executive Board	Yes
	WP Performance Systems GmbH	General Manager	Yes
	WP Components GmbH	General Manager	Yes
	Pankl Racing Systems AG	Member of Supervisory Board	Yes
	KinderPaliativNetzwerk GmbH	Shareholder	Yes
	KTM AG	Member of Supervisory Board	No
	KTM Motorrad AG	Member of Supervisory Board	No
	KTM-Sportmotorcycle AG	Chairman of Supervisory Board	No
	Pankl Racing Systems AG	Member of Executive Board	No
	TGW-Future Privatstiftung	Chairman of Foundation Board	No
	CROSS Motorsport Systems AG (now WP AG)	Member of Executive Board	No
	CROSS Automotive Beteiligungs GmbH (now CROSS Industries)	General Manager	No
	CROSS Automotive Holding GmbH (now CROSS Industries)	General Manager	No
	CROSS Lightweight Technologies Holding GmbH (company dissolved)	General Manager	No
	Knünz Invest Beteiligungs GmbH	General Manager	No
	Wethje Carbon Composites GmbH (formerly Wethje Holding GmbH)	General Manager	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 WP AG)	Member of Executive Board	No
	CROSS Motorsport Systems GmbH	General Manager	No
	OCEAN Advisory GmbH	General Manager	Yes
	OCEAN Consulting GmbH	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 Engine Systems, Inc	Member of Supervisory Board	No

#### 4.3 Management contracts

There are no management contracts.

## 5. Compensation, shareholdings and loans

### 5.1 Inhalt und Festsetzungsverfahren der Entschädigungen und der Beteiligungsprogramme

Please refer to the Report under the Austrian Corporate Governance Code (Compensation Report, Pages 36-38)

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 36-38) No compensation was paid and no non-cash benefits were granted to former members of the Supervisory or Executive Boards in the 2016 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**	171,793,423	76.22
Friedrich Roithner	Yes	No	2,254,000	1.00
Alfred Hörtenhuber	Yes	No	650,000	0.29
Wolfgang Plasser	Yes	No	650,000	0.29
Klaus Rinnerberger	Yes	No	2,254,000	1.00
Josef Blazicek	Yes	No	2,253,865	1.00
Dr. Ernst Chalupsky	Yes	No	426,830	0.19
Gerald Kiska	Yes	No	2,254,000	1.00

\* rounded

\*\* via Pierer Konzerngesellschaft mbH and Pierer Industrie

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

7) 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>

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

The provisions regarding the convocation of the 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.

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 AG currently contain no such provisions modifying 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.

8) 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>

9) 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>

### 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.

### **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 19th Annual General Meeting to serve as the auditor of the consolidated financial statements and separate financial statements of the company for the 2016 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 39).

### **8.3 Additional fees**

During the 2016 financial year, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft charged no advisory fees to KTM Industries AG for additional advisory services.

### **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 must also make a suggestion as to the selection of an auditor, and prepare the proposal to be submitted by the Supervisory Board for voting at the General Meeting. In line with C-Rule 81a of the Austrian Corporate Governance Code, the Audit Committee must also meet with the auditor to establish a mutual line of communication.

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).

As the company's shares are listed in the Prime Market segment of the Official Market of the Vienna Stock Exchange, KTM Industries AG prepared and published annual financial reports and interim (quarterly and half-yearly) reports in both German and English in 2016.

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 interim (quarterly and half-yearly) reports must cover the first three, six and nine 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 period covered. 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's shares will move to the Standard Market segment of the Official Market of the Vienna Stock Exchange as from the end of March 2017. As a result, it may be the case in future that only annual and half-yearly financial reports are drawn up and published.

The company is obliged 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 information on directors' dealings that must be published under § 48d of the Austrian Exchanges Act. 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 2016 financial year, the Supervisory Board of KTM Industries AG held four 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 with comprehensive reports submitted in all meetings, during the 2016 financial year, the Executive Board of KTM Industries AG regularly informed the Supervisory Board of the present state of business and the financial position of the Group, as well as the personnel situation. 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 2016, issues concerning the annual and consolidated financial statements for 2015 were covered, together with the proposal for the appointment of the auditor. During the meeting held in December 2016, the auditor provided a brief overview of the planned process, together with the main audit focus for the 2016 financial year. The members of the Audit Committee were Klaus Rinnerberger (Chairman), Josef Blazicek (Deputy Chairman) and 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 2016 financial year were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, together with the consolidated financial statements and the Group management report for the 2016 financial year. The audit did not give rise to any objections and the annual and consolidated financial statements for the 2016 financial year were granted an unqualified audit opinion.

The auditor certified that the accounting and the annual financial statements dated December 31, 2016 are consistent with the applicable laws, that the annual financial statements give, in all material respects, as true and fair a view as possible of the company's net assets, financial position and earnings position of the company for the 2016 financial year in accordance with generally accepted accounting principles, and that the management report is consistent with the annual financial statements.

Furthermore, the auditor certified that the consolidated financial statements give a true and fair view in all material respects of the Group's net assets and financial position for the 2016 financial year, as well as of the earnings position and cash flows for the previous financial year in accordance with the International Financial Reporting Standards (IFRS), and that the Group management report is consistent with the consolidated financial statements.



All documents related to the financial statements and the Independent Auditor's Report were discussed in detail with the auditor at the Audit Committee meeting held on March 21, 2017 and presented to the Supervisory Board together with the reports drawn up by the Executive Board and the corporate governance report in its subsequent meeting. The Audit Committee reported to the Supervisory Board that it agreed with the result of the audit and reached the conclusion that the review of the financial statements and management report, together with the consolidated financial statements, the Group management report and the corporate governance report for the 2016 financial year and the documents submitted for auditing are correct and in compliance with the law. The Executive Board's decision regarding accounting policy is economic and practical 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 audit. The Supervisory Board's final conclusion of the financial statements and the management report, as well as the consolidated financial statements, the group management report and the corporate governance report for the 2016 financial year, give no reason for any objections. Having been accepted by the Supervisory Board, the 2016 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 2016 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 2016 financial year.

Moreover, following a recommendation by the Audit Committee, a proposal for the election of the auditor for the 2017 financial year was prepared for the 20th Annual General Meeting on April 27, 2017. KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, has been proposed as auditor for the financial year commencing on January 1, 2017 and ending on December 31, 2017.

During the 19th Annual General Meeting held on April 27, 2016, Josef Blazicek and Dr. Ernst Chalupsky were re-elected as members of the Supervisory Board and shall remain in office until the conclusion of the Annual General Meeting at which the vote concerning the discharge for the 2020 financial year takes place. Gerald Kiska and Klaus Rinnerberger were also once again re-elected as members of the Supervisory Board and shall remain in office until the conclusion the Annual General Meeting at which the vote concerning the discharge for the 2019 financial year takes place.

Furthermore, the appointment of Wolfgang Plasser to the Executive Board was also extended (earlier than planned) to May 31, 2022 by the Supervisory Board.

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 that placed their trust in the company and who have therefore played a fundamental role in this success.

Wels, March 2017

  
Chairman of the Supervisory Board  
Josef Blazicek



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# CONSOLIDATED MANAGEMENT REPORT

as of 12/31/2016 of KTM Industries AG, Wels

## 1. Significant events in the 2016 financial year

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. For further information on the majority shareholding we refer to the Group notes (Point I. Company).

In its capital market activities, the KTM Industries Group focused more intensively on the stock exchange listing of KTM Industries AG in the prior financial year. In July 2016, the Group's name was changed from "CROSS Industries AG" to "KTM Industries AG" and listed on the SIX Swiss Exchange in Zurich in November 2016. Its debut on the SIX Swiss Exchange was very successful and the share is developing excellently on the new principal stock exchange.

In order to create a more streamlined capital market structure, delisting of both operating companies KTM AG and WP AG was carried out in the summer of 2016. The free float of both these companies was significantly below 1 percent. The free-float shareholders of KTM AG and WP AG were each offered purchase options accompanying the delisting to allow them an exit. All shareholders who did not accept this offer remain shareholders of KTM AG and WP AG.

The KTM Industries Group continued its successful course during the 2016 financial year. Record revenues of €1,343.0 million were generated. The revenue growth was yielded by the positive development of the operating companies KTM AG, WP AG and Pankl Racing Systems AG, whose revenue and EBIT in the 2016 financial year were each above the prior year's level.

The prior financial year was also characterized by further acquisitions of shares in Pankl Racing Systems AG, which sustainably strengthen its strategic positioning within the KTM Industries Group. KTM Industries AG increased its equity holding in Pankl Racing Systems AG from previously 55.9% to 94.5%.

Furthermore, it was announced that the share sales program of KTM Industries AG was terminated on December 11, 2016. In the period September 7, 2015 through December 11, 2016 71,038 shares were sold via the stock exchange. The Company no longer has treasury shares.

## 2. Economic environment

According to the January 2017 assessment of the International Monetary Fund (IMF), the global economy is set to experience a slight recovery. The IMF expects to see a 3.4% rise in global economic output in 2017, with growth of 1.9% in 2017 and 2.0% in 2018 being forecast for industrial nations.

Expansion of only 1.6% is forecast for the Eurozone in 2017 and 2018. Growth of 2.3% is anticipated in the US. The IMF forecasts global growth of 3.6% in 2018.

Economic output for emerging and developing nations is forecast to grow by 4.5% for 2017 and 4.8% for 2018. The biggest growth is expected in India, which is forecast to grow by 7.2% in 2017 and by 7.7% in 2018. Growth of 4.9% is expected in the ASEAN countries in 2017.

### 3. Business development of the segments

#### KTM AG

The overall European market<sup>1</sup> was up 14.3% on the preceding year, with 565,655 vehicles registered. The increase was due mainly to the growth in the largest European markets such as Germany (+14.5%), Italy (+21.6%), Spain (+25.2%) and Sweden (+41.8%).

Amid a difficult market environment, KTM brand vehicles succeeded in gaining additional market shares in key markets such as Austria (up by 7.0 percentage points from the prior year) and Sweden (up by 3.5 percentage points from the prior year). KTM has a share of 9.8% of the total European market (prior year: 8.4%). Husqvarna Motorcycles' market share grew in Sweden (up by 3.8 percentage points from the prior year), Italy (up by 0.4 percentage points from the prior year) and Germany (up by 0.4 percentage points from the prior year). Husqvarna has a market share of 1.6% of the total European market (prior year: 1.1%).

New registrations in the overall U.S. market<sup>2</sup> fell slightly to 406,826 vehicles in the 2016 financial year (prior year: 419,864 vehicles). Despite this, KTM succeeded in increasing its market share of the overall U.S. market to 5.5%, a rise of 0.3 percentage points compared to the prior year. Husqvarna increased its market share in the U.S. by 0.7 percentage points to 1.5%.

Group revenues increased by 11.7% from €1,022.5 million in the previous year to €1,141.8 million. Revenue in North America rose 8.6% from the prior year to €327.7 million and corresponds to 28.7% of total revenue. In Europe, revenues were up 17.8% on the preceding year, rising to €603.6 million; Europe thus accounted for 52.9% of total revenues. Revenue in other countries rose by 1.0% compared to the prior year, to €210.5 million. The percentage of total revenue earned in the other countries was 18.4%.

Motorcycles (including Sportminicycles and X-Bows) represent 83.9% of total revenue, this percentage remaining essentially constant relative to the prior year (83.8%). Revenue in the Offroad segment increased by 23.7% compared to the prior year, to €526.1 million. Revenue in the Street segment, at €381.9 million, showed little movement relative to the prior year (-2.2%). Revenues from Spares, Clothing and Accessories (KTM PowerWear and KTM PowerParts) and Other rose by 11.3% relative to the previous year, to €184.0 million.

#### WP AG

The WP Group's 2016 financial year was characterized by strong revenue growth and strategic reorientation. The group's revenue was increased to €166.1 million (prior year: €144.6 million). The rise in revenue could be seen in all product divisions and across a majority of customer segments. WP grew faster than the market due to KTM's strong growth.

Despite subdued growth across the market as a whole, WP showed very strong volume and revenue growth in the area of chassis components, which was due to KTM's strong growth.

The Engine Components segment primarily supplies OEM customers. The markets relevant to WP slightly increased in the prior year. WP grew faster than the market due to KTM's strong growth. More intensive focus is also being placed on development activities in this division. Radiator components were developed in the Radiator product division for Moto GP Sport, which were also successfully used in 2016.

Closer collaboration with KTM is crucial for WP's continued success and thus for further growth, which is why the R&D and Factory Racing divisions were, for strategic reasons, incorporated into the KTM Group in 2016.

<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

## Pankl Racing Systems AG

In the business year 2016, revenues of the Pankl Group increased by 7.1% compared with the prior year to a new record level of €186.0 million. Significant revenue increases compared with 2015 were recorded in the Racing/High Performance segment both in the Racing division and in High Performance. The revenue in the Aerospace segment stabilized at the level of the prior year. The US continued to be the largest single sales market accounting for 25.0% of the total revenues. The largest European markets are Germany (22.9%), Austria (11.1%) and Italy (10.6%).

In the racing business, the Pankl Group benefited, primarily in the fourth quarter of the 2016 financial year, from the changes to regulations in Formula 1 for the 2017 season. The high-performance business grew robustly over the prior year. Overall, the Racing/High Performance segment generated revenue of €161.5 million following €148.7 million in 2015, equivalent to an increase in revenue of 8.6%.

The aviation business stabilized as far as was possible, but the 2016 financial year was also characterized by a difficult market environment for helicopters. At €25.5 million, revenue in the 2016 financial year was slightly below that of the prior year (€25.6 million).

For further information on the individual segments we refer to the consolidated financial statements of the respective companies or their webpages.

## 4. Financial performance indicators

	2016	2015 <sup>3)</sup>	2014
<b>€ million</b>			
<b>Earnings Ratios:</b>			
Revenue	1,343.0	1,223.6	1,086.3
EBITDA	198.4	178.4	148.1
EBITDA margin	14.8%	14.6%	13.6%
Result from operating activities (EBIT)	122.3	112.9	93.0
EBIT margin	9.1%	9.2%	8.6%
Result from continuing operations	89.0	65.0	54.9
Result from discontinued operations	0.0	0.0	2.1
Operating cash flow	167.8	106.9	82.1
<b>Balance Sheet Ratios:</b>			
Balance sheet total	1,391.8	1,175.9	1,031.1
Equity	454.9	386.6	370.9
Equity ratio	32.7%	32.9%	36.0%
Working Capital employed <sup>1)</sup>	245.2	243.3	206.8
Net debt <sup>2)</sup>	364.6	387.4	315.1

<sup>1)</sup> Working Capital employed: Trade receivables plus inventories minus trade payables

<sup>2)</sup> Net debt: Financial liabilities minus liquid assets

<sup>3)</sup> adjusted, see notes item 5.

## Performance analysis

In the 2016 financial year, KTM Industries Group generated revenue of €1,343.0 million (prior year: €1,223.6 million) and a result from operating activities (EBIT) of €122.3 million, which in comparison with the prior year period is an increase of around 8% (prior year: €112.9 million).

Revenue	2016	2015	2014
€ million			
KTM AG	1,141.8	1,022.5	864.6
WP AG	166.1	144.6	121.1
Pankl Racing Systems AG	186.0	173.6	165.0
Others and Consolidation	-151.0	-117.1	-64.5
<b>KTM Industries Group</b>	<b>1,343.0</b>	<b>1,223.6</b>	<b>1,086.3</b>

EBIT	2016	2015	2014
€ million			
KTM AG	102.8	95.1	75.4
WP AG	12.1	9.7	8.6
Pankl Racing Systems AG	13.2	10.2	11.9
Others and Consolidation	-5.8	-2.1	-2.8
<b>KTM Industries Group</b>	<b>122.3</b>	<b>112.9</b>	<b>93.0</b>

Including the sales of the DUKE 200, DUKE 390, RC 200 and RC 390 by KTM's partner Bajaj in India, the **KTM Group** increased its global sales in the 2016 financial year of vehicles of the KTM and Husqvarna brands to 203,423 (+11% on the prior year). Revenues increased to €1,141.8 million (+12% compared to the prior year). Thanks to the growth in sales and revenues compared with the prior year, EBIT rose €7.7 million to €102.8 million (prior year: €95.1 million).

In the 2016 financial year, the **WP Group** increased revenues by approximately 15% from €144.6 million in the corresponding period of the prior year to a new record total of €166.1 million. The earnings position is mainly due to good fixed cost coverage on the current revenue level. The sale of real estate not necessary for operations had a material effect on the operating result.

In the 2016 financial year the **Pankl Group** achieved revenues in the amount of €186.0 million (prior year: €173.6 million). The Pankl Group's operating result rose primarily due to the strong final quarter caused by improved Formula One business due to new regulations, reaching a new record level of €13.2 million (prior year: €10.2 million). The EBIT margin stands at 7.1% (prior year: 5.9%).

## Balance sheet analysis

The balance sheet structure of the KTM Industries Group has developed as follows:

	2016		2015 <sup>1)</sup>		2014	
	€ million	in %	€ million	in %	€ million	in %
Non-current assets	692.3	50%	637.6	54%	579.7	56%
Current assets	699.5	50%	538.4	46%	451.4	44%
<b>Assets</b>	<b>1,391.8</b>	<b>100%</b>	<b>1,175.9</b>	<b>100%</b>	<b>1,031.1</b>	<b>100%</b>
Equity	454.9	33%	386.6	33%	370.9	36%
Non-current liabilities	502.9	36%	531.3	45%	411.7	40%
Current liabilities	433.9	31%	258.1	22%	248.5	24%
<b>Equity and liabilities</b>	<b>1,391.8</b>	<b>100%</b>	<b>1,175.9</b>	<b>100%</b>	<b>1,031.1</b>	<b>100%</b>

<sup>1)</sup>adjusted, see notes item 5.

The balance sheet total of the KTM Industries Group increased by €215.8 million or 18% to €1,391.8 million compared to the previous year.

In the 2016 financial year the non-current assets increased by €54.7 million to €692.3 million due to investment activities. However, their proportion of total assets fell from 54% to 50%. The current assets increased by €161.1 million to €699.5 million. This increase is partly due to the growth-related rise in inventories and trade receivables totaling €20.4 million and the €116.5 million increase in cash as of the reporting date, which is primarily the result of raising a €120 million bonded loan at the operating KTM AG for refinancing a bond due in April.

Equity increased in the financial year by €68.3 million from €386.6 million to €454.9 million. As of December 31, 2016, the equity ratio stood at 32.7% (prior year: 32.9%), the slight decline in the ratio being due to the balance sheet extension resulting from the premature refinancing at KTM AG. The additional purchases of minority interests totaling €59 million carried out in the prior financial year reduced equity by this amount; this decrease was compensated for, however, by the issue of a perpetual bond of €60 million recognized in equity. Overall, equity developed positively in the 2016 financial year due to the positive net result for the period of €89.0 million minus the dividends of €18.0 million.

## Liquidity analysis

In the 2016 financial year the cash flow from operating activities amounted to €167.8 million and thus was above the previous year's figure of €106.9 million. In addition to the consolidated profit, the improvement in the cash flow from operating activities is due to various measures for the improvement of the working capital compared with the prior year's development. The cash outflow from investing activities amounted to -€158.8 million. Taking into account the cash flow from financing activities in the amount of €107.2 million, the liquid funds increased in the 2016 financial year by €116.5 million to €251.6 million compared to December 31, 2015.



## Investments

In the last financial year €144.4 million was invested in property, plant and equipment and intangible assets within the KTM Industries Group (prior year: €133.0 million). Around €107.5 million (prior year: €110.9 million) originate from the KTM Group, of which €57.8 million concern capitalized development costs. Considerable capacity and expansion investments were undertaken at KTM in the period under review in addition to the usual high investments in series development projects and buying tooling. Construction of the new motor sport building in Munderfing was completed.

The Pankl Group invested €24.0 million (previous year: €11.6 million) in property, plant and equipment and intangible assets in the 2016 financial year. The investments break down in fixed asset categories as follows: intangible assets (€0.7 million), land, buildings, machines and mechanical equipment (€12.1 million) and other property, plant and equipment and advance payments (€11.2 million). Total investment therefore significantly exceeded amortization, primarily due to the investments initiated in the new drivetrain plant.

The WP Group invested €12.8 million (prior year: €10.5 million) in property, plant and equipment and intangible assets in the 2016 financial year. The investments essentially related to establishing a new exhaust production, a development center for frame and exhaust systems and the WP Motor Sport Center.

## 5. Non-Financial Performance Indicators

### Research and Development

In the 2016 financial year the expense for research and development (before capitalization of development costs) in the KTM Industries Group stood at €106.2 million. The products of all group companies are of a very demanding level of performance, which is the reason customers demand continuous development and advancement. The product life cycle is very different for each customer.

In the Research and Development department, **KTM** employed an average of 487 staff in the 2016 financial year (prior year: 382 employees), representing 17.8 % of total headcount. About €92.6 million (prior year: €68.8 million) was invested in research and development in the financial year 2016, which translates to 8.1% of total revenue (+1.4 percentage points compared to the prior year).

The financial year just ended saw a multitude of different projects in the off-road and street segments. Above all there was the transfer to series production of the KTM 1290 Super Duke GT, with which KTM has 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.

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 2016 financial year, numerous R&D projects were taken forward at various stages from concept development to the start of series production and successfully completed.

Technical innovations and the introduction of new products are largely responsible for competitive positioning at the **WP Group**. The expense for research and development in the WP Group stood at €4.5 million in the 2016 financial year (prior year: €4.4 million). The products of the WP Group are of a very demanding level of performance, which is the reason customers demand continuous development and advancement. A majority of the developments are made specific to customers, whereby development costs in the company are capitalized only to a very limited extent. In order to be able to continue to meet the high demands, the R&D and Factory Racing divisions were for strategic reasons incorporated into the KTM Group in 2016.

Technological leadership is one of the significant factors for success in the racing and high-performance sector, so research and development accordingly has a central role in the companies of the **Pankl Group**. Total expenses for the intensive research and development activities amounted to €13.2 million in the 2016 financial year (prior year: €12.6 million). Continuous improvement in efficiency is a top priority for Pankl. In the racing/high-performance segment, the elaboration of a new method of lateral forging allowed a reduction in energy consumption in this area throughout the entire process chain. The material plays an important role in the smooth use of the end products. Continuous further development of materials technology is therefore essential. For example, a new forging process was developed to achieve more uniform and sturdier aluminum wheel carrier blanks. One of the outstanding product innovations is the development of a motor sport bearing for super sports cars with aluminum wheel carriers, the only one of its kind in the world. The implementation of an aluminum connecting rod to achieve weight advantages is currently in its finalization phase; the first engine trials are planned for the beginning of 2017. New coatings for bearing insert, piston pins, screws and pistons have also been developed.

Collaborations with university (Montanuniversität Leoben, Graz University of Technology and TU Wien) as well as non-university research facilities are leading to optimal synergies in the development area to meet the industry's high demands. Continuous further technological development is also a crucial factor for success in aviation.

## Environmental Concerns

### 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 rapid reaction to market needs.

The **KTM Group** uses a process-oriented quality management system for all activities, from product idea to market analyses, design studies, design and development, cooperation with suppliers, the procurement of components for series production, parts production, the assembly of engine and vehicle, right through to packing and dispatch.

The high quality of the products is accomplished due to production-oriented design, the use of analytical and statistical methods of calculation, comprehensive checking and testing, compliance with relevant approval rules, a focus on process quality, communication and training measures at KTM and at the suppliers.

KTM was given certification by the auditors of TÜV Süd LG Österreich that it more than meets the requirements of EN ISO 9001:2008 and of the Kraftfahrbundesamt (KBA), the German federal authority for motor vehicles and transport.

The **WP Group** develops and produces components tailored in close collaboration at the agreed quality, cost and scheduling goals for its customers. Ongoing further development of products and process sequences is one of the WP Group's core competencies. Permanent expansion of our know-how and zero-error principle are aimed at securing and expanding our product and customer portfolio.

The development, production and distribution of high-quality products are a significant component of the **Pankl Group's** corporate mission statement. This maxim is ensured by complete quality assurance with regard to product quality and by monitoring of processes.

Registrations and certifications guarantee the highest product quality for the customer. Annual monitoring audits also ensure continuation of the certifications. In accordance with the requirements of the automotive and aviation industry, the Pankl Group has certifications pursuant to ISO 9001, ISO 14001, ISO/TS 16949, ISO 27001, ISO 31000, VDA 6.1 and AS/EN 9100.

### **Environment and Sustainability**

Environmentally responsible dealings and sustainable management are also high priorities for the KTM Industries Group.

As a manufacturing company, **KTM** is aware of the responsibility it has vis-à-vis the environment. The motorcycle logistics system on reusable metal plates, which was specially developed by KTM and obviates the need for additional packing material, is regarded as an innovative example for the entire industry.

All new KTM offroad carburetors (EXC models) comply with the Euro IV standard, the European emissions standard for motorcycles. This standard applies not only to new, but also to existing vehicle types. Compliance with the new standard is made possible primarily by the use of fuel injection systems.

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 an average workforce of 2,380 in Austria, KTM is one of the region's biggest employers.

KTM takes every opportunity to respond to the sustainability demands that any modern company endeavors to comply with. For instance, the factory and administrative buildings are 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 intermediate and finished products are sorted by type and said products are shipped in reusable containers.

The production company in Mattighofen largely sources its requirements from the local procurement market; KTM therefore plays an active role in adding and maintaining value at the regional level.

To protect limited natural resources, the **WP Group** aspires to use 100% of raw materials where possible and focuses on recycling aluminum waste. All existing regulations and directives relating to environmental law are met; necessary technical values are subject to ongoing review with the aim of continuous improvement. Investments are continuously made in new and modern production facilities to ensure cost-optimized, sustainable, environmentally and resource-friendly production.

Energy costs, measured as a proportion of revenue, amounted to 1.8% at the **Pankl Group** and are therefore at a similar level as in the prior year (2015: 1.9%). The Pankl Group did not have expenses in the prior financial year in connection with the acquisition of CO2 certificates and is also not recorded within the National Allocation Plan (NAP). Expansion of the Pankl Group's environmental management system with regard to the ISO 14001 standard was started in the 2014 financial year and has been continuously expanded since then.

## Social and Employee Concerns

### Employees

Employee development in the Group is pleasing. A further 516 employees were taken on in the 2016 financial year, 428 of which in Austria. As of December 31, 2016 the Group employed 5,069 employees (prior year: 4,553 employees).

To achieve constant improvement in the area of health and safety, **KTM**, among other things, implements preventive measures regarding general workplace safety, fire protection and safety of machinery and organizes various seminars on health- and safety-related topics, health promotion in the workplace as well as measures for ensuring suitable workplaces (including lighting, height requirements, positioning of work equipment, use of tools or aids).

The employees of the **WP** are a significant component of the success of the company. Their identification with the concern and their commitment to its goals make a crucial contribution to the success of the company. Financial recognition of individual performance with modern remuneration models is as important to the WP Group as remunerating the overall performance of the staff with voluntary social benefits. The potential of employees is also demanded and fostered by, among other things, a high degree of personal responsibility. In addition to various ongoing training measures, the WP Group offers its managers needs-related personnel development programs to meet the growing requirements. The programs are intended not only to allow managers to hone their leadership skills, but also to develop personally, in order to manage the demands better and to improve their own effectiveness and efficiency.

Another focus of the 2016 financial year was the expansion of the fire protection training, which was expanded to 120 employees with practical exercises at the **Pankl** sites in Bruck an der Mur and Kapfenberg as part of a 4-year plan. In addition to the existing intranet platform, so-called Infopoints have been set up at the Austrian sites where employees can find information about work safety.

### Corporate Social Responsibility

The **KTM Group** supports the spinal cord research foundation "Wings for Life" set up by Heinz Kinigadner in all marketing matters. "Wings for Life" is a non-profit organization aiming to promote and speed up research and medical-scientific progress towards finding a cure for paraplegia induced by spinal cord injuries.

The selection of social projects to receive support from the **Pankl Group** is carried out directly by the individual companies of the Pankl Group, since they know the local conditions and needs best. As was already the case in the prior year, Pankl paid particular attention again in 2016 to the health and safety of its employees. Making an important contribution to individual health, the offer of a medical check up and vaccinations was taken up by many employees. The focus of occupational health in the 2016 financial year was on skin protection in production. Workshops were held by our occupational health officer to increase employees' awareness of this topic and to prevent skin diseases. A skin protection day was also organized in 2016 at both Austrian sites in conjunction with AUVA accident insurance institution.

## 6. Risk report

Regarding the risk report and the internal controlling and risk management system relating to the financial reporting process, please refer to the explanations in the notes to the consolidated financial statements (items 32 and 33) of KTM Industries AG.

## 7. Disclosures pursuant to section 243a (para. 1) of the Austrian Commercial Code (UGB)

1. The share capital amounts to €225,386,742. It 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, 2016:  
Pierer Industrie AG: 74.89%
4. There are no shares with special control rights.
5. There is currently no employee participation scheme set up.
6. Above and beyond legally binding requirements, there are no additional provisions with respect to members of the Executive and Supervisory Boards.
7. Authorizations to issue or repurchase shares:

On March 7, 2014 the Executive Board of KTM Industries AG decided to make use of the authorization granted by the Company's ordinary Annual General Meeting of February 28, 2013 pursuant to section 65 para. 1 No. 4 and 8 AktG (Austrian Stock Corporation Act) (Acquisition of Treasury Shares and Sale of Acquired Treasury Shares). The Company published and launched a share buyback program in line with the authorization resolution in March 2014. The share buyback program was terminated on July 29, 2015. 71,038 treasury shares were bought back in the period March 13, 2014 through July 29, 2015. The Executive Board of KTM Industries AG passed a resolution on August 28, 2015 to sell on the Vienna Stock Exchange the 71,038 of treasury shares it had acquired. All 71,038 treasury shares were sold on the Vienna Stock Exchange in the period September 7, 2015 through December 11, 2016. KTM Industries AG therefore no longer had treasury shares as of the reporting date December 11, 2016.

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 there is a public takeover bid.

## 8. Outlook

The development of KTM Industries AG depends on the development of subsidiaries integrated in the Group.

The KTM Industries Group will in the future continue to focus on organic growth in its core areas, 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 2017 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 the critical evaluation of the market, productivity and cost situation. Thus, immediate measures will be implemented, in order to stabilize the intended earnings situation, if necessary.

Overall a positive outlook can be given for all business segments of the KTM Industries Group for the 2017 financial year.

For the **KTM Group** the general economic climate remains tough in the individual markets. Slight growth in the global motorcycle market is expected in 2017. With our new products, consistent implementation of our strategy and by focusing on commercial business development to expand the quantity and quality of our sales partners, we expect to continue to gain market shares.

2017 will see the commercial launch of new KTM models. The KTM Street models in the ADVENTURE series, which have already been presented at international motorcycle shows, and the new "DUKE" naked bike models will be launched on the market in 2017. Further growth in 2017 is also expected for the Husqvarna Motorcycles brand, as the range of products is being expanded to include street motorcycles. KTM has set itself the medium-term goal of increasing annual sales to 300,000. In 2017 KTM expects to see a further increase both in sales and in revenues.

The level of investment planned for 2017 remains high. The main areas of focus for investment cover in particular new series development projects as well as investments in infrastructure and expansion in the area of development. KTM is investing some €25 million at its Mattighofen site on expanding and extending its research and development center. The overall investment should be completed by the end of 2017. Investing in this expansion will create around 100 new jobs at the Mattighofen site for highly qualified employees. During 2017, work will also begin on extending the logistics center and expanding the quality assurance section at the main site in Mattighofen.

At the **WP Group** the order level in all areas of business is above that of the prior 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. WP's consistent commitment to innovation and quality makes it ideally equipped for the future. The basis for further growth is provided by the combination of the successful OEM customers and our own strong distribution network. Despite the high pace of investment, the WP Group expects to be able to generate robust results in 2017.

The market conditions both in racing and in aerospace improved over the course of the 2016 financial year at the **Pankl Group**. The tangible productivity improvements in many areas, which in combination with the increased demand led to disproportional profit improvements, were particularly pleasing. At the start of the 2017 financial year, the order levels of the subsidiaries are above that of the prior year. Above all, the start up of the new high performance drivetrain plant in Kapfenberg, the largest investment in the corporation's history by far, will be of outstanding significance in 2017.

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 2017.

Wels, March 10, 2017

The Executive Board of KTM Industries AG



Dipl.-Ing. Stefan Pierer, CEO



Mag. Friedrich Roithner, CFO



Ing. Alfred Hörtenhuber



Mag. Wolfgang Plasser





## CONSOLIDATED FINANCIAL STATEMENTS

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# CONSOLIDATED INCOME STATEMENT

for the 2016 financial year, KTM Industries AG (formerly CROSS Industries AG)

<b>Consolidated income statement</b>	Notes No.	<b>2016</b>	<b>2015<sup>1)</sup></b>
<i>in EURk</i>			
Revenue	6	1,342,962	1,223,570
Production costs of sales	7	-909,146	-844,123
<b>Gross profit from sales</b>		<b>433,816</b>	<b>379,447</b>
Selling and racing expenses	7	-169,546	-149,424
Research and development expenses	7	-39,745	-29,705
Administration expenses	7	-79,958	-69,127
Other operating expenses	10	-28,035	-22,164
Other operating income	11	5,392	3,825
Earnings from at-equity holdings	12	393	0
<b>Result from operating activities</b>		<b>122,317</b>	<b>112,853</b>
Interest income	13	2,744	1,525
Interest expenses	13	-19,505	-17,770
Earnings from at-equity holdings	12	0	-2,851
Other financial and investment income	13	3,391	-3,794
<b>Result before taxes</b>		<b>108,947</b>	<b>89,963</b>
Income tax	14	-19,935	-24,981
<b>Profit or loss for the financial year</b>		<b>89,012</b>	<b>64,982</b>
thereof owners of the parent company		52,080	30,009
thereof non-controlling shareholders		36,932	34,973
<b>Undiluted (= diluted) earnings per share (EUR)</b>	<b>15</b>	<b>0.23</b>	<b>0.13</b>

1) adjusted, see notes, item 5.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 2016 financial year, KTM Industries AG (formerly CROSS Industries AG)

<b>Consolidated statement of comprehensive income</b>	Notes No.	<b>2016</b>	<b>2015</b>
in EURk			
<b>Profit or loss for the financial year</b>		<b>89,012</b>	<b>64,982</b>
<b>Items in the profit or loss that were reclassified or that can be reclassified afterwards</b>			
Foreign currency translation re foreign subsidiaries		853	661
Foreign currency translation re investments accounted for using the equity method	19	11	-5
Foreign currency translation re net investments in foreign operations	25	-415	2,124
Deferred tax on foreign currency translation re net investments in foreign operations		-29	-90
Valuation of cash flow hedges	25	-4,156	5,931
Deferred tax on valuation of cash flow hedges		1,039	-1,483
		<b>-2,697</b>	<b>7,138</b>
<b>Items that were not reclassified in the profit or loss</b>			
Revaluation of net debt from defined benefit plans	30	-1,055	131
Tax effect		264	-32
		<b>-791</b>	<b>99</b>
<b>Other net result after tax</b>		<b>-3,488</b>	<b>7,237</b>
<b>Total comprehensive income</b>		<b>85,524</b>	<b>72,219</b>
thereof owners of the parent company		48,871	33,625
thereof non-controlling shareholders		36,653	38,594

# CONSOLIDATED BALANCE SHEET

as at, December 31, 2016, KTM Industries AG (formerly CROSS Industries AG)

Consolidated balance sheet	Notes No.	12/31/2016	12/31/2015 <sup>1)</sup>
<b>Assets:</b>			
in EURk			
<b>Non-current assets:</b>			
Property, plant and equipment	16	303,217	274,456
Goodwill	17	117,732	117,724
Intangible assets	18	244,274	207,805
Investments accounted for using the equity method	19	6,312	3,968
Deferred tax assets	14	9,836	7,160
Receivables from affiliated companies		245	105
Other non-current assets	20	10,649	26,360
		<b>692,265</b>	<b>637,578</b>
<b>Current assets:</b>			
Inventories	21	251,986	242,678
Trade receivables	22	121,873	110,831
Receivables from affiliated companies		1,810	6,084
Receivables and other assets	22	63,870	35,262
Current tax assets	22	8,377	7,535
Cash and cash equivalents	23	251,578	135,124
Assets held for sale	24	0	855
		<b>699,494</b>	<b>538,369</b>
		<b>1,391,759</b>	<b>1,175,947</b>

<sup>1)</sup> adjusted, see notes, item 5.

<b>Consolidated balance sheet</b>	Notes No.	<b>12/31/2016</b>	<b>12/31/2015<sup>1)</sup></b>
<b>Equity and liabilities:</b>			
in TEUR			
<b>Equity:</b>			
Share capital	25	225,387	225,387
Capital reserves	25	9,949	9,798
Perpetual bond	25	60,000	0
Other reserves including retained earnings	25	-21,049	-38,516
<b>Equity of the owners of the parent company</b>		<b>274,286</b>	<b>196,669</b>
Non-controlling interests	25	180,651	189,947
		<b>454,937</b>	<b>386,616</b>
<b>Non-current liabilities:</b>			
Financial liabilities	26	425,475	465,224
Liabilities for employee benefits	30	23,536	20,905
Deferred tax liabilities	14	42,741	38,313
Other non-current liabilities	27	11,142	6,834
		<b>502,894</b>	<b>531,276</b>
<b>Current liabilities:</b>			
Financial liabilities	26	190,700	57,343
Trade payables		130,864	111,399
Liabilities to affiliated companies		1,859	2,158
Provisions	29	16,799	10,226
Current tax liabilities		707	1,643
Other current liabilities	27	92,999	75,286
		<b>433,928</b>	<b>258,055</b>
		<b>1,391,759</b>	<b>1,175,947</b>

<sup>1)</sup> adjusted, see notes, item 5.

# CONSOLIDATED STATEMENT OF CASH FLOWS

as at, December 31, 2016, KTM Industries AG (formerly CROSS Industries AG)

<b>Consolidated statement of cash flows</b>	Notes No.	<b>2016</b>	<b>2015</b>
in EURk			
<b>Operations</b>			
<b>Profit or loss for the financial year</b>		<b>89,012</b>	<b>64,982</b>
+ (-) Interest expenses / interest income	13	16,761	16,245
+ Tax expenses	14	19,935	24,981
+ Depreciation/amortization of property, plant and equipment and intangible assets	16, 18	76,362	65,571
+ (-) Addition (reversal) of long-term liabilities for employee benefits		1,136	1,256
(-) + Profit (loss) from the sale of shareholdings in subsidiaries		-111	-1,211
(-) + Profit (loss) from equity consolidation	12	-393	2,851
(-) + Profit (loss) from the sale of fixed assets		-3,419	244
(-) + Profit (loss) from the valuation of non-consolidated subsidiaries		-4,507	2,541
+ (-) Other non-cash expenses (income)	31	2,526	-4,247
+ Interest received		2,373	1,538
- Interest payments		-18,163	-16,256
- Tax payments		-17,646	-14,066
+ Dividends received		116	250
<b>Gross cash flow</b>		<b>163,982</b>	<b>144,679</b>
- (+) Increase (decrease) in inventories		12,698	-20,827
- (+) Increase (decrease) in trade receivables, advance payments, other current and non-current assets		-24,543	-17,943
+ (-) Increase (decrease) in trade payables, advance payments, and other current and non-current liabilities		14,217	100
+ (-) Increase (decrease) in tax liabilities, deferred tax liabilities and other provisions		1,453	855
<b>Increase (decrease) in the net current assets</b>		<b>3,825</b>	<b>-37,815</b>
<b>Cash flow from operations</b>		<b>167,807</b>	<b>106,864</b>

<b>Consolidated statement of cash flows</b>	Notes No.	<b>2016</b>	<b>2015</b>
in EURk			
<b>Investing activity</b>			
- Payments for the acquisition of intangible assets and property, plant and equipment	16, 18	-166,379	-115,726
- Payments for the acquisition of financial assets		-824	-192
+ Receipts from the sale of intangible assets and property, plant and equipment		6,216	2,054
+ Receipts from the disposal/repayment of financial assets		329	198
+ Dividends received		3,100	0
+ (-) Changes to the scope of consolidation		241	0
+ (-) Payments/receipts from other assets		-1,464	3,610
<b>Cash flow from investing activity</b>		<b>-158,781</b>	<b>-110,056</b>
<b>Financing activity</b>			
- Dividend payments to third parties		-17,950	-14,752
+ (-) Disposal/acquisition of treasury shares		252	36
+ (-) Disposal/acquisition of non-controlling interests		-48,794	-5,406
+ Taking out a bonded loan	26	119,540	0
+ Taking out a research loan		0	45,000
+ Taking out a perpetual bond	25	60,000	0
+ Inflows from taking out long-term, interest-bearing liabilities		51,900	105,408
- Repayment of perpetual bond		-1,010	-58,990
- Repurchase of own bonds		-19,143	0
- Outflows from the repayment of long-term, interest-bearing liabilities		-46,890	-28,868
+ (-) Change in current financial liabilities		10,928	9,107
+ (-) Increase (decrease) from other financing activities		-1,639	-882
<b>Cash flow from financing activity</b>		<b>107,194</b>	<b>50,653</b>
<b>Total cash flow</b>		<b>116,220</b>	<b>47,461</b>
+ Opening balance of liquid funds within the Group		135,124	89,404
+ Effect of foreign currency fluctuations		234	-1,741
<b>Closing balance of liquid funds within the Group</b>	<b>23</b>	<b>251,578</b>	<b>135,124</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as at, December 31, 2016, KTM Industries AG (formerly CROSS Industries AG)

## Consolidated statement of changes in equity

in EURk

	Notes No.	Share capital	Capital reserves	Perpetual bond	Reserves including retained earnings
<b>As at January 1, 2016</b>		<b>225,387</b>	<b>9,798</b>	<b>0</b>	<b>-36,789</b>
<b>Total comprehensive income</b>					
Period comprehensive income		0	0	0	52,080
Other comprehensive income	25	0	0	0	0
<b>Total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>52,080</b>
<b>Transactions with shareholders</b>					
Dividends to third parties		0	0	0	-6,760
Acquisition/disposal of shares to subsidiaries	3.2	0	0	0	-24,236
Perpetual bond	25	0	0	60,000	0
Capital measures		0	0	0	-510
Disposal of treasury shares		0	151	0	0
<b>As at December 31, 2016</b>		<b>225,387</b>	<b>9,949</b>	<b>60,000</b>	<b>-16,215</b>
<b>As at January 1, 2015</b>					
<b>As at January 1, 2015</b>		<b>1,332</b>	<b>137,825</b>	<b>58,987</b>	<b>11,425</b>
<b>Total comprehensive income</b>					
Period comprehensive income		0	0	0	30,009
Other comprehensive income	25	0	0	0	0
<b>Total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>30,009</b>
<b>Transactions with shareholders</b>					
Dividends to third parties		0	0	0	-5,313
Merger into BF HOLDING AG		224,055	-128,027	0	-70,805
Acquisition/disposal of shares to subsidiaries	3.2	0	0	0	-1,111
Repurchase/termination of perpetual bond		0	0	-58,987	-1,013
Acquisition/disposal of treasury shares		0	0	0	19
<b>As at December 31, 2015</b>		<b>225,387</b>	<b>9,798</b>	<b>0</b>	<b>-36,789</b>



Provision as per IAS 39	IAS 19 provision for actuarial losses	Foreign currency translation reserve	Provision for treasury shares	Total	Interests of noncontrolling shareholders	Total consolidated equity
<b>14</b>	<b>-3,401</b>	<b>1,761</b>	<b>-101</b>	<b>196,669</b>	<b>189,947</b>	<b>386,616</b>
0	0	0	0	52,080	36,932	89,012
-1,602	-567	-1,040	0	-3,209	-279	-3,488
<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>
0	0	0	0	-6,760	-11,190	-17,950
0	0	0	0	-24,236	-34,759	-58,995
0	0	0	0	60,000	0	60,000
0	0	0	0	-510	0	-510
0	0	0	101	252	0	252
<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>
<b>-2,303</b>	<b>-3,544</b>	<b>605</b>	<b>0</b>	<b>204,327</b>	<b>166,601</b>	<b>370,928</b>
0	0	0	0	30,009	34,973	64,982
2,317	143	1,156	0	3,616	3,621	7,237
<b>2,317</b>	<b>143</b>	<b>1,156</b>	<b>0</b>	<b>33,625</b>	<b>38,594</b>	<b>72,219</b>
0	0	0	0	-5,313	-9,439	-14,752
0	0	0	0	25,223	-1,514	23,709
0	0	0	0	-1,111	-4,295	-5,406
0	0	0	0	-60,000	0	-60,000
0	0	0	-101	-82	0	-82
<b>14</b>	<b>-3,401</b>	<b>1,761</b>	<b>-101</b>	<b>196,669</b>	<b>189,947</b>	<b>386,616</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the 2016 financial year

### I. Company

KTM Industries AG (formerly: CROSS Industries AG) has its registered office in 4600 Wels, Edisonstraße 1, and has been recorded in the commercial register at the Regional Court of Wels in its capacity as Commercial Court under file number FN 78112 x.

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.

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 Regional 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 following table shows the main fully consolidated subgroups and groups of companies, the interest held (taking direct and indirect interests into account), the voting rights held as well as the object of the company as of 12/31/2016:

#### **KTM AG:**

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Share of the capital and voting rights as a %: 51.67

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 12/31/2016, the KTM Group includes 42 subsidiaries, located in Austria, the United States, Japan, South Africa, Mexico and India and in various other countries of Europe and Asia, which are included within the consolidated financial statements. Furthermore, the KTM Group has equity holdings inter alia in general importers that are based in important distribution markets (New Zealand and Dubai) 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, Sweden and other European countries.

#### **WP AG:**

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Share of the capital and voting rights as a %: 88.26

The WP Group operates in the motorcycle supplier segment. The WP Group develops, produces and distributes, at its headquarters in Munderfing, Austria, suspension elements, frames, radiators and exhaust systems.

#### **Pankl Racing Systems AG:**

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Share of the capital and voting rights as a %: 94.53

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.

## II. Principles of financial reporting and accounting policies

### 1. Principles of financial reporting

The consolidated financial statements as of 12/31/2015 and 12/31/2016 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 in the European Union. The additional requirements stipulated by sec. 245a para. 1 of the Austrian Commercial Code (UGB) were also met in this context.

### Changes in accounting rules

The IASB has passed the following amendments to existing IFRSs and several new IFRSs and IFRICs that have already been endorsed by the European Commission and are therefore to be mandatorily applied as from 1/1/2016:

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants
- Amendments to IAS 19: Defined Benefit Plans: Employee Contributions
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Annual Improvements to IFRS 2010 2012: Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38
- Annual Improvements to IFRS 2012 2014: Amendments and Clarifications for IFRS 5, IFRS 7, IAS 19, IAS 34

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

### Future amendments to financial reporting provisions

The IASB and the IFRIC have passed further standards and interpretations, application of which was not mandatory during the 2016 financial year and/or which have not yet been adopted by the European Commission. These are the following standards and interpretations:

Standard/amendment	IASB date of application	Endorsed by EU?	EU date of application
<b>New standards and interpretations</b>			
IFRS 15 Revenue from Contracts with Customers	1/1/2018	Yes	1/1/2018
IFRS 9 Financial Instruments	1/1/2018	Yes	1/1/2018
IFRS 16 Leasing	1/1/2019	No	

<b>Standard/amendment</b>	<b>IASB date of application</b>	<b>Endorsed by EU?</b>	<b>EU date of application</b>
<b>Amended standards and interpretations</b>			
IFRS 14: Regulatory Deferral Accounts	1/1/2016	No	
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1/1/2018	No	
Amendments to IFRS 4: Amended by the application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1/1/2018	No	
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed indefinitely	No	
Amendments to IFRS 15: Clarification of IFRS 15 Revenue from Contracts with Customers	1/1/2018	No	
Amendments to IAS 7: Amended by Disclosure Initiative	1/1/2017	No	
Amendments to IAS 12: Amended by Recognition of Deferred Tax Assets for Unrealized Losses	1/1/2017	No	
Amendments to IAS 40: Amended by Transfers of Investment Property	1/1/2018	No	
IFRIC 22: Foreign Currency Transactions and Advance Consideration	1/1/2018	No	
Annual Improvements to IFRS 2014 -2016: Amendments to IFRS 12	1/1/2017	No	
Annual Improvements to IFRS 2014 -2016: Amendments to IFRS 1 and IAS 28	1/1/2018	No	

The standards with material effects on the KTM Industries Group are explained briefly below:

IFRS 15 defines when and at what amount revenues should be recognized. In addition, preparers of financial statements must provide recipients of financial statements with more informative and more relevant details than before. The standard provides a single, principles-based, five-stage model to be applied to all contracts with customers. First-time application will lead to adjustments in internal processes and documentation, as well as to additional disclosures in the Notes. In addition, particularly in the case of customer specific, single item production, revenue may have to be recorded earlier than before and/or certain parts of contracts with customers may have to be assessed as separate performance obligations.

IFRS 16 governs the recognition, measurement and disclosure of leases in the financial statements and notes. 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 balance sheet except where the lease is for a term of 12 months or less or the asset is of low value (in which cases application is optional). Lessors must continue to discriminate between finance leases and operating leases in their financial statements. The effects on the KTM Industries Group consolidated financial statements are being investigated. It is expected that the recognition of leases in the balance sheet will lead to an increase in the carrying amounts of property, plant and equipment and of financial liabilities.

In June 2014 the IASB published IFRS 9 Financial Instruments, which amends the provisions governing the recognition and measurement of financial assets, the impairment provisions, and the provisions on hedge accounting. The effects of IFRS 9 on the KTM Industries Group are still being investigated. The KTM Industries Group will be affected in particular by the new impairment provisions, the recognition of expected losses and the simplifications of hedge accounting. No material changes are expected as regards classification and measurement of financial instruments.

Other amended standards and interpretations are either irrelevant to the KTM Industries Group or have no material impact. An early application of standards that are not yet mandatory is not planned.

## 2. Basis of preparation

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 12/31.

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

The financial year of KTM Industries AG covers the period from 1/1 to 12/31/2016. On 3/21/2017 (previous year: 3/16/2016), the Executive Board approves the consolidated financial statements 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.

## 3. Scope of consolidation

The scope of consolidation is based on the application of the standards IFRS 10 and IFRS 11. All principal subsidiaries are fully consolidated in the consolidated financial statements in addition to KTM Industries AG. Subsidiaries are companies controlled by the group. The group controls a company if it is exposed to, or has rights to, variable returns from its involvement in the entity and has the ability to influence these returns by means of its power over the company. The financial statements of subsidiaries are included in the consolidated financial statements from the moment control begins until the moment control ends.

A materiality threshold was set in the group to determine the scope of consolidation. Companies whose business is dormant or of low volume and that are insignificant for the presentation of a true and fair view of the net assets, financial position and earnings position are not consolidated but are reported as other non current assets and measured at amortized cost or written down for impairment. The impact on the assets and equity of those companies comes to less than 1.20% of the consolidated total.

An associate is an entity over which the group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee entity but is not control or joint control of the policy-making processes. The results, assets, and liabilities of associates are consolidated in these financial statements using the equity method. Under the equity method, investments in associates are included in the consolidated balance sheet at cost, adjusted for changes in the group's share of the profit or loss and other income of the associate after the acquisition date.

The entities included in the consolidated financial statements are specified in the schedule of equity holdings as of 12/31/2016 on page 158ff to the notes to the consolidated financial statements.

### 3.1. Changes in the Scope of Consolidation

The number of entities in the scope of consolidation changed as follows in the 2016 financial year:

	<b>Fully consolidated Companies</b>	<b>at-equity Companies</b>
As of 12/31/2015	62	5
Additions to the scope of consolidation	5	2
Eliminations from the scope of consolidation	0	-2
Eliminations due to mergers	-1	0
Eliminations due to liquidation	-3	0
<b>As of 12/31/2016</b>	<b>63</b>	<b>5</b>
Foreign companies	40	3

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

#### Changes in the fully consolidated entities:

As at 12/31/2015, KTM AG has a 10 % equity holding in Oberbank Mattigtal Immobilienleasing GmbH, Linz. Under a sale-and-purchase agreement dated 9/16/2016, KTM Immobilien GmbH acquired an additional 83.63 % of the shares of Oberbank Mattigtal Immobilienleasing GmbH, Linz. The holding thus rose from 10 % to 93.63 %. Oberbank Mattigtal Immobilienleasing GmbH was the owner of the KTM logistics center in Munderfing, which it leased to the KTM Group under a finance lease. As a result of the company's acquisition, the finance lease was canceled ahead of term (see Note 34.1). At the extraordinary general meeting held on 9/16/2016, Oberbank Mattigtal Immobilienleasing GmbH, Linz, resolved to change its name to KTM Logistikzentrum GmbH and to transfer its registered office to Mattighofen. The initial consolidation of KTM Logistikzentrum GmbH took place as from 9/16/2016.

The following assets and liabilities were absorbed into the group:

<i>in EURk</i>	
Fixed assets	26,068
Cash and other current assets	4,884
Liabilities owed to credit institutions	-21,147
Other current liabilities	-161
Other current liabilities (financial)	-4,854
Non-controlling interests	-287
Difference (debit item)	242
<b>Purchase price</b>	<b>4,745</b>
Cash taken over	4,883
<b>Net cash inflow on acquisition</b>	<b>138</b>

The difference (debit item) of EUR 242k arising on initial consolidation was recognized as an expense.

WP Performance Sports GmbH, Munderfing, and KTM Sportmotorcycle MEA DMCC, Dubai, were established in 2016 and were thus included in the scope of consolidation for the first time. The initial consolidation of both companies took place as from 12/1/2016.

The proceedings pending before a German arbitration tribunal in relation to warranty claims arising from the sale of the Peguform Group in 2012 were decided entirely in favor of PF Beteiligungsverwaltungs GmbH, a wholly owned subsidiary of KTM Industries AG, in February 2017. The KTM Industries Group is now entitled to the entire residual purchase price of approximately € 20.3 million. In 2014 and 2015, PF Beteiligungsverwaltungs GmbH was not fully consolidated because of immateriality; the equity value reflected the carrying value of the holding in previous years (12/31/2015: EUR 13,501k). The provision made on the basis of the arbitration proceedings was entered as deferred income in PF Beteiligungsverwaltungs GmbH as at 12/31/2016. Having regard to this case, and on account of materiality considerations, the company was included within the consolidated financial statements once again as of 12/31/2016. The difference (credit item) of EUR 4,572k that arose in the context of the initial consolidation represents a reversal of previously recorded impairments and was therefore recognized as income in the financial result.

The following assets and liabilities were absorbed into the group:

in EURk	
Purchase price claim from sale of Peguform Group	20,318
Cash and other current assets	89
Receivables from affiliated companies	-1,959
Trade payables	-234
Other current liabilities	-141
Negative difference	-4,572
<b>Book value of investment</b>	<b>13,501</b>
Cash taken over	79

In the course of the restructuring of the US subsidiaries within the Pankl-Group, CP CARRILLO, LLC was transformed into CP CARRILLO, Inc. in the financial years 2016. In addition, Carrillo Acquisitions, Inc., Performance Equipment Company, LLC and Pankl Engine Systems, Inc. were liquidated. In the course of the liquidation, the assets were transferred to CP CARRILLO, Inc. The headquarters of Pankl Holdings, Inc. were moved from the US State of Nevada to California.

On May 2, 2016, Pankl Aerospace Systems Europe GmbH acquired S Beschichtungstechnik GmbH in its entirety. This company was merged with Pankl Aerospace Systems Europe GmbH with retroactive effect from January 1, 2016.

**Changes in entities accounted for at equity:**

In 2016, the KTM Group acquired a 34 % holding in KTM Asia Motorcycle Manufacturing Inc., Philippines. In the consolidated financial statements, the company is recognized as an investment accounted for using the equity method. In the 2016 financial year, Mattighofen Museums Immobilien GmbH was also consolidated "at equity" for the first time.

Both disposals of the companies accounted for "at equity" relate to entities of the Wethje Group, in which KTM Industries AG holds approximately 18.0% of the shares as at December 31, 2016 (December 31, 2015: 49.0%).

**Other changes:**

In March 2016, a 26 % holding was acquired in Cero Design Studio S.L., the registered office of which is in Barcelona, Spain. The shares are recognized at cost of acquisition.

**3.2 Transactions with non-controlling interests**

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:

	12/31/2016	12/31/2015
<i>in EURk</i>		
Carrying amount acquired (-) or disposed of (+) for non-controlling interests	34,759	4,295
Purchase price received from (+) or paid (-) to non-controlling shareholders	-58,995	-5,406
<b>Difference recorded in equity</b>	<b>-24,236</b>	<b>-1,111</b>

In the 2016 financial year, KTM Industries AG increased its share in KTM AG from 51.28% to 51.67% and in Pankl Racing Systems AG from 55.85% to 94.53%. KTM Industries AG decreased its share in WP AG 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%.

**4. Consolidation methods**

**Equity consolidation:** The **initial consolidation** is performed using the acquisition method in accordance with IFRS 3. 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 consolidated 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.

**Transactions with owners of non controlling interests** that do not result in a loss of control are recognized directly, and exclusively, in equity without any restatements of the assets and liabilities of the company or its goodwill.

In the **consolidation of income and expenses**, intragroup revenue and other income were set off against material and other operating expenses. Thus, the consolidated income statement only discloses external revenue.

All payables, receivables and loans of the entities included within the consolidated financial statements are consolidated in the **debt consolidation**.



**Interim results** from intragroup sales of inventories and fixed assets were eliminated.

**Deferred taxes** from consolidation are recognized in the consolidation procedures that impact profit or loss.

**Shares of non controlling shareholders** in equity are listed separately within equity. Shares of non controlling shareholders are regrouped into liabilities if sell out rights apply.

Shares in associated companies are recognized using the **equity method**. Under this method, changes in the group's portion of the net assets of the associate after the acquisition are recognized. If the share of the loss attributable to the group exceeds the equity holding in an associate, the book value of that equity holding (including long term investments) is written off completely, and further losses are only recognized if the group is obliged to make a payment or has already made one. The financial statements of the associates are prepared in accordance with IFRS or reconciled with IFRS in all material aspects. The goodwill of an associate is included in the book value of the shareholding and is not amortized.

IFRS 3 does not apply to common control transactions. According to IAS 8.10, an accounting policy that results in a presentation that is reliable, economically viable and relevant to the decision making process has to be developed in such cases. The decision as to whether hidden reserves are to be disclosed when allocating a purchase price, or all assets and liabilities are to be taken over at their respective book values, is taken anew in every application case.

**Currency translation:** The group currency is the euro. Subsidiaries located outside the eurozone are regarded as entities that are economically independent. In line with the concept of the functional currency, the assets and liabilities shown in the separate financial statements of these entities, including any reported goodwill and any valuation adjustments resulting from initial consolidation, are translated at the mid rate valid on the reporting date and items in the consolidated income statement are translated using the weighted average exchange rate for the financial year. Any foreign exchange gains or losses resulting from such currency translation are recognized in other comprehensive income in the statement of comprehensive income, with no impact on the income statement.

In the separate financial statements of the consolidated entities, any transactions made in foreign currency are posted at the exchange rate valid on the transaction date. Foreign currency items on the reporting date are translated at the closing rate. All foreign exchange differences are recognized in the separate financial statements as expenses or income in the period in which they arise.

Movements in the exchange rates used for translating currencies material to the consolidated financial statements were as follows:

	Closing rate		Average rate	
	12/31/2016	12/31/2015	2016	2015
US dollar	1.0541	1.0887	1.1066	1.1096
UK pound sterling	0.8562	0.7340	0.8189	0.7260
Swiss franc	1.0739	1.0835	1.0902	1.0676
Japanese yen	123.4000	131.0700	120.3138	134.2865
South African rand	14.4570	16.9530	16.2772	14.1528
Mexican peso	21.7719	18.9145	20.6550	17.5995
Chinese renminbi	7.3202	7.0608	7.3496	6.9730

## 5. Accounting policies

The financial reporting of the entities included in the consolidated financial statements is based on uniform accounting policies. These policies are identical to those of the financial year 2015, with the exception of the the standards mandatorily applied for the first time and the government grant accounting. Until the 2015 financial year, government grants related to assets were presented in the balance sheet by setting up the grant as deferred income. In the 2016 financial year, these grants were deducted from the carrying amount of the asset. The balance sheet items "Property, plant and equipment" and "Other non current liabilities" were adjusted in the amount of EUR -1,637k. An adjustment has been made to the previous year's figures.

The consolidated balance sheet is divided between non current and current assets and liabilities. The consolidated income statement is subdivided according to the cost of sales method. The consolidated statement of cash flows is drawn up according to the indirect method.

All current assets and liabilities will in principle be realized or discharged within a period of twelve months of the reporting date or within one operating cycle, as the case may be. All other assets and liabilities will in principle be realized or discharged outside this period of time.

To increase the utility of the consolidated financial statements, some individual items and presentations have been reclassified as of 12/31/2016. Additionally, the Notes have been partly reordered and disclosures in the Notes have been adapted and/or enhanced.

- In the income statement, the share of the profit of associates accounted for using the equity method has been disclosed for the first time in the result from operating activities, as it relates to holdings that are integrated into the operating activities of the KTM Industries Group as material suppliers or customers (Kiska GmbH, KTM New Zealand Ltd.). No adjustment has been made to the previous year's figures on grounds of immateriality (EUR 133k).
- As from the 2016 financial year, research expenses are disclosed exclusively in the item "Research and development expenses" in the income statement. The previous year's figures have been adjusted accordingly. The adjustments had no impact on the operating result; there were merely reclassifications within individual expense items in the income statement. The R&D expenses of the previous year increased by € 12.6 million.
- A new balance sheet item, "Current tax assets", has been added and the previous year's figures have been adjusted accordingly.

### Consolidated income statement

The consolidated income statement is subdivided 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.

**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.

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. All of the associates accounted for using the equity method are holdings that are integrated into the operating activities of the KTM Industries Group as material suppliers or customers.

**Interest income** is realized pro rata temporis taking into account the effective yield.

**Dividend income** is recognized when the right to dividend payment arises.

## Consolidated balance sheet

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

	<b>Useful life</b>
	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.

Impairment loss is recognized when the expected discounted future earnings (future cash flows) fall short of the current carrying amounts.

The KTM Industries Group determines whether a property is regarded as an **investment property** for the purposes of IAS 40 on the basis of the following criteria. In accordance with IAS 40.5, an investment property is a property which KTM Industries owns or leases under a finance lease to earn rentals or for capital appreciation or both. This definition excludes property held for use in the production or supply of goods or services or for administrative purposes and property held for sale in the ordinary course of business or in the process of construction or development for such sale.

Property, plant and equipment financed via leasing contracts in which the material opportunities and risks devolve to the lessee is recognized as a finance lease. Such assets are recognized at the lower of the fair value or the present value of the future expected minimum lease payments. Depreciation 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 redemption 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.

**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". The impairment loss of the "cash generating units" is calculated by comparing the hitherto carrying amount (including allocated goodwill) and the higher of fair value less costs of disposal and value in use. If the fair value less costs of disposal 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 cash generating unit in proportion to their carrying amount.

The cash flows used in the impairment test are based on the most recent planning figures approved by the Supervisory Board. The planning usually entails a planning horizon of three to five years. Beyond the detailed planning horizon, cash flows for the fifth detailed planning period 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. Medium term planning is based on internal assumptions concerning the future development of sales, prices, and costs, the future opening up 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 value in use, which represents the present value of the expected future cash flows before tax, was used to conduct the impairment test. The determination of the discount rate (WACC) takes place on the basis of externally available capital market data.

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

	12/31/2016	12/31/2015
KTM Group	10.4%	10.1%
Pankl Group	9.0%	9.8%
WP Group	10.5%	10.1%

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. A sensitivity analysis shows that, all other things being equal, an increase in the discount rate before tax by 1% would lead to a value adjustment in the amount of € 0.0 million (previous year: € 4.6 million), and a decrease in EBIT by 10% would lead to a value adjustment in the amount of € 0.0 million (previous year: € 5.1 million).

**Intangible assets** are capitalized at cost and measured at cost less amortization. Depreciation 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. Amortization is charged using the straight line method on the basis of a useful life of five years. The amortization of capitalized development costs that are clearly attributable to projects starts upon the commencement of series production.

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 charged to profit or 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 12/31/2016 was performed analogously to the goodwill impairment test on the basis of the current five year planning figures. The asset specific cost of capital of 12.5 % (prior year: 12.1 %) was taken as the discounting rate. This was made up of the Group pre tax WACC of 9.5 % (prior year: 9.1 %) plus a risk premium for the brand of 3.0 % (prior year: 3.0 %). 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. Sensitivity analysis for these parameters indicates, as in the prior year, that no plausible change in the material assumptions could cause the carrying amount to exceed the recoverable amount.

**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 of the KTM Group (temporary differences). Deferred tax assets relating to tax loss carryforwards are recognized taking into account their timely realizability. 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.

### Financial instruments

Purchases and sales of all financial instruments are recognized as at the settlement date.

#### Primary financial instruments

**Financial assets held for trading** are measured at their market price, and changes in the measurement are recognized in profit or loss.

**Held to maturity investments** are measured at amortized cost using the effective interest method.

**Other financial assets** (financial assets available for sale) are measured at their fair value on the reporting date. As a matter of principle, the stock exchange prices valid as of the reporting date are recognized as the fair value; changes in the measurement are recognized in other comprehensive income, provided such changes are material. Other non current financial assets include equity instruments that are not quoted in an active market and whose fair value cannot be reliably measured. These are accounted for at cost less impairment.

Impairment losses are recognized for financial assets if there is objective evidence. Such objective evidence includes, for instance, financial difficulties, insolvency, breach of contract or considerable delay in payment by the obligor or issuer. In the case of an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is objective evidence of impairment. The group regards a decline of 20 % as significant and a period of nine months as prolonged.

**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 the fair value they have as of the reporting date.

**Receivables and other assets** are measured at fair value upon initial recognition and at amortized cost in subsequent periods. Foreign currency receivables are translated at the exchange rate on the reporting date, less any impairment charges required on account of identifiable risks. Financial receivables are classified as "Loans and receivables" and measured at amortized cost.

Individual allowances are only made against financial assets if they are regarded as uncollectable or partly uncollectable. Signs that an individual allowance is required are financial difficulties, insolvency, breach of contract or considerable delay in payment on the part of the customer. The individual allowances consist of numerous separate items, none of which is material if considered on its own. Financial assets are only derecognized directly if the contractual rights to receive payment from the financial assets cease to exist (in particular in the case of insolvency). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized allowance is reversed either directly or by adjusting the allowance account.

**Financial liabilities** are measured at amortized cost. Financial liabilities are classified as "Financial Liabilities at Amortized Cost". Any difference between the amount received and the amount repayable is apportioned over the period to maturity using the effective interest method and recognized in the financial result. Issuing costs incurred in connection with bonds are recognized as an expense over the time to maturity. Liabilities denominated in foreign currencies are translated at the closing rate.

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 AG 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 12/31/2016, the liabilities from this program amount to a total of € 64,949k (prior year: € 34,338k), of which, as of 12/31/2016 in the KTM Industries Group, the dealings between the group companies in the amount of € 47,527k (prior year: € 34,338k) are presented as current financial liabilities.

### **Derivative financial instruments and hedges**

The group essentially enters into derivative financial instruments (forward currency transactions and interest rate swaps) to hedge foreign currency and interest rate risk. The aim of using derivative financial instruments is to offset fluctuations in cash flows from future transactions. Expected revenues and material procurement 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. 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. Where foreign currency hedges are used in the KTM Industries Group, subsequent changes in the market value of the derivatives are recognized in profit or loss. Thereafter the change in the market value is compared with the value of the foreign currency trade payables or receivables as translated at the closing rate. Any changes in earnings that are caused by the ineffectiveness of the derivative financial instruments are recognized in the consolidated income statement.

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.

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 hedged risk. 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 testing is performed 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 reporting date is used for measuring forward currency transactions. In the case of positive market values,

the credit rating of the counterparty is included in the measurement by means of a 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.

**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.

The **obligations relating to employee benefits** consist of obligations relating to severance pay and anniversary bonuses. Moreover, KTM Industries Group is obligated by law to make 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 the event giving rise to the severance pay. For all employees in Austria who joined after December 31, 2002, the company pays a monthly 1.53 % of their remuneration 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 making of the contributions, which are recognized as expenses in the financial year for which they were paid (defined contribution obligation).

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 companies of the KTM Industries Group are obligated under collective bargaining agreements to pay its employees in Austria anniversary bonuses upon attaining a certain number of years of service (from 25 years of service upwards) (defined benefit obligation).

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

**Provisions relating to warranty** are established and charged through profit or loss at the time when the products are sold.

**Other provisions** are established 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.

**Government grants** are taken into account as soon as there is assurance that they will be received by the group and that the group can comply with the requirements that are imposed. In principle, subsidies are accounted for in the income statement by way of direct offset against the costs they are intended to cover.

A **contingent liability** is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the entity. Moreover, a contingent liability is a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

### 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 117,732k (prior year: EUR 117,724k) was recognized at the reporting date, along with the KTM brand, which is valued at EUR 61,103k (prior year: EUR 61,103k). The annual impairment tests and sensitivity analysis performed are described in the note on accounting policies.
- 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 12/31/2016, deferred tax assets on loss carryforwards in the amount of EUR 7,479k (prior year: EUR 3,008k) were capitalized. Based on current tax planning, the management expects that the loss carryforwards recognized as of 12/31/2016 will be utilized over the next five years. For further details on deferred taxes, see the explanations in note 14.
- 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 twelve 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 33.3 "Financial risk management".
- Furthermore, estimation uncertainty exists in relation to 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 23,536k (prior year: EUR 20,905k) were recorded. For further explanations, see note 30 "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. The Executive Board, on the basis of longstanding experience, 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 therefore calculated from the average percentage of revenue accounted for by guarantee and warranty expenses over a three year observation period. As at 12/31/2016, provisions for guarantees and warranties of EUR 10,134k (prior year: EUR 8,834k) were recorded. For movements in the provisions, see note 29 "Provisions".



The following **judgments** were made in respect of the application of accounting policies in 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 16, "Property, plant and equipment" and Note 34, "Finance leases".

■ Derecognition of receivables in connection with ABS agreements

Evaluations were made with respect to the conditions for derecognition under IAS 39. Further details are provided under Note 33, "Other financial instruments".

■ 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. Further details are provided under Note 5, "Accounting policies".

### III. Notes to the consolidated income statement and the consolidated balance sheet

#### 6. Revenues

##### Revenue by product group

	2016	2015
<i>in EURk</i>		
KTM	1,141,819	1,022,487
WP	166,106	144,583
Pankl	185,991	173,638
Other	8,553	19,641
Consolidation	-159,507	-136,779
	<b>1,342,962</b>	<b>1,223,570</b>

##### Revenue by region

The breakdown of external revenue by geographical region is based on the location of the customers.

	Europe		North America		Other	
<i>Values in EURk</i>	2016	2015	2016	2015	2016	2015
External revenue	742,720	650,968	376,048	353,635	224,194	218,967

#### 7. Presentation of expenses by function

##### Cost of sales

	2016	2015
<i>in EURk</i>		
Cost of materials and purchased services	696,133	667,605
Personnel expenses	128,091	109,270
Depreciation/amortization of property, plant and equipment and intangible assets	55,603	51,192
Other operating expenses	29,319	16,057
	<b>909,146</b>	<b>844,123</b>

##### Selling and racing expenses

	2016	2015
<i>in EURk</i>		
Cost of materials and purchased services	22,306	17,629
Personnel expenses	61,117	55,021
Depreciation/amortization of property, plant and equipment and intangible assets	5,813	4,741
Other operating expenses	99,152	81,928
Sponsorship money and other operating income	-18,842	-9,895
	<b>169,546</b>	<b>149,424</b>

**Research and development expenses**

	<b>2016</b>	<b>2015</b>
<i>in EURk</i>		
Cost of materials and purchased services	6,261	5,979
Personnel expenses	23,993	21,775
Depreciation/amortization of property, plant and equipment and intangible assets	4,448	2,132
Other operating expenses	14,650	6,864
Subsidies and other operating income	-9,607	-7,045
	<b>39,745</b>	<b>29,705</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 amount to EUR 48,343k (prior year: EUR 41,445k).

The total research and development expenses (before capitalizing development costs) amounted to EUR 106,248k (prior year: EUR 82,187k) and therefore approximately 7.9% (prior year: 6.7%) of revenue.

**Administration expenses**

	<b>2016</b>	<b>2015</b>
<i>in EURk</i>		
Cost of materials and purchased services	5,039	3,217
Personnel expenses	33,389	30,441
Depreciation/amortization of property, plant and equipment and intangible assets	9,743	7,107
Other operating expenses	37,920	30,467
Other operating income	-6,133	-2,105
	<b>79,958</b>	<b>69,127</b>

Sponsorship income and contributions are deducted from the corresponding expenses, as are subsidies.

Amortization and impairments in respect of property, plant and equipment are recorded in the income statement under their respective operating areas.

**8. 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:

	<b>2016</b>	<b>2015</b>
<i>in EURk</i>		
Annual audit for each individual company	338	321
Consolidate audit	318	301
Other confirmation services	198	19
Other services	66	34
	<b>920</b>	<b>675</b>

## 9. Remunerations of executive board members and managing directors and information about employees

The remuneration for the 2016 Executive Board 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 3,840k (prior year: EUR 3,421k). In addition, the Members of the Executive Board received income from previous periods amounting to EUR 403k.

Furthermore, there are no agreements on a retirement benefit plan for the Executive Board and no pension fund payments were made to the Executive Board in the 2016 financial year.

It is proposed that the remuneration to be paid to the Supervisory Board of KTM Industries AG for the 2016 financial year (payout in the 2017 financial year) shall amount to a total of EUR 28k (prior year: EUR 53k).

No loans or advances have been granted to Members of the Supervisory Board of KTM Industries AG as of the reporting date.

### Employees

As of 1/1/2016	4,553
Changes in business year	516
<b>As of 12/31/2016</b>	<b>5,069</b>
Blue-collar employees	2,676
White-collar employees	2,393

Employee numbers as stated include agency and external staff.

As of 12/31/2016, 3,916 employees are employed in Austria and 1,153 abroad.

Total personnel expenses in the 2016 financial year before the effects of capitalizing development costs were EUR 275,414k (prior year: EUR 239,987k).

## 10. Other operating expenses

Other operating expenses are made up as follows:

	2016	2015
in EURk		
Warranty expenses	27,874	21,518
Miscellaneous expenses	161	646
	<b>28,035</b>	<b>22,164</b>

Amortizations in the amount of EUR 513k (prior year: EUR 400k) are included in warranty expenses.

### 11. Other operating income

Other operating income is made up as follows:

	2016	2015
<b>in EURk</b>		
Subsidies	859	1,361
Revenue from disposal of assets	3,419	260
Deconsolidation of Durmont	0	1,211
Other remaining income	1,114	993
	<b>5,392</b>	<b>3,825</b>

### 12. Earnings from at-equity holdings

As already explained under Note 5, the earnings from at equity holdings that are integrated into the operating activities of the KTM Industries Group as material suppliers or customers have been disclosed for the first time in the result from operating activities. The previous year's figures were reported in the financial result and were not adjusted on grounds of immateriality.

The share of the profit of associates accounted for using the equity method is made up as follows:

	2016	2015
<b>in EURk</b>		
Kiska GmbH, Anif	357	102
KTM New Zealand Ltd., Auckland, New Zealand	36	31
Wethje Group	0	-2,984
	<b>393</b>	<b>-2,851</b>

The earnings from at equity holdings are presented under Note 19.

### 13. Financial and investment income (expenses)

Financial and investment income is made up as follows:

	2016	2015
<b>in EURk</b>		
Interest income	2,744	1,525
Interest expenses	-19,505	-17,770
Earnings from at-equity holdings	0	-2,851
Other financial and investment income	3,391	-3,794
	<b>-13,370</b>	<b>-22,890</b>

The income from at equity is explained in greater detail under Note 12.

In the 2016 financial year, the other financial and investment income (expenses) includes the effect of the initial consolidation of PF Beteiligungsverwaltungs GmbH in the amount of EUR 4,572k. In addition, it mainly comprises expenses from the valuation of financial instruments in the amount of EUR 274k (prior year: EUR 1,218k), expenses associated with financial investments in the amount of EUR 4,126k (prior year: EUR 3,330k) and foreign exchange losses of EUR 53k (prior year: foreign exchange gain of EUR 690k). The dividend income of unconsolidated companies in the amount of EUR 2,959k is also included (prior year: EUR 64k).

#### 14. Income tax

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

	2016	2015
<i>in EURk</i>		
Current tax	-16,745	-10,783
Deferred tax	-3,190	-14,198
	<b>-19,935</b>	<b>-24,981</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:

	2016	2015
<i>in EURk</i>		
Profit before income taxes	108,947	89,963
Expected tax expenses/income	-27,237	-22,491
Non-temporary differences	1,851	-688
Recognition/allowances/utilization of loss carryforwards	2,436	-2,583
Taxes in relation to prior periods	453	277
Effects of foreign tax rates	-1,109	-810
Earnings from equity holdings	99	-729
Investment allowances	2,090	1,467
Other	1,482	576
	<b>-19,935</b>	<b>-24,981</b>

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

	<b>Loss carryforward</b>	<b>Allowance</b>	<b>Remaining loss carryforward</b>	<b>Deferred tax asset</b>
in EURk	12/31/2016	12/31/2016	12/31/2016	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	670	-670	0	0
Pankl Group, Kapfenberg	9,559	-85	9,474	3,483
	<b>112,815</b>	<b>-103,341</b>	<b>9,474</b>	<b>3,483</b>

	<b>Loss carryforward</b>	<b>Allowance</b>	<b>Remaining loss carryforward</b>	<b>Deferred tax asset</b>
in EURk	12/31/2015	12/31/2015	12/31/2015	12/31/2015
KTM Industries AG, Wels	76,668	-76,668	0	0
K KraftFahrZeug Holding GmbH, Wels	3,011	-3,011	0	0
WP Group, Munderfing	1,386	-1,386	0	0
Pankl Group, Kapfenberg	14,733	-5,695	9,038	3,008
	<b>95,798</b>	<b>-86,760</b>	<b>9,038</b>	<b>3,008</b>

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 122,372k (prior year: EUR 111,162k). Value adjustment to loss carry forwards 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.

Total deferred tax assets and liabilities were calculated from the following balance sheet items:

	<b>12/31/2016</b>	<b>12/31/2015</b>
in EURk		
<b>Deferred tax assets:</b>		
Current assets		
Receivables and other assets	0	0
Inventories	6,380	6,854
Non current assets:		
Fixed assets	338	1,169
Loss carryforwards	7,479	3,008
Employee benefits	4,278	3,235
Provisions	2,447	2,242
Liabilities	2,210	1,796
	<b>23,132</b>	<b>18,304</b>
Offsetting	-13,296	-11,144
	<b>9,836</b>	<b>7,160</b>

	12/31/2016	12/31/2015
<b>Deferred tax liabilities:</b>		
Current assets	1,593	-1,558
Non-current assets		
Intangible assets	-51,612	-44,575
Property, plant and equipment	-2,577	-2,958
Other	-255	-366
	<b>-56,037</b>	<b>-49,457</b>
Offsetting	13,296	11,144
	<b>-42,741</b>	<b>-38,313</b>

In the deferred tax assets, the non current assets include amounts for outstanding sevenths of write downs of equity holdings to going concern value pursuant to section 12 para. 3 no. 2 of the Austrian Corporate Tax Act (KStG) in the amount of EUR 2,309k (prior year: EUR 2,128k). Deferred tax assets for loss carryforwards also include EUR 3,991k, which 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.

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 12/31/2016 (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 equity interests 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 equity interests 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 244,549k (prior year: EUR 197,253k) 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:

	2016	2015
<b>in EURk</b>		
Deferred tax (net) at 1/1	-31,153	-15,670
Change in scope of consolidation	-78	0
Deferred taxes recognized in the income statement	-3,190	-14,198
Deferred taxes recognized in other comprehensive income	1,274	-1,606
Foreign currency	242	321
<b>Deferred tax (net) at 12/31</b>	<b>-32,905</b>	<b>-31,153</b>



## 15. Earnings per share

The number of shares of KTM Industries AG is 225,386,742. In the current financial year 2016, the treasury shares were sold in their entirety, in the amount of 61,030 units. KTM Industries AG holds no treasury shares as of the reporting date 12/31/2016. The earnings per share were € 0.23 in the current financial year 2016 (prior year: € 0.13).

	12/31/2016	12/31/2015
<b>in EURk</b>		
Earnings - owner of parent company (EURk)	52,080	30,009
Total number of shares (units)	225,386,742	225,386,742
Deducting treasury shares (units)	0	-61,030
	225,386,742	225,325,712
<b>Undiluted (=diluted) earnings per share (EUR)</b>	<b>0.23</b>	<b>0.13</b>

## 16. Property, plant and equipment

The tables below provide a breakdown of property, plant and equipment along with movements during the 2016 and 2015 financial years:

	Real estate	Buildings	Technical plant and machinery	operational and business equipment	Advance payment and investment in construction	Total
<b>in EURk</b>						
<b>Acquisition and production costs:</b>						
As of 1/1/2016	18,296	177,072	270,780	80,742	22,765	569,655
Currency translation	4	48	-274	426	13	217
Additions/disposals due to changes to scope of consolidation	4,066	22,800	27	291	0	27,184
Additions	1,038	10,224	18,811	12,364	32,285	74,722
Reclassifications	0	19,655	11,048	2,465	-33,292	-124
Disposals	-1,029	-33,645	-5,803	-5,027	-486	-45,990
<b>As of 12/31/2016</b>	<b>22,375</b>	<b>196,154</b>	<b>294,589</b>	<b>91,261</b>	<b>21,285</b>	<b>625,664</b>

	Real estate	Buildings	Technical plant and machinery	operational and business equipment	Advance payment and investment in construction	Total
in EURk						
<b>Accumulated depreciation:</b>						
As of 1/1/2016	64	47,760	191,823	55,552	0	295,199
Currency translation	2	-33	-164	395	0	200
Additions/disposals due to changes to scope of consolidation	0	798	23	128	0	949
Additions	0	6,799	25,662	10,218	0	42,679
Reclassifications	0	0	69	-71	0	-2
Disposals	0	-6,395	-5,527	-4,656	0	-16,578
<b>As of 12/31/2016</b>	<b>66</b>	<b>48,929</b>	<b>211,886</b>	<b>61,566</b>	<b>0</b>	<b>322,447</b>
<b>Carrying amount:</b>						
As of 12/31/2016	22,309	147,225	82,703	29,695	21,285	303,217
As of 12/31/2015	18,232	129,312	78,957	25,190	22,765	274,456
	Real estate	Buildings	Technical plant and machinery	operational and business equipment	Advance payment and investment in construction	Total
in EURk						
<b>Acquisition and production costs:</b>						
As of 1/1/2015	17,300	147,259	143,687	191,784	24,359	524,389
Currency translation	11	935	1,724	1,311	34	4,015
Disposals due to listing as assets held for sale	-187	-347	-892	0	0	-1,426
Additions/disposals due to changes to scope of consolidation	0	0	-3,674	-344	-714	-4,732
Additions	1,302	19,702	18,068	12,276	27,634	78,982
Reclassifications	0	12,967	122,130	-106,733	-28,366	-2
Disposals	-130	-3,444	-10,263	-17,552	-182	-31,571
<b>As of 12/31/2015</b>	<b>18,296</b>	<b>177,072</b>	<b>270,780</b>	<b>80,742</b>	<b>22,765</b>	<b>569,655</b>
<b>Accumulated depreciation:</b>						
As of 1/1/2015	61	42,093	96,576	146,244	44	285,018
Currency translation	2	340	1,353	970	0	2,665
Disposals due to listing as assets held for sale	0	-28	-543	0	0	-571

	Real estate	Buildings	Technical plant and machinery	operational and business equipment	Advance payment and investment in construction	Total
<i>in EURk</i>						
Additions/disposals due to changes to scope of consolidation	0	0	-1,132	-209	-44	-1,385
Additions	1	5,772	22,564	9,015	0	37,352
Reclassifications	0	0	83,202	-83,202	0	0
Disposals	0	-417	-10,197	-17,266	0	-27,880
<b>As of 12/31/2015</b>	<b>64</b>	<b>47,760</b>	<b>191,823</b>	<b>55,552</b>	<b>0</b>	<b>295,199</b>
<b>Carrying amount:</b>						
As of 12/31/2015	18,232	129,312	78,957	25,190	22,765	274,456
As of 12/31/2014	17,239	105,166	47,111	45,540	24,315	239,371

The disposals under buildings in the 2016 financial year 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.

Additions to buildings include investments of EUR 0k (prior year: EUR 14,588k) and additions to technical plant and machinery include investments of EUR 1,291k (prior year: EUR 0k) as assets held under finance leases, which had no cash flow effect in the 2016 financial year. For more details, please refer to Note 34, "Finance leases".

Additions to property, plant and equipment also include investments of EUR 7,674k (prior year: EUR 8,755k) that had not yet had any cash flow effect as of the reporting date.

In the 2015 financial year, certain assets were reclassified between machinery and fixtures and fittings, tools and equipment. Machinery used for production purposes is now disclosed under machinery in line with uniform group rules.

## 17. Goodwill

The capitalized goodwill in the amount of EUR 117,732k (prior year: EUR 117,724k) is made up as follows:

	12/31/2016	12/31/2015
<i>in EURk</i>		
KTM Group	94,142	94,096
Pankl Group	22,630	22,668
WP Group	960	960
	<b>117,732</b>	<b>117,724</b>

In accordance with IAS 36 Impairment, the goodwill disclosed is not amortized but is tested for impairment on an annual basis. For the method of calculation, see the Accounting policies section.

## 18. Intangible assets

The tables below provide a breakdown of intangible assets along with movements during the 2016 and 2015 financial years:

	<b>Concessions, industrial property rights and similar rights and benefits as well as resulting licenses</b>	<b>Customers, market values, internally generated intangible assets</b>	<b>Goodwill</b>	<b>Advance payments and investments in construction</b>	<b>Total</b>
<i>in EURk</i>					
<b>Acquisition and production costs:</b>					
As of 1/1/2016	40,134	234,730	140,545	11,592	427,001
Currency translation	145	-57	-286	0	-198
Additions/disposals due to changes to scope of consolidation	311	0	269	0	580
Additions	10,166	57,840	242	1,442	69,690
Reclassifications	11,716	0	0	-11,590	126
Disposals	-7,862	-37,743	0	0	-45,605
<b>As of 12/31/2016</b>	<b>54,610</b>	<b>254,770</b>	<b>140,770</b>	<b>1,444</b>	<b>451,594</b>
<b>Accumulated depreciation:</b>					
As of 1/1/2016	22,176	56,475	22,821	0	101,472
Currency translation	111	-56	-25	0	30
Additions/disposals due to changes to scope of consolidation	0	0	0	0	0
Additions	6,619	26,822	242	0	33,683
Reclassifications	0	0	0	0	0
Disposals	-7,854	-37,743	0	0	-45,597
<b>As of 12/31/2016</b>	<b>21,052</b>	<b>45,498</b>	<b>23,038</b>	<b>0</b>	<b>89,588</b>
<b>Carrying amount:</b>					
As of 12/31/2016	33,558	209,272	117,732	1,444	362,006
As of 12/31/2015	17,958	178,255	117,724	11,592	325,529

	<b>Concessions, industrial property rights and similar rights and benefits as well as resulting licenses</b>	<b>Customers, market values, internally generated intangible assets</b>	<b>Goodwill</b>	<b>Advance payments and investments in construction</b>	<b>Total</b>
in EURk					
<b>Acquisition and production costs:</b>					
As of 1/1/2015	40,617	223,418	140,089	5,343	409,467
Currency translation	205	50	539	0	794
Additions/disposals due to changes to scope of consolidation	-408	-840	-83	0	-1,331
Additions	4,142	43,469	0	6,363	53,974
Reclassifications	116	0	0	-114	2
Disposals	-4,538	-31,367	0	0	-35,905
<b>As of 12/31/2015</b>	<b>40,134</b>	<b>234,730</b>	<b>140,545</b>	<b>11,592</b>	<b>427,001</b>
<b>Accumulated depreciation:</b>					
As of 1/1/2015	22,174	64,531	22,828	0	109,533
Currency translation	63	43	-7	0	99
Additions/disposals due to changes to scope of consolidation	-159	-578	0	0	-737
Additions	4,340	23,879	0	0	28,219
Reclassifications	0	0	0	0	0
Disposals	-4,242	-31,400	0	0	-35,642
<b>As of 12/31/2015</b>	<b>22,176</b>	<b>56,475</b>	<b>22,821</b>	<b>0</b>	<b>101,472</b>
<b>Carrying amount:</b>					
As of 12/31/2015	17,958	178,255	117,724	11,592	325,529
As of 12/31/2014	18,443	158,887	117,261	5,343	299,934

Development costs in the amount of EUR 57,840 k (prior year: EUR 43,469k) were capitalized in the 2016 financial year. As of 12/31/2016, the item "intangible assets" includes development costs with a carrying amount of EUR 145,286k (prior year: EUR 113,296k). The amortization period was set in accordance with the expected value in use of five years.

As was the case in the previous year, the intangible assets also include the "KTM" brand, which was recognized at EUR 60,000k in the initial consolidation of this group and was increased by EUR 1,103k in the 2010 financial year due to a payment on account made to KTM Kühler GmbH, Mattighofen, resulting in a value of EUR 61,103k; it is deemed to have an indeterminate useful life and is therefore subjected to an annual impairment test, which has not resulted in the need for an allowance. For the method of calculation, see the Accounting policies section.

By 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 11 years.

Additions to intangible assets include investments of EUR 1,051k that had no cash flow effect as of the reporting date (prior year: EUR 1,153k).

An impairment charge of EUR 214k (prior year: EUR 715k 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 2,663k (prior year: EUR 912k) owing to changes in the assumptions made regarding future sales and the resultant impairment to value.

#### **19. Investments accounted for using the equity method**

Investments in associates accounted for under the equity method are regarded individually as immaterial.

Associates comprise strategic minority interests in KTM New Zealand Ltd., Auckland, New Zealand, KTM MIDDLE EAST AL SHAFAR LLC, Dubai, United Arab Emirates, KTM Asia Motorcycle Manufacturing Inc., Philippines, as well as holdings in Kiska GmbH, Anif, and Mattighofen Museums Immobilien GmbH, Mattighofen.

KTM New Zealand Ltd. and KTM MIDDLE EAST AL SHAFAR LLC function as general importers for products with the KTM and Husqvarna brands in their respective markets.

Kiska GmbH is a design business that provides development and design services.

The reporting date of Kiska GmbH is March 31 and that of KTM New Zealand Ltd. is June 30. The reporting dates were set when the companies were founded or before the equity interests were acquired. A change in the reporting 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.

KTM Asia Motorcycle Manufacturing Inc. was jointly founded in June 2016 in partnership with Ayala Corp. The KTM Group holds 26% of the company. The company will begin assembling KTM motorcycles in the Philippines from CKD (completely knocked down) kits in mid-2017. The company was not yet operationally active as at December 31, 2016. Only immaterial expenses had been incurred, in relation to the establishment of the company, and no revenue had been earned. On these grounds, the company has not been accounted for using the equity method as at the current reporting date.

Investments accounted for using the equity method also include the holding of EUR 2,349k (prior year: EUR 49k) in Mattighofen Museums Immobilien GmbH, which functions purely as a project company (for the construction of KTM World) and makes no operating profit or loss.

The Wethje Group is no longer accounted for using the equity method on account of the size of the equity holding as at 12/31/2016 (17.97%; prior year: 49.00%). The Wethje Group develops and produces carbon composite components for the automotive and aerospace sectors.

Movements in the carrying amounts were as follows in the 2016 financial year:

	2016	2015
<i>in EURk</i>		
Book value of investments on 1/1	3,968	6,868
Proportionate net income	393	-1,565
Allowance for Wethje Group	0	-1,286
Dividend	-116	-78
Foreign currency translation in other comprehensive income	11	-5
Acquisition of holdings	2,959	94
Disposal of holdings	-903	-60
<b>Book value of investments on 12/31</b>	<b>6,312</b>	<b>3,968</b>

## 20. Other non current assets

	12/31/2016	12/31/2015
<i>in EURk</i>		
Non-consolidated subsidiaries and financial Investments not accounted for using the equity method	2,236	17,906
Lendings	1,970	2,045
Other non-current assets	6,443	6,409
	<b>10,649</b>	<b>26,360</b>

The change in the carrying amount of unconsolidated subsidiaries is essentially attributable to the initial consolidation of PF Beteiligungsverwaltungs GmbH (see also Note 3.1.).

The holdings in the unconsolidated entities represent a financial asset in an equity instrument, which is measured in accordance with IAS 39 and recognized at amortized cost owing to its non marketability.

Movements in the carrying amounts of the unconsolidated subsidiaries and loans were as follows in the 2016 and 2015 financial years:

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

	As of 1/1/2015	Additions	Foreign currency translation	Allowance	Disposals	As of 12/31/2015
<i>in EURk</i>						
Non-consolidated subsidiaries and financial investments not accounted for under the equity method	19,886	587	-1	-2,541	-25	17,906
Lendings	1,993	0	225	0	-173	2,045
	<b>21,879</b>	<b>587</b>	<b>224</b>	<b>-2,541</b>	<b>-198</b>	<b>19,951</b>

The other non current assets comprise the following:

	12/31/2016	12/31/2015
<i>in EURk</i>		
Wethje purchase price claim	3,660	3,634
Durmort purchase price claim	1,440	1,440
Dumont non-current purchasing price component	960	960
Other	383	375
	<b>6,443</b>	<b>6,409</b>

When the majority interest in the Wethje Group in was sold in 2014, a put/call option was entered into regarding the sale of a further 23% of the shares. In 2015, when the interest in AGM Durmort Austria GmbH (formerly: Durmort Teppichbodenfabrik GmbH) was sold, a put/call option was also entered into regarding the remaining 24% of the shares with KTM Industries AG. On account of their arrangements, both options are both recognized as non current receivable in the consolidated financial statements as of 12/31/2016.

## 21. Inventories

	12/31/2016	12/31/2015
<i>in EURk</i>		
Raw materials, auxiliary materials and operating materials	73,275	60,370
Unfinished products	44,353	36,861
Finished products and goods	134,358	145,447
	<b>251,986</b>	<b>242,678</b>
Gross inventory level	282,300	272,160
- Allowances	-30,314	-29,482
<b>Net inventory level</b>	<b>251,986</b>	<b>242,678</b>

The carrying amount of inventories recognized at the lower net realizable value amounts to EUR 96,896k (previous year EUR 114,159).



## 22. Trade receivables and other current assets

Movements in allowances on receivables were as follows:

	<b>Trade receivables</b>
<i>in EURk</i>	
<b>As of 1/1/2015</b>	<b>2,148</b>
Change in scope of consolidation	10
Currency translation	44
Additions	719
Utilization	-273
Reversals	-122
<b>As of 12/31/2015 = 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>As of 12/31/2016</b>	<b>4,178</b>

Expenses for the complete derecognition of trade receivables amounted to EUR 299k (prior year: EUR 340k).

The current receivables and other assets are made up as follows:

	<b>12/31/2016</b>	<b>12/31/2015</b>
<i>in EURk</i>		
Receivables from derivative financial instruments	3,169	3,573
Securities	3,567	1,636
Receivables from associated companies	4,660	5,930
Subsidies	6,864	4,575
ABS (asset backed securities) financing	2,722	2,842
Peguform purchase price claim	20,318	0
Other	9,023	6,423
<b>Other current financial assets</b>	<b>50,323</b>	<b>24,979</b>
Receivables due from tax offices	8,377	7,535
Advance payments on inventory and other prepayments	10,598	7,963
Other	2,949	2,320
<b>Other current non-financial assets</b>	<b>21,924</b>	<b>17,818</b>
<b>Other current assets</b>	<b>72,247</b>	<b>42,797</b>

### **23. Cash and cash equivalents**

Cash and cash equivalents include cash on hand, cash in banks, checks and time deposits with a fixed term in the amount of EUR 251,578k (prior year: EUR 135,124k).

EUR 32,000k of KTM Industries AG's bonded loan in the total amount of EUR 56,500k was terminated December 2016 with effect as of January 16, 2017. On account of a set off agreement entered into with the lender, EUR 32,000k of the terminated bonded loan is disclosed as a reduction of the cash at bank as of December 31, 2016. For further information, please refer to note 26 "Financial liabilities".

### **24. Assets held for sale**

A property with a building in the amount of EUR 506k and a test bench in the amount of EUR 349k were recognized in this item in the previous year (reporting date: 12/31/2015). The assets were sold in their entirety in the first quarter of 2016.

### **25. Consolidated equity**

Movements in the consolidated equity in the 2016 and 2015 financial years are presented on page 88-89.

#### **Share capital and capital reserves:**

As of 12/31/2016, 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 of the company are listed on the Vienna Stock Exchange and, since November 2016, on the SIX Swiss Exchange in Zurich as well. The SIX Swiss Exchange should become the principal stock exchange for KTM Industries shares, which however can also still be traded on the Vienna Stock Exchange.

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 dividends resolved upon at the General Meeting as well as the right to vote at the 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.

#### **Perpetual Bond:**

In July 2016, a perpetual bond of KTM Industries AG in the amount of EUR 40,000k was issued. In December 2016, the nominal value was increased by EUR 20,000k to give a total issuing volume of EUR 60,000k. The bond is 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 resulting increase in equity is EUR 60,000 in the 2016 financial year.

The perpetual bond is set up as an unsecured bond that is subordinate to all current or future unsecured, unsubordinated liabilities of KTM Industries AG. Interest need only be paid out by KTM Industries AG 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.

### Nature and purpose of reserves:

The Group's reserves include the postings from equity consolidation that are recognized in profit or loss, and other equity postings with no impact on the income statement, including the revaluation of financial investments and the profit or loss for the financial year. The reserve pursuant to IAS 39 comprises the cash flow hedge reserve.

Movements in the **cash flow hedge reserve**, including shares of non controlling shareholders (after tax), were as follows:

in EURk	
As of 1/1/2015	-4,017
Effective proportion of fair value changes in cash flow hedges	1,302
Transfer of consolidated equity to consolidated income statement - listed in financial income	1,242
Transfer of consolidated equity to consolidated income statement - listed in operating income	1,904
<b>As of 12/31/2015</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 income	858
Transfer of consolidated equity to consolidated income statement - listed in operating income	-1,619
<b>As of 12/31/2016</b>	<b>-2,686</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 -6,521k as at 12/31/2016 (prior year: EUR -5,730k).

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 proportion of equity:

	12/31/2016	12/31/2015	Currency
Amount of credit (thousand)			
Pankl Racing Systems UK Ltd.	1,615	1,615	GBP
CP-CARRILLO, Inc.	1,069	1,069	USD
Pankl Holdings, Inc.	16,550	16,550	USD
KTM North America, Inc.	3,863	3,863	USD

As repayment is neither planned nor likely in the foreseeable future, foreign currency translation effects are recognized in other comprehensive income.

The reserve for the company's treasury shares comprises the costs of acquisition of the company's shares held by the Group. On December 31, 2016, the Group did not hold any shares in KTM Industries AG (12/31/2015: 61,030 shares). All treasury shares were sold in the 2016 financial year.

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

<b>2016</b>	Provision as per IAS 39	IAS 19 provision for actuarial losses	Foreign currency translation reserve	<b>Total</b>	Interests of non-controlling shareholders	<b>Total consolidated equity</b>
<i>in EURk</i>						
Currency translation differences	0	0	-1,040	<b>-1,040</b>	1,460	<b>420</b>
Cash flow hedge	-1,602	0	0	<b>-1,602</b>	-1,515	<b>-3,117</b>
Revaluation of net debt from defined benefit plans	0	-567	0	<b>-567</b>	-224	<b>-791</b>
	<b>-1,602</b>	<b>-567</b>	<b>-1,040</b>	<b>-3,209</b>	<b>-279</b>	<b>-3,488</b>
<b>2015</b>						
<i>in EURk</i>						
Currency translation differences	0	0	1,156	<b>1,156</b>	1,534	<b>2,690</b>
Cash flow hedge	2,317	0	0	<b>2,317</b>	2,131	<b>4,448</b>
Revaluation of net debt from defined benefit plans	0	143	0	<b>143</b>	-44	<b>99</b>
	<b>2,317</b>	<b>143</b>	<b>1,156</b>	<b>3,616</b>	<b>3,621</b>	<b>7,237</b>

### Non-controlling interests

The minority interests include the interests of third parties in the equity of the consolidated subsidiaries..

<b>2016</b>	<b>KTM AG</b>	<b>WP AG</b>	<b>Pankl Racing Systems AG</b>	<b>Other</b>	<b>Total</b>
Percentage of non-controlling interests on reporting date	48.33%	11.74%	5.47%		
<i>in EURk</i>					
Revenue	1,141,819	166,106	185,991		
Profit	72,108	14,310	8,925		
Other 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 assi- gned to non-controlling interests</b>	<b>-1,244</b>	<b>-40</b>	<b>1,005</b>	<b>0</b>	<b>-279</b>

<b>2016</b>	<b>KTM AG</b>	<b>WP AG</b>	<b>Pankl Racing Systems AG</b>	<b>Other</b>	<b>Total</b>
Percentage of non-controlling interests on reporting date	48.33%	11.74%	5.47%		
in EURk					
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>
<b>2015</b>	<b>KTM AG</b>	<b>WP AG</b>	<b>Pankl Racing Systems AG</b>	<b>Other</b>	<b>Total</b>
Percentage of non-controlling interests on reporting date	48.72%	10.52%	44.15%		
in EURk					
Revenue	1,022,487	144,583	173,638		
Profit	63,934	7,184	6,674		
Other income	4,832	258	2,147		
Total comprehensive income	68,766	7,442	8,821		
<b>Profit assigned to non-controlling interests</b>	<b>31,128</b>	<b>744</b>	<b>3,101</b>	<b>0</b>	<b>34,973</b>
<b>Other comprehensive income assigned to non-controlling interests</b>	<b>2,362</b>	<b>26</b>	<b>1,233</b>	<b>0</b>	<b>3,621</b>
Non-current assets	370,496	49,690	91,970		
Current assets	399,680	43,283	91,941		
Non-current liabilities	-269,695	-29,089	-73,051		
Current liabilities	-199,353	-26,609	-27,760		
Net assets	301,128	37,275	83,100		
<b>Carrying amount of non-controlling interests</b>	<b>146,719</b>	<b>3,898</b>	<b>39,330</b>	<b>0</b>	<b>189,947</b>

2015	KTM AG	WP AG	Pankl Racing Systems AG	Other	Total
Percentage of non-controlling interests on reporting date	48.72%	10.52%	44.15%		
in EURk					
Cash flow from operating activities	118,104	11,713	16,541		
Cash flow from investing activity	-94,302	-8,123	-11,333		
Cash flow from financing activity	27,367	-8,075	-9,747		
Cash change	51,169	-4,485	-4,539		
<b>Dividends from non-controlling interests</b>	<b>8,012</b>	<b>300</b>	<b>1,127</b>	<b>0</b>	<b>9,439</b>

### 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. Some loan agreements include financial covenants regarding the equity ratio and dynamic debt level (net debt divided by EBITDA), non compliance with which would lead to a premature repayment of the financial liabilities. All financial covenants were fulfilled in the reporting year.

For control purposes, the Management uses equity, the balance sheet total and EBITDA pursuant to IFRS.

	12/31/2016	12/31/2015
in EURk		
Equity	454,937	386,616
Balance sheet total	1,391,759	1,175,947
<b>Equity ratio</b>	<b>32.7%</b>	<b>32.9%</b>

In addition to the equity ratio, the key figures "gearing" (the ratio of net debt to equity) and "dynamic debt level" (the ratio of net debt to EBITDA) are used for monitoring the capital. In this context, net debt is defined by interest bearing bonds and loans, liabilities from finance leases and other interest bearing liabilities less 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.

Net debt is represented as follows:

	12/31/2016	12/31/2015
<i>in EURk</i>		
Non-current financial liabilities	425,475	465,224
Current financial liabilities	190,700	57,343
	616,175	522,567
Cash and cash equivalents	-251,578	-135,124
<b>Net debt</b>	<b>364,597</b>	<b>387,443</b>
<i>in EURk</i>		
Equity	454,937	386,616
Net debt	364,597	387,443
<b>Gearing</b>	<b>80.1%</b>	<b>100.2%</b>
<i>in EURk</i>		
Net debt	364,597	387,443
EBITDA	198,437	178,424
<b>Dynamic debt level</b>	<b>1.8</b>	<b>2.2</b>

The balance sheet total rose by approximately 18 % compared to the prior year. In the 2016 financial year, the investment level in excess of amortization led to an increase in property, plant and equipment and intangible assets. The EUR 120,000k bonded loan issue placed by KTM AG in June 2016 in order to refinance the bond due in April 2017 led to an increase in cash as of the reporting date.

On the one hand, equity was increased by the net result for the period in the amount of EUR 89,012k and issuing of a perpetual bond in the amount of EUR 60,000k, while, on the other hand, the acquisition of non controlling interests in subsidiaries totaling EUR 58,995k and dividends in the amount of EUR 17,950k led to a reduction in the equity. Overall, equity increased by EUR 68,321k as against the previous year. On account of the clear increase in the balance sheet total, however, the equity ratio fell marginally by 0.2 percentage points to 32.7%.

On account of the lower net debt (-5.9% in relation to the previous year) and the significantly increased operational earnings before interest, taxes, depreciation and amortization (EBITDA) in the amount of EUR 20,013k in relation to the previous year, the 'dynamic debt level' also fell from 2.2 to 1.8. Gearing also fell from 100.2% to 80.1%.

**26. Financial liabilities**

	12/31/2016	12/31/2016	12/31/2016	12/31/2016
in 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
Bonded loan	144,500	143,887	0	143,887
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>616,988</b>	<b>616,175</b>	<b>190,700</b>	<b>425,475</b>
	12/31/2015	12/31/2015	12/31/2015	12/31/2015
in EURk	Nominal	carrying amount	Term < 1 year	Term > 1 year
Bonds				
KTM AG	85,000	84,845	0	84,845
KTM Industries AG	76,010	75,700	1,010	74,690
Pankl Racing Systems AG	10,000	9,962	0	9,962
	171,010	170,507	1,010	169,497
Bonded loan	56,500	56,268	0	56,268
Registered bond	30,000	30,000	0	30,000
Liabilities owed to credit institutions	237,672	237,672	51,338	186,334
Leasing liabilities	22,504	22,504	1,207	21,297
Other interest-bearing liabilities	5,616	5,616	3,788	1,828
<b>Total financial liabilities</b>	<b>523,302</b>	<b>522,567</b>	<b>57,343</b>	<b>465,224</b>



## Bonds

	Nominal	issue	Term	Interest rate
KTM AG	83,100	April 2012	5 years	4.375%
KTM Industries AG	57,800	October 2012	6 years	4.625%
Pankl Racing Systems AG	10,000	August 2013	4 years	3.250%

On 4/24/2012, KTM AG successfully placed a bond (ISIN: AT0000A0UJP7) with a maturity of five years, an issuing volume of EUR 85,000k and interest rate of 4.375%. Bonds with a value of EUR 1,966k (nominal value: EUR 1,900k) were purchased in the 2016 financial year.

In October 2012, KTM Industries AG issued a bond with a value of EUR 75,000k, a term of 6 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.

Deferred interest expenses are included in the current financial liabilities.

## Bonded Loan (Schuldscheindarlehen)

In June 2016, a bonded 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 due in April 2017 and led to an increase in cash as of the reporting date of 12/31/2016.

In July 2015, KTM Industries AG issued a bonded loan with a value of EUR 56.500k and a term of five and seven years. A part of the bonded loan in the amount of EUR 32,000k, EUR 25.500k of which with a term of 5 years and EUR 6,500k of which with a term of 7 years, was terminated by letter of termination of December 13, 2016, with effect from January 16, 2017. On December 21, 2016, a set off agreement was entered into with the lenders, according to which both parties are entitled to set off existing, future or contingent claims and liabilities arising from and in connection with the bonded loans granted by the lender to the borrower, on the one hand, and the existing, future or contingent claims and liabilities of the borrower vis à vis the lender arising from and in connection with the account, on the other hand. EUR 32,000k of the terminated bonded loan is disclosed as a reduction of existing cash at bank as of December 31, 2016.

## 27. Other current and non-current liabilities

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

	12/31/2016	12/31/2015
in EURk		
Deposits	6,921	6,248
Other financial liabilities	3,652	0
Other non-current financial liabilities	10,573	6,248
Other non-current non-financial liabilities	569	586
<b>Other non-current liabilities</b>	<b>11,142</b>	<b>6,834</b>

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

	12/31/2016	12/31/2015
<i>in EURk</i>		
Sales bonuses	17,004	13,398
Price rebates	3,757	8,818
Liabilities owed to associated companies for trade receivables	3,556	3,770
Liabilities from derivative financial instruments	7,665	3,568
Employee benefits	4,667	3,519
Other financial liabilities	15,541	5,593
<b>Other current financial liabilities</b>	<b>52,190</b>	<b>38,666</b>
Employee benefits	28,293	24,153
Prepayments	6,864	4,408
Tax liabilities	4,448	4,367
Other non-financial liabilities	1,204	3,692
<b>Other current non-financial liabilities</b>	<b>40,809</b>	<b>36,620</b>
<b>Other current liabilities</b>	<b>92,999</b>	<b>75,286</b>

## 28. Contingent liabilities, pledges and guarantees

The total amount of registered pledges is EUR 95,323k (prior year: EUR 104,154k) and comprises the following:

	12/31/2016	12/31/2015
<i>in EURk</i>		
Property, plant and equipment	82,750	89,051
Receivables	12,573	15,103
	<b>95,323</b>	<b>104,154</b>

The declarations of surety and guarantees of liability existing as at December 31, 2015 vis à vis the Wethje Group and AGM Durmont Austria GmbH (formerly: Durmont Teppichbodenfabrik GmbH) in the amount of EUR 13,967k came to an end in the 2016 financial year without a claim having been made.

In the course of the sale of the Peguform Group, PF Beteiligungsverwaltungs GmbH granted guarantees of up to a maximum of 15% of the purchase price to the buyer. As of the reporting date of the previous year, two warranty claims had been made (arbitration proceedings and tax arrears payment resulting from a tax audit at SMP Deutschland GmbH). Contingent liabilities of EUR 14,616k existed as at December 31, 2015. In February 2017, the tribunal rejected the purchaser's action as unfounded. Therefore, no contingent liabilities in connection with the arbitration proceedings existed as at the reporting date of December 31, 2016.

## 29. Provisions

The group makes provisions for guarantees, gestures of goodwill and complaints in relation to known, expectable individual cases. The expected expenses are mainly based on previous experience.

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. As of 12/31/2016, provisions relating to guarantees and gestures of goodwill of EUR 10,134k (prior year: EUR 8,834k) were recognized.

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

	As of 1/1/2016	Currency translation	Additions	Dis- solutions	Utilization	Change Scope of consolida- tion	As of 12/31/2016
in EURk							
<b>Total</b>							
<b>Provisions:</b>							
Provisions for guarantee and warranty	8,834	0	9,703	-155	-8,166	-82	10,134
Provisions for legal action	775	0	715	-334	-337	0	819
Other provisions	617	0	5,612	0	-511	128	5,846
	<b>10,226</b>	<b>0</b>	<b>16,030</b>	<b>-489</b>	<b>-9,014</b>	<b>46</b>	<b>16,799</b>

## 30. Liabilities for employee benefits

The liabilities for employee benefits include provisions for:

	12/31/2016	12/31/2015
in EURk		
Severance payments	19,826	17,827
Anniversary bonuses	3,710	3,078
	<b>23,536</b>	<b>20,905</b>

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

in EURk	12/31/2016	12/31/2015
<b>Conditional benefit:</b>		
As at 1/1	17,827	16,911
Service cost	986	1,015
Interest expenses	341	327
Payments made	-454	-197
Actuarial loss/profit	1,067	-131
Other	59	-98
<b>As at 12/31</b>	<b>19,826</b>	<b>17,827</b>

The weighted average durations of the obligations for severance pay at 12/31/2016 were 14 years (prior year: 14 years).

The actuarial loss is made up of the following factors:

in EURk	2016	2015
Change in expected values	383	1,158
Change in demographic assumptions	21	2
Change in financial assumptions	663	-1,291
<b>Actuarial loss</b>	<b>1,067</b>	<b>-131</b>

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

	12/31/2016	12/31/2015
Discount rate	1.50%	2.00%
Wage/salary trend	2.25%	2.50%
Retirement age (years) women/men	62-65 years with transitional arrangement	62-65 years with transitional arrangement

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 12/31/2016, 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%

As of 12/31/2015, 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:

2015 Parameter	Change	
	-0.50%	+0.50%
Discount rate	7.3%	-6.7%
Wage/salary trend	-6.7%	7.2%

Movements in obligations relating to **claims to anniversary bonuses** were as follows:

	12/31/2016	12/31/2015
in EURk		
As at 1/1	3,078	2,468
Service cost	307	253
Interest expenses	61	49
Actuarial loss	264	291
Other	0	17
<b>As at 12/31</b>	<b>3,710</b>	<b>3,078</b>

For employees of Austrian group companies whose employment commenced on or after 1/1/2003, 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 2,062k (prior year: EUR 1,779k).

### 31. Notes on the statement of cash flows

Changes in balance sheet items as presented in the statement of cash flows cannot be derived directly from the balance sheet, since non cash effects due to currency translation and other non cash items are eliminated.

Other non cash expenses and income include mainly unrealized foreign exchange gains or losses as well as measurement effects from receivables and inventories.

## Other notes

### 32. Risk report

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 operations. 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 employee development.

#### **KTM Industries AG as an individual entity**

The earnings position of KTM Industries AG 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.

#### **Industry-specific and operational risks**

The KTM Industries Group is a diversified group of companies focusing on the automotive sector. In addition to risks to which the whole group is exposed, there are also company specific 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 subjected 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 subjected 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, higher sales figures and larger 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. Due to KTM's successful market strategy, market leadership has been achieved in Europe.

**Sales risk:** The largest individual sales markets of the KTM Group are the European market and the U.S. market. A slump in these markets could have a negative impact on the business activities of the KTM Group. Entering new markets essentially involves a cost risk for the KTM Group as, in some of these markets, the trend of sales and the political framework 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.

**Restrictions relating to motorcycling:** The revenue of the KTM/WP Group depends, inter alia, on the possible offroad uses of its motorcycles and is therefore considerably influenced by the national legal framework regulating offroad motorsport, motorcycle registration and rider'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 collaboration 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 procured, 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 gathered whenever products can be tested under racing conditions at racing events. Before being introduced into series production, technical innovations are also subjected to comprehensive testing by the quality management system so as to eliminate, to the greatest extent possible, any technical defects that could have a negative effect on earnings development.

Pankl's research and development process always carries the risk that the 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 raised because of accidents and injuries. This applies especially to the US, where claims asserted in product liability cases involve higher amounts of liability. Corresponding insurance has been taken out to hedge these risks.

**Risks due to the legal framework:** As the KTM Industries Group markets its motorcycles 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 respective regulations specific to the given country are analyzed in detail prior to market entry and continue to be monitored on an ongoing basis so as to be able to respond to any changes in a timely manner.

**Compliance:** 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.

**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.

**Financial risks:** With regard to financial risks (currency risks, interest rate risks, default risks as well as liquidity risks), please refer to the comments under note 33.

### **33. Financial instruments and financial risk management**

#### **33.1. Fundamentals**

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 balance sheet 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 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.



### 33.2. Classification and fair value

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 in the financial year.

The table below shows the carrying amounts and fair values of financial assets (financial instruments shown on the assets side) by class and IAS 39 measurement category. Nevertheless, 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 the cost of acquisition.

	Carrying amount 12/31/2016	Fair value 12/31/2016	Fair value			Total
			Level 1	Level 2	Level 3	
in EURk						
<b>Loans and receivables</b>						
Cash and cash equivalents	251,578					
Trade receivables	121,873					
Receivables from affiliated companies	2,055					
Other financial assets (current and non-current)	50,030					
Financial assets - lendings	1,970					
<b>Total</b>	<b>427,506</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>436,478</b>					

	Carrying amount 12/31/2015	Fair value 12/31/2015	Fair value			Total
			Level 1	Level 2	Level 3	
in EURk						
<b>Loans and receivables</b>						
Cash and cash equivalents	135,124					
Trade receivables	110,831					
Receivables from affiliated companies	6,189					
Other financial assets (current and non-current)	26,179					
Financial assets - lendings	2,045					
<b>Total</b>	<b>280,368</b>					
<b>Available for sale</b>						
Other non-current financial assets	17,906					
<b>Total</b>	<b>17,906</b>					
<b>Held for trading</b>						
Other current assets - securities	1,636	1,636	1,636	0	0	1,636
<b>Total</b>	<b>1,636</b>					
<b>Fair value - Hedging instruments</b>						
Other current assets - derivatives with positive market value	3,573	3,573	0	3,573	0	3,573
<b>Total</b>	<b>3,573</b>					
<b>Total</b>	<b>303,483</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 75,000k (prior year: EUR 75,000k). As at the reporting date, trade receivables of EUR 54,071k (prior year: EUR 55,067k) had been sold to third parties. The agreement was entered into in 2012 and amended in 2014 and 2015. It runs until 2022. KTM continues to bear a risk from credit risk related defaults up to a contractually stipulated amount. As at 12/31/2016, the maximum ensuing risk of loss was EUR 391k (prior year: EUR 385k). The expected loss is recorded as a liability and expensed at the time of sale. The carrying amount of the ongoing commitment was EUR 391k (prior year: EUR 385k) as at 12/31/2016 and is disclosed under other current liabilities. The carrying amount represents the fair value of the ongoing commitment. Expenses of EUR 6k (prior year: EUR 43k) were recognized through profit or loss in the period under review; the cumulative total since the inception of the agreement is EUR 391k (prior year: EUR 385k). The volume is not subject to any material fluctuations.

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). The receivables sold in connection with those contracts amounted to EUR 1,247k (prior year: EUR 479k) as at the reporting date and are fully derecognized in accordance with the rules under IAS 39 due to the transfer of control.

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 if the carrying amount is a reasonable approximation of fair value.

	Carrying amount 12/31/2016	Fair value 12/31/2016	Fair value			Total
			Level 1	Level 2	Level 3	
in EURk						
<b>At amortized cost</b>						
Interest-bearing liabilities	463,834	481,474	0	0	481,474	481,474
Bonds	150,700	156,835	146,512	0	10,323	156,835
Liabilities under finance leases	1,641					
Trade payables	130,864					
Liabilities to affiliated companies	1,859					
Other financial liabilities (current and non-current)	55,098					
<b>Total</b>	<b>803,996</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>811,661</b>					

	Carrying amount 12/31/2015	Fair value 12/31/2015	Fair value			Total
			Level 1	Level 2	Level 3	
in EURk						
<b>At amortized cost</b>						
Interest-bearing liabilities	329,556	342,171	0	0	342,171	342,171
Bonds	170,507	178,500	167,903	0	10,597	178,500
Liabilities under finance leases	22,504					
Trade payables	111,399					
Liabilities to affiliated companies	2,158					
Other financial liabilities (current and non-current)	41,346					
<b>Total</b>	<b>677,470</b>					

	Carrying amount 12/31/2015	Fair value 12/31/2015	Fair value			Total
			Level 1	Level 2	Level 3	
in EURk						
<b>Held for trading</b>						
Other financial liabilities - derivatives with negative market value	645	645	0	645	0	645
<b>Total</b>	<b>645</b>					
<b>Fair value - Hedging instruments</b>						
Other financial liabilities - derivatives with negative market value (cash flow hedge)	2,923	2,923	0	2,923	0	2,923
<b>Total</b>	<b>2,923</b>					
<b>Total</b>	<b>681,038</b>					

#### Fair value determination

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

### 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 balance sheet, since the net set off of multiple transactions under the same framework agreements does not generally occur.

KTM paid a one off security deposit of EUR 4,707k in relation to the Munderfing logistics center (disclosed as a finance lease in the prior year) and made ongoing monthly deposit payments totaling EUR 53k to the lessor. According to the terms of the lease contract, these deposits were to be returned to the lessee on termination of the lease. In accordance with IAS 32.42, the deposit was therefore set off against the liability under the finance lease. As stated in Note 34, the finance lease was canceled ahead of term in the 2016 financial year.

The bonded loan terminated with effect from 1/16/2017, with a value of EUR 32,000k, was reported in the balance sheet as being offset against existing bank credit as of 12/31/2016 in the amount of EUR 32,000k. Please refer to Note 26 for more information.

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 set off as they do not fulfill the criteria for set off prescribed under IFRS.

<b>Financial assets 2016</b>	Financial assets (gross)	Offset balance items (gross)	Accounted financial assets (net)	Effect of general offsetting agreements	Net amounts
in EURk					
Cash	283,578	-32,000	251,578	0	251,578
-----					
Other financial assets					
Derivatives with positive market value					
Forward currency transactions	3,169	0	3,169	-2,043	1,126
<b>Total</b>	<b>286,747</b>	<b>-32,000</b>	<b>254,747</b>	<b>-2,043</b>	<b>252,704</b>

<b>Financial liabilities 2016</b>	Financial Liabilities (gross)	Offset balance items (gross)	Accounted financial assets (net)	Effect of general offsetting agreements	Net amounts
in EURk					
Financial liabilities	648,175	-32,000	616,175	0	616,175
-----					
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>655,840</b>	<b>-32,000</b>	<b>623,840</b>	<b>-2,043</b>	<b>621,797</b>

<b>Financial assets 2015</b>	Financial assets (gross)	Offset balance items (gross)	Accounted financial assets (net)	Effect of general offsetting agreements	Net amounts
in EURk					
Other receivables	4,760	-4,760	0	0	0
Other financial assets					
Derivatives with positive market value					
Forward currency transactions	3,573	0	3,573	-1,143	2,430
<b>Total</b>	<b>8,333</b>	<b>-4,760</b>	<b>3,573</b>	<b>-1,143</b>	<b>2,430</b>
<b>Financial liabilities 2015</b>	Financial Liabilities (gross)	Offset balance items (gross)	Accounted financial assets (net)	Effect of general offsetting agreements	Net amounts
in EURk					
Liabilities from finance leases	27,264	-4,760	22,504	0	22,504
Other financial liabilities					
Derivatives with negative market value					
Forward currency transactions	1,317	0	1,317	-1,143	174
Interest rate swaps	2,251	0	2,251	0	2,251
<b>Total</b>	<b>30,832</b>	<b>-4,760</b>	<b>26,072</b>	<b>-1,143</b>	<b>24,929</b>

The table below shows the net profit or loss from the financial instruments by IAS 39 measurement category. The results shown include net gains/losses, total interest income/expenses and impairment losses:

<b>2016</b>	From interest	From subsequent measurement to fair value	From allowance	From disposal income	Net income (total)
in EURk					
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>

<b>2015</b>	<b>From interest</b>	<b>From subsequent measurement to fair value</b>	<b>From allowance</b>	<b>From disposal income</b>	<b>Net income (total)</b>
in EURk					
Loans and receivables	1,525	0	-613	-300	612
Held for sale	64	0	-2,925	0	-2,861
Fair value - Hedging instruments and held-for-trading	-621	598	0	0	-23
At amortized cost	-15,331	0	0	0	-15,331
<b>Total</b>	<b>-14,363</b>	<b>598</b>	<b>-3,538</b>	<b>-300</b>	<b>-17,603</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.

### 33.3. Financial risk management

#### Principles of financial risk management

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 Executive Board and the Supervisory Board are informed on a regular basis about risks that can have a major impact on the group's business operations.

The principles of financial risk management are laid down and monitored by the Supervisory Board as well as by the Executive Board. Group treasury and the decentralized treasury units are in charge of implementation. The KTM Industries Group utilizes derivative financial instruments to hedge the financial risks described below. The aim is to hedge operative cash flows against exchange rate and/or interest rate fluctuations. The hedging horizon generally covers current 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 the KTM Group, movements in the US dollar exchange rate are of particular importance to the development of the group's revenue and income. Approximately 24 % of revenues were earned in US dollars in the 2016 financial year (prior year: 25 %). Such currency shifts can for the most part be offset over at least one model year by taking currency hedging measures and, in particular, employing hedging strategies; for the financial year 2016, the US dollar business was hedged by means of positions involving EUR/USD rates ranging from 1.0735 to 1.1495.

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 do 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.

In addition to its investments in Austria, the KTM Industries Group also makes international investments outside the Eurozone, even if to a limited extent overall. Exchange rate fluctuations, particularly between the Euro, the US Dollar and currencies of Austria's neighboring countries, can have an adverse effect on the value of such interests.

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 on the consolidated equity. The relevant balances as of the reporting date and foreign currency purchases and sales budgeted for the 2017 financial year 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, particularly interest rates, remain 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.

Currency risks relating to euro positions in subsidiaries whose functional currency is not the euro were attributed to the currency risk of the subsidiary's functional currency. Risks from foreign currency positions apart from the euro were aggregated at group level. Exchange rate related differences due to the translation of financial statements into the group currency were disregarded.

A sensitivity analysis is conducted for currency risk. In this respect, effects of changes in the exchange rate of  $\pm 10\%$  are shown on profit or loss, other income, and equity.

The KTM Industries Group bases the analysis on the following assumptions:

- For the sensitivity of profit or 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 hedged item has already been realized on the reporting date (recognized as income).
- For the sensitivity of other income, account is taken of open derivatives from cash flow hedges where the hedged item has not yet been realized on the reporting date (movements are not recognized in profit or loss). The exposure corresponds to the notional amount of the open derivatives.

Increase (+) / decrease (-)	10% increase		10% devaluation	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
in EURk				
Change in net result	6,383	2,499	-7,953	-3,218
Change in currency-related cash flow hedge provision	-11,704	-7,307	14,305	8,930
Change in equity	-5,321	-4,808	6,352	5,712



## 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 on the consolidated 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, particularly exchange rates, remain constant.

A change of 50 basis points would have the following effects:

Increase (+) / decrease (-) in EURk	Increase by 50 BP		Decrease by 50 BP	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Change in net result	109	16	36	-17
Change in interest-related cash flow hedge provision	261	412	-266	-420
Change in equity	370	428	-230	-437

## 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 may 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 33.2 to the consolidated financial statements.

The carrying amounts of the receivables comprise the following:

	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	
in EURk							
Trade receivables	121,873	<b>98,814</b>	15,516	2,564	1,079	2,455	1,445
Receivables from affiliated companies	2,055	<b>1,361</b>	256	54	183	201	0
Other financial assets (current and non-current)	50,030	<b>49,174</b>	483	81	96	196	0
Financial assets - lendings	1,970	<b>1,970</b>	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>

	Carrying amount 12/31/2015	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	
in EURk							
Trade receivables	110,831	<b>86,742</b>	13,658	2,605	1,752	3,266	2,808
Receivables from affiliated companies	6,189	<b>5,476</b>	170	163	49	331	0
Other financial assets (current and non-current)	26,179	<b>25,604</b>	205	30	47	293	0
Financial assets - lendings	2,045	<b>2,045</b>	0	0	0	0	0
<b>Total</b>	<b>145,244</b>	<b>119,867</b>	<b>14,033</b>	<b>2,798</b>	<b>1,848</b>	<b>3,890</b>	<b>2,808</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 reporting date that the debtors 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 of high 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 thus the security of short term liquidity reserves. Non current liquidity requirements are met by the issuance of shares and bonds and by taking out bank loans.

The contractually agreed (undiscounted) cash flows (payments of interest and principal) and the remaining terms to maturity of the financial liabilities comprise the following:

in EURk	Carrying amount	Cash flow 2017			Cash flow 2018-2021			Cash flow from 2022		
	12/31/2016	Fixed interest	Variable interest	Repayment	Fixed interest	Variable interest	Repayment	Fixed interest	Variable interest	Repayment
<b>At amortized cost</b>										
Interest-bearing liabilities	463,834	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
Liabilities to affiliated companies	1,859	0	0	1,859	0	0	0	0	0	0
Other financial liabilities (current and non-current)	55,098	0	0	51,446	0	0	3,652	0	0	0
<b>Total</b>	<b>803,996</b>	<b>10,413</b>	<b>1,219</b>	<b>374,923</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>0</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>811,661</b>	<b>10,686</b>	<b>1,219</b>	<b>381,786</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>

in EURk	Carrying amount	Cash flow 2016			Cash flow 2017 to 2020			Cash flow from 2021		
	12/31/2015	Fixed interest	Variable interest	Repayment	Fixed interest	Variable interest	Repayment	Fixed interest	Variable interest	Repayment
<b>At amortized cost</b>										
Interest-bearing liabilities	329,556	4,275	1,409	55,126	12,329	4,017	218,473	6,013	286	56,189
Bonds	170,507	7,582	0	1,010	7,623	0	170,000	0	0	0
Liabilities under finance leases	22,504	4	404	1,207	0	1,415	3,998	0	2,230	17,299
Trade payables	111,399	0	0	111,399	0	0	0	0	0	0
Liabilities to affiliated companies	2,158	0	0	2,158	0	0	0	0	0	0
Other financial liabilities (current and non-current)	41,346	0	0	35,098	0	0	921	0	0	5,327
<b>Total</b>	<b>677,470</b>	<b>11,861</b>	<b>1,813</b>	<b>205,998</b>	<b>19,952</b>	<b>5,432</b>	<b>393,392</b>	<b>6,013</b>	<b>2,516</b>	<b>78,815</b>
<b>Held for trading</b>										
Other financial liabilities - derivatives with negative market value	645	141	0	0	0	0	500	0	0	0
<b>Total</b>	<b>645</b>	<b>141</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>500</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)	2,923	786	0	1,780	863	0	0	0	0	0
<b>Total</b>	<b>2,923</b>	<b>786</b>	<b>0</b>	<b>1,780</b>	<b>863</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>681,038</b>	<b>12,788</b>	<b>1,813</b>	<b>207,778</b>	<b>20,815</b>	<b>5,432</b>	<b>393,892</b>	<b>6,013</b>	<b>2,516</b>	<b>78,815</b>

The table includes all financial instruments that were held at the reporting date and for which payments had already been contractually agreed. Budgeted figures for any additional future financial liabilities are not included. Working capital loans were assumed to have an average term to maturity of 12 months; 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.

### 33.4. Derivatives and Hedges

The group essentially enters into derivative financial instruments (forward currency transactions and interest rate swaps) to hedge foreign currency and interest rate risk.

In cash flow hedge accounting, both variable future cash flows arising from non current liabilities with maturity dates up to 2020 and future operating cash flows (receipts as well as payments) planned for the next 12 months are hedged.

The following derivative financial instruments used as **hedging instruments** are employed as of 12/31/2016:

Currency	Notional amount 12/31/2016 in 1000 Local currency	Market values 12/31/2016 in EURk	Exposures 12/31/2016 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
MXN	0	0	0	0	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
<b>Interest rate swaps</b>	35,718	-989	0	854	34,864
<b>Forward currency transactions</b>					
USD	67,000	-817	81,199	67,000	0
JPY	2,310,000	422	26,853	2,310,000	0
CAD	37,470	1,505	34,263	37,470	0
GBP	32,860	700	48,520	32,860	0
CHF	18,590	236	20,843	18,590	0
SEK	117,000	-117	19,842	117,000	0
MXN	56,500	181	8,884	56,500	0
DKK	6,030	2	2,661	6,030	0
PLN	11,350	57	6,710	11,350	0
NOK	16,480	87	6,931	16,480	0
CZK	132,000	-7	7,848	132,000	0
ZAR	0	0	0	0	0
<b>Interest rate swaps</b>	80,572	-1,606	0	44,846	35,726

The following derivative financial instruments have not been hedged:

	<b>Notional amount 12/31/2016</b>	<b>Market values 12/31/2016</b>	<b>Term Up to 1 year</b>	<b>Term 1- 5 years</b>
	in 1000 Local currency	in EURk		
Interest rate swaps	20,000	-147	20,000	0

	<b>Notional amount 12/31/2015</b>	<b>Market values 12/31/2015</b>	<b>Term Up to 1 year</b>	<b>Term 1- 5 years</b>
	in 1000 Landeswährung	in TEUR		
Interest rate swaps	31,000	-645	11,000	20,000

### Forward currency 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.

### Interest rate swaps

At 12/31/2016, payer interest rate swaps of EUR 55,718k (prior year: EUR 111,572k) were held to reduce the volatility of variable interest payments on loans. Of these, interest rate swaps with a nominal value of EUR 20,000k (prior year: EUR 31,000k) and with a negative market value of EUR 147k (prior year: EUR 645k) were classified as "held for trading".

## 34. Leases

### 34.1 Finance leases

In the prior year, buildings included one asset held by the KTM Group under a finance lease. The asset in question was the logistics center at the Munderfing site, which was completed in 2015. A preemptive tender right existed to acquire the building at its residual value after expiry of the contractual term of 15 years. Outstanding lease liabilities in relation to the logistics center at Munderfing were settled with the lessor in full ahead of term in connection with the acquisition of KTM Logistikzentrum GmbH. Disclosure of the logistics center in the Group's property, plant and equipment remains unchanged, following the initial consolidation of KTM Logistikzentrum GmbH on September 16, 2016.

In December 2016, finance leases with a term of 3-5 years were entered into for tooling ("special leasing"). No interest payments were made on these leases in 2016.

The carrying amount of assets held under finance leases is as follows:

<b>2016</b>	<b>Buildings</b>	<b>Machinery</b>
in EURk		
Value on acquisition	0	4,743
Accumulated depreciation and amortization	0	-2,936
<b>Carrying amount</b>	<b>0</b>	<b>1,807</b>

<b>2015</b>	<b>Buildings</b>	<b>Machinery</b>
<i>in EURk</i>		
Value on acquisition	27,050	3,757
Accumulated depreciation and amortization	-360	-2,851
<b>Carrying amount</b>	<b>26,690</b>	<b>906</b>

The cash value of the minimum lease payments is as follows:

<i>in EURk</i>	<b>Lease payments</b>		<b>Cash values</b>	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Up to 1 year	590	1,489	584	1,463
2-5 years	1,091	4,910	1,057	4,660
Over five years	0	24,919	0	19,815
	<b>1,681</b>	<b>31,318</b>	<b>1,641</b>	<b>25,938</b>
less interest payments	-40	-4,054		
less deposits	0	-4,760		
<b>Carrying amount of lease obligations</b>	<b>1,641</b>	<b>22,504</b>		

Payment obligations under finance leases are disclosed in the consolidated statement of financial position under financial liabilities (see note 26).

Interest on finance leases of EUR 308k was recorded in the 2016 financial year (prior year: EUR 168k).

## 34.2. Operating leases

### KTM Industries Group as lessee

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 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 2016 (previous year: EUR 13,906k).

The use of 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 67,964k (previous year: EUR 62,755k) that are payable as follows:

<i>in EURk</i>	<b>12/31/2016</b>	<b>12/31/2015</b>
Up to 1 year	15,013	11,751
2-5 years	42,633	38,715
Over five years	10,318	12,289
	<b>67,964</b>	<b>62,755</b>

The definition of operating lease expenses is standardized group-wide. This item includes long-term rents for land and buildings.

The reported expenses neither include payments from subleases recognized as expenses, nor significant contingent rental payments. Most of the operating lease agreements carry interest at variable rates.

**KTM Industries Group as lessor**

As well as financing and operating leases where the KTM Industries Group operates as the lessee, there are rentals and leases in the KTM Industries Group, where the group, due to the economic content of the operating lease, operates as the lessor. Operating leases are concluded for a basic period of up to 25 years. The leasing agreements include installments which are mostly subject to variable rental interest.

There are entitlements to minimum lease payments from irredeemable operating leases, which are due as follows:

	<b>12/31/2016</b>	<b>12/31/2015</b>
in EURk		
Up to 1 year	0	824
2-5 years	0	412
Over five years	0	0
	<b>0</b>	<b>1,236</b>

In the business year 2016 earnings from operating leases amounted to EUR 234k (previous year: EUR 969k).

**35. Future payment obligations**

In the business year 2016 the Group concluded contracts to purchase intangible assets and property, plant and equipment amounting to EUR 14,082k (previous year: EUR 8,859k). In 2016 most of this obligation was due to the construction of the Pankl Group's new high-performance engine plant in Kapfenberg, amounting to EUR 10,466k and the WP Group's exhaust production facilities in Munderfing amounting to EUR 2,163k (previous year: EUR 6,445k).

**36. 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.

The "Others" segment represents KTM Industries AG, K KraftFahrZeug Holding GmbH and PF Beteiligungsverwaltungs GmbH. The previous year included AGM Durmont Austria GmbH, which was deconsolidated in April 2015.

The individual segments are described in item I.

The segment key performance indicator EBIT represents operating earnings before financial results and income taxes.

For information related to multiple segments (presentation of revenues by regions and product groups) for the business year 2016 and 2015, please refer to item 6 "Revenues", and regarding products and services of each segment, please refer to item I.

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 reporting is included on page 163.



### 37. Events after the balance sheet date

In February 2017, KTM Industries AG was informed that the main shareholder Pierer Industrie AG has sold 27,205,398 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 12.1% of the company's share capital. Additionally, shares amounting to around 0.9% of the company's share capital were sold by third parties. Pierer Industrie AG continues to hold around 62.8% of the share capital of KTM Industries AG.

In February 2017, KTM Industries AG was notified of the positive outcome of arbitration on the sale of the Peguform Group. The proceedings that has been 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 entirely in favor of PF Beteiligungsverwaltungs GmbH, a wholly owned subsidiary of KTM Industries AG. The tribunal rejected the purchaser's action as unjustified. The remaining purchase price of around EUR 20.3 million, which has been held in a trust account since the sale of the holding, will now be paid in full to the KTM Industries group of companies.

Further events after 12/31/2016 that are relevant to the assessment of assets and liabilities, are either taken into account in the present report or unknown.

### 38. Related party disclosures

On the reporting date of December 31, 2016, 74.89% of the shares in KTM Industries AG were held by Pierer Industrie AG, Wels. In turn, Pierer Industrie AG is wholly owned by Pierer Konzerngesellschaft mbH, Wels. The sole shareholder of Pierer Konzerngesellschaft mbH, Wels is Stefan Pierer.

Stefan Pierer holds the following important positions in the Pierer Konzerngesellschaft mbH Group:

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

In the business year 2016 KTM Industries AG purchased a total of 38.48% of shares in Pankl Racing Systems AG worth EUR 36,066k from Pierer Industrie AG and Pierer Konzerngesellschaft mbH. A further 0.2% of the shares were purchased by third parties. KTM Industries AG's holding in Pankl Racing Systems AG thus increased from 55.85% (12/31/2015) to 94.53% (12/31/2016). This substantial increase will strengthen the strategic positioning of the Pankl Group within the KTM Industries Group in the long term.

Also, in July 2016, 24% of the shares in WP AG were sold within the group by KTM Industries AG to KTM AG. As a result of this transaction and the purchase of 10.38% of WP shares by third parties, KTM Industries AG's (direct and indirect) holding in WP AG fell slightly from 89.48% (12/31/2015) to 88.26% (12/31/2016).

KTM Industries AG and WP AG sold a total of 6% of their shares in WP Immobilien GmbH to P Immobilienverwaltung GmbH.

Also in the business year 2016, a property not required for operational purposes was sold for EUR 4,722k to PIERER IMMOREAL GmbH. The purchase price was paid in April 2016.

Due to the strategic orientation of the KTM Industries Group towards the niche automotive sector, Network Performance Channel GmbH, Germany, was sold to Pierer Industrie AG.

In February 2016 KTM Industries AG granted AGM Durmont Austria GmbH a capital contribution of EUR 1,817k.

To increase its equity and finance the purchases in 2016 in its core holdings KTM, Pankl and WP, with a total investment volume of EUR 58,995k, KTM Industries AG issued a subordinated 5.00% bond with no fixed term (perpetual bond) of EUR 60,000k. This perpetual bond was signed by Pierer Industrie AG, does not require publication of a prospectus and is listed in the Group equity in the IFRS consolidated financial statements. Interest amounting to EUR 1,414k occurred during the business year, which will become a cash item in 2017.

As of 12/31/2016, liabilities amounting to EUR 8k were owed to Pierer Industrie AG (previous year: EUR 18k) as well as unpaid receivables of EUR 6k (previous year: EUR 11k) from current settlements and services. In the business year 2016 no receivables are owed to Pierer Industrie AG from share sales (previous year: EUR 3.150k). Additionally, revenue was accrued with Pierer Industrie AG amounting to EUR 467k (previous year: EUR 438k) as well as expenditure of EUR 45k (previous year: EUR 469k).

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 3.89 million units in the last financial year (reporting date: 3/31/2016). 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.

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 12/31/2016. As at 12/31/2016, accounts receivable from Bajaj Auto Ltd., Pune, India (including receivables from payments made in advance) stood at EUR 4,255k, while accounts payable to the same company stood at EUR 2k (prior year: receivables of EUR 227k and payables of EUR 2,735k). Bajaj Auto International Holdings B.V. granted KTM AG a short-term arm's-length, interest-bearing loan of EUR 5,000k due on 3/31/2015, which was repaid as agreed during 2015. Bajaj Auto International Holdings B.V. granted KTM AG a short-term arm's-length, interest-bearing loan of EUR 10,000k from 10/24/2016 to 12/22/2016. Additionally, the cooperation with the Bajaj Group incurred expenses amounting to EUR 65,452k (previous year: EUR 74,493k).

Motorcycles and spare parts are supplied at standard trading conditions to KTM New Zealand Ltd. and KTM Middle East Al Shafar LLC, two general importers in the KTM Group that are accounted under the equity method. Motorcycles and spare parts are supplied at standard trading conditions to authorized KTM dealers in which the KTM Group holds minority investments and which are accounted 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 will begin assembling KTM motorcycles in the Philippines from CKD (completely knocked down) kits in mid-2017. The company was not yet operationally active as of December 31, 2016.

In 2015, Wohnbau-west Bauträger Gesellschaft m.b.H., a direct subsidiary of Pierer Konzerngesellschaft mbH, provided services as general contractor in relation to the planning and construction of the KTM logistics center in Munderfing on behalf of Oberbank Mattigtal Immobilienleasing GmbH (now KTM Logistikzentrum GmbH), with which KTM Immobilien GmbH concluded a finance lease agreement on arm's-length terms. Construction services supplied by Wohnbau-west Bauträger Gesellschaft m.b.H. amounted to EUR 14,730k in 2015.

Mattighofen Museums-Immobilien GmbH, established in 2015, is owned by Pierer Konzerngesellschaft GmbH (51 %) and KTM Immobilien GmbH (49 %). Receivables of EUR 17k existed as at 12/31/2016 (prior year: EUR 17k). In the business year 2016, KTM Immobilien GmbH paid a capital contribution of EUR 2,300k to Mattighofen Museums-Immobilien GmbH. The amount was proportionate to the size of its shareholding.

KTM AG has 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 12/31/2017, subject to annual extension options up to a final date of 2/28/2018. Loan receivables of EUR 100k were recognized as at the reporting date.

Gerald Kiska serves on the Supervisory Board of KTM Industries AG, Wels, and acts as managing shareholder of Kiska GmbH, Anif, in which KTM AG, Mattighofen, holds an interest of 26.0 %. Mr. Kiska also serves as chief executive officer of KTM Technologies GmbH, Anif. Expenses of EUR 13,852k were incurred for services provided by Kiska GmbH, Anif, during the business year (previous year: EUR 12,278k) as well as income of EUR 620k (previous year: EUR 684k). As of 12/31/2016, accounts payable to Kiska GmbH stood at EUR 3,488k (previous year: EUR 3,722 k).

Due to the sale in the business year 2016 of Pierer Industrie AG's holdings in All for One Steeb AG amounting to 25.07% All for One is no longer classified as an affiliated company. All for One Steeb AG performed IT consultancy services for the KTM Industries Group in the previous year amounting to EUR 5,435k. As of the balance date December 31, 2015, All for One Steeb AG was owed payables amounting to EUR 1,361k.

In the business year 2016, the two (indirect and direct) shareholders Pierer Industrie AG and Pierer Konzerngesellschaft mbH received dividends from KTM Industries AG of EUR 5,202k from the previous business year 2015.

Other business transactions and outstanding balances with affiliated companies and persons were as follows:

<b>2016</b>	<b>Receivables</b>	<b>Liabilities</b>	<b>Income</b>	<b>Expenses</b>
<i>in EURk</i>				
Shareholders (direct and indirect)	355	1,487	413	6,011
Investments accounted for using the equity method	2,961	0	6,213	955
Other affiliated companies	3,221	601	9,110	6,756
	<b>6,537</b>	<b>2,088</b>	<b>15,737</b>	<b>13,722</b>

<b>2015</b>	<b>Receivables</b>	<b>Liabilities</b>	<b>Income</b>	<b>Expenses</b>
<i>in EURk</i>				
Shareholders (direct and indirect)	10	1,657	649	5,424
Investments accounted for using the equity method	3,652	86	11,618	672
Other affiliated companies	4,952	737	13,116	5,368
	<b>8,614</b>	<b>2,480</b>	<b>25,383</b>	<b>11,464</b>

All transactions with affiliated companies took place at standard market conditions.

Since the investment in 2014, the company has been a group member of Pierer Konzerngesellschaft mbH, Wels, in accordance with section 9 Austrian Corporate Tax Act (KStG). 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.

### 39. Schedule of equity holdings as of 12/31/2016

The schedule of equity holdings comprises all companies that have been included in the consolidated financial statement in addition to the parent company (see pages 158-162).

### 40. Distribution of net profit

According to the Austrian Stock Corporation Act, the separate financial statement issued by KTM Industries AG in accordance with the Austrian accounting regulations on 12/31/2016 forms the basis for the payment of dividends.

For the business year 2016, it is proposed that from the net profit of KTM Industries AG amounting to EUR 19,574k, a dividend of EUR 0.03 per share (in total EUR 6,762k) is paid out and the remaining carried forward. From the net profit in 2015, a dividend of EUR 0.03 per share was also paid.

#### 41. Corporate bodies of KTM Industries AG

The following individuals were members of the **Supervisory Board** in 2016:

- Josef Blazicek, Chairman
- Dr. Ernst Chalupsky, Deputy Chairman
- Mag. Gerald Kiska
- Mag. Klaus Rinnerberger

The following individuals were members of the **Executive Board** with collective power of representation:

- Dipl.-Ing. Stefan Pierer, CEO
- Mag. Friedrich Roithner, CFO
- Ing. Alfred Hörtenhuber
- Mag. Wolfgang Plasser

Wels, March 10, 2017

The Executive Board



Dipl.-Ing. Stefan Pierer



Mag. Friedrich Roithner



Ing. Alfred Hörtenhuber



Mag. Wolfgang Plasser

Annex 1 to the consolidated notes (page 158ff): Schedule of equity holdings as of 12/31/2016  
Annex 2 to the consolidated notes (page 163): Segment reporting as of 12/31/2016

# SCHEDULE OF EQUITY HOLDINGS OF KTM INDUSTRIES AG

(formerly CROSS Industries AG), Wels as at December 31, 2016

Company	Initial Consolidation date	12/31/2016		12/31/2015	
		Interest %	Consolidation type	Interest %	Consolidation type
<b>Fully consolidated companies:</b>					
Pankl Racing Systems AG, Kapfenberg	01/01/2008	94.53	FC	55.85	FC
Pankl Engine Systems GmbH & Co KG, Bruck an der Mur	01/01/2008	94.53	FC	55.85	FC
Pankl Drivetrain Systems GmbH & Co KG, Kapfenberg	01/01/2008	94.53	FC	55.85	FC
Pankl Racing Systems UK Ltd., Bicester, United Kingdom	01/01/2008	94.53	FCA	55.85	FCA
Pankl Holdings, Inc., Irvine, USA	01/01/2008	94.53	FCA	55.85	FCA
Capital Technology Beteiligungs GmbH, Bruck an der Mur	01/01/2008	94.53	FC	55.85	FC
CP-CARRILLO, Inc. (formerly CP-CARRILLO, LLC.), Irvine, USA	01/01/2008	94.53	FCA	39.10	FCA
Pankl Emission Control Systems GmbH, Kapfenberg	01/01/2008	94.53	FC	55.85	FC
Pankl Aerospace Systems Inc., Cerritos, USA	01/01/2008	94.53	FCA	55.85	FCA
Pankl Systems Austria GmbH, (formerly Pankl Beteiligungs GmbH), Kapfenberg	01/01/2008	94.53	FC	55.85	FC
Pankl Schmiedetechnik GmbH & Co KG, Kapfenberg	01/01/2008	94.53	FC	55.85	FC
Pankl Aerospace Systems Europe GmbH, Kapfenberg	01/01/2008	94.53	FC	55.85	FC
Pankl Automotive Slovakia s.r.o., Topolcany, Slovakia	01/01/2008	94.53	FCA	55.85	FCA
Pankl - APC Turbosystems GmbH, Mannheim, Germany	09/28/2012	66.17	FCA	39.10	FCA
WP AG, Munderfing	06/30/2005	88.26	FC	89.48	FC
WP Performance Systems GmbH, Munderfing	11/30/2007	88.26	FC	89.48	FC
WP Components GmbH, Munderfing	12/31/2009	88.26	FC	89.48	FC
WP Immobilien GmbH, Munderfing	04/30/2005	82.97	FC	90.01	FC
K KraftFahrZeug Holding GmbH (formerly CROSS KraftFahrZeug Holding GmbH, Wels	09/30/2010	100.00	FC	100.00	FC
KTM AG, Mattighofen	05/31/2005	51.67	FC	51.28	FC
KTM Immobilien GmbH, Mattighofen	05/31/2005	51.86	FC	51.47	FC
KTM North America, Inc., Amherst, Ohio, USA	05/31/2005	51.67	FCA	51.28	FCA

Company	Initial Consolidation date	Interest %	Consolidation type	Consolidation	
				Interest %	Consolidation type
		12/31/2016		12/31/2015	
KTM-Motorsports Inc., Amherst, Ohio, USA	05/31/2005	51.67	FCA	51.28	FCA
KTM-Sportmotorcycle Japan K.K., Tokyo, Japan	05/31/2005	51.67	FCA	51.28	FCA
KTM-Racing AG, Frauenfeld, Switzerland	05/31/2005	51.67	FCA	51.28	FCA
KTM-Sportcar GmbH, Mattighofen	05/31/2005	51.67	FC	51.28	FC
KTM Motorcycles S.A. Pty. Ltd., Northriding, South Africa	01/03/2009	51.67	FCA	51.28	FCA
KTM Sportmotorcycle Mexico C.V. de S.A., Lerma, Mexico	06/01/2009	51.67	FCA	51.28	FCA
KTM South East Europe S.A., Elefsina, Greece	11/01/2010	51.67	FCA	51.28	FCA
KTM Technologies GmbH, Anif	10/01/2008	38.24	FC	37.95	FC
KTM Sportmotorcycle GmbH, Mattighofen	03/31/2011	51.67	FC	51.28	FC
KTM-Sportmotorcycle India Private Limited, Pune, India	06/01/2012	51.67	FCA	51.28	FCA
Husqvarna Motorcycles GmbH, Mattighofen	01/01/2013	51.67	FC	51.28	FC
KTM-Sportmotorcycle Deutschland GmbH, (formerly KTM-Sportmotorcycle GmbH), Ursensollen, Germany	12/31/2013	51.67	FCA	51.28	FCA
KTM Switzerland Ltd, Frauenfeld, Switzerland	12/31/2013	51.67	FCA	51.28	FCA
KTM-Sportmotorcycle UK Limited., Brackley, United Kingdom	12/31/2013	51.67	FCA	51.28	FCA
KTM-Sportmotorcycle Espana S.L., Terrassa, Spain	12/31/2013	51.67	FCA	51.28	FCA
KTM-Sportmotorcycle France SAS, Saint Priest, France	12/31/2013	51.67	FCA	51.28	FCA
KTM-Sportmotorcycle Italia s.r.l., Gorle, Italy	12/31/2013	51.67	FCA	51.28	FCA
KTM-Sportmotorcycle Nederland B.V., Malden, Netherlands	12/31/2013	51.67	FCA	51.28	FCA
KTM-Sportmotorcycle Scandinavia AB, Örebro, Sweden	12/31/2013	51.67	FCA	51.28	FCA
KTM-Sportmotorcycle Belgium S.A., Wavre, Belgium	12/31/2013	51.67	FCA	51.28	FCA
KTM Canada Inc., St-Bruno, Canada	12/31/2013	51.67	FCA	51.28	FCA
KTM Hungária Kft., Törökbálint, Hungary	12/31/2013	51.67	FCA	51.28	FCA
KTM Central East Europe s.r.o., Bratislava, Slovakia	12/31/2013	51.67	FCA	51.28	FCA
KTM Österreich GmbH, Mattighofen	12/31/2013	51.67	FC	51.28	FC
KTM Nordic Oy, Vantaa, Finland	12/31/2013	51.67	FCA	51.28	FCA
KTM Sportmotorcycle d.o.o., Marburg, Slovenia	12/31/2013	51.67	FCA	51.28	FCA

Company	Initial Consolidation date	Interest %	Consolidation type	12/31/2016		12/31/2015	
				Interest %	Consolidation type	Interest %	Consolidation type
KTM Czech Republic s.r.o., Pilsen, Czech Republic	12/31/2013	51.67	FCA	51.28	FCA	51.28	FCA
KTM Sportmotorcycle SEA PTE. Ltd., Singapore	01/01/2014	51.67	FCA	51.28	FCA	51.28	FCA
Husqvarna Motorcycles Italia S.r.l., Albano Sant'Alessandro, Italy	12/31/2013	51.67	FCA	51.28	FCA	51.28	FCA
Husqvarna Motorcycles Deutschland GmbH, Ursensollen, Germany	12/31/2013	51.67	FCA	51.28	FCA	51.28	FCA
Husqvarna Motorcycles Espana S.L., Terrassa, Spain	12/31/2013	51.67	FCA	51.28	FCA	51.28	FCA
Husqvarna Motorcycles UK Ltd., Brackley, United Kingdom	12/31/2013	51.67	FCA	51.28	FCA	51.28	FCA
Husqvarna Motorcycles France SAS, Saint Priest, France	12/31/2013	51.67	FCA	51.28	FCA	51.28	FCA
HQV Motorcycles Scandinavia AB, Örebro, Sweden	12/31/2013	51.67	FCA	51.28	FCA	51.28	FCA
Husqvarna Motorcycles North America, Inc., Murrieta, CA, USA	12/01/2013	51.67	FCA	51.28	FCA	51.28	FCA
Husqvarna Motorsports, Inc., Murrieta, CA, USA	04/01/2015	51.67	FCA	51.28	FCA	51.28	FCA
Husqvarna Motorcycles S.A. Pty. Ltd., Northriding, South Africa	04/01/2015	51.67	FCA	51.28	FCA	51.28	FCA
KTM Logistikzentrum GmbH, Mattighofen (formerly Oberbank Mattigtal Immobilienleasing GmbH, Linz)	09/16/2016	48.56	FC	5.13	NC		
WP Performance Sports GmbH, Munderfing	11/30/2016	61.18	FC	-	-		
KTM Sportmotorcycle MEA DMCC, Dubai	11/30/2016	51.67	FCA	-	-		
PF Beteiligungsverwaltungs GmbH, Wels	12/31/2016	100.00	FC	100.00	NC		

**Associated companies:**

KTM New Zealand Ltd., Auckland, New Zealand	-	13.43	IEA	13.33	IEA		
Kiska GmbH, Anif	-	13.43	IE	13.33	IE		
KTM MIDDLE EAST AL SHAFAR LLC, Dubai, United Arab Emirates	-	12.92	IEA	12.82	IEA		
KTM Asia Motorcycle Manufacturing Inc., Binan, Laguna, Philippines	-	17.57	IEA	-	-		
Mattighofen Museums-Immobilien GmbH, Mattighofen	-	25.41	IE	25.13	NC		



Company	Initial	Interest %	Consolida- tion type	Interest %	Consolida- tion type
	Consolida- tion date				
<b>Other non-current financial assets:</b>					
Wethje Carbon Composites GmbH, Hengersberg, Germany	-	17.97	NCA	49.00	IEA
Wethje Immobilien GmbH, Vilshofen-Pleinting, Germany	-	22.89	NCA	52.06	IEA
AGM Durmont Austria GmbH (formerly Durmont Teppichbodenfabrik GmbH), Hartberg	-	24.00	NC	24.00	NC
ACStyria Autocluster GmbH, Grambach	-	12.33	NC	12.33	NC
KTM Australia Pty Ltd., Perth, Australia	-	51.67	NCA	51.28	NCA
KTM Finance GmbH, Frauenfeld, Switzerland	-	51.67	NCA	51.28	NCA
KTM Wien GmbH, Vösendorf	-	39.27	NC	38.97	NC
KTM do Brasil Ltda., Sao Paulo, Brazil	-	51.67	NCA	51.28	NCA
KTM Braumandl GmbH, Wels	-	13.43	NC	13.33	NC
Project Moto Rütter & Holte GmbH, Oberhausen, Germany	-	13.43	NCA	13.33	NCA
MX - KTM Kini GmbH, Wiesing	-	13.43	NC	13.33	NC
KTM Regensburg GmbH, Regensburg, Germany	-	13.43	NCA	13.33	NCA
KTM Events & Travel Service AG, Frauenfeld, Switzerland <sup>1)</sup>	-	51.67	NCA	51.28	NCA
KISKA Inc., Murrieta, USA	-	26.35	NCA	26.15	NCA
Cero Design Studio S.L., Barcelona, Spain	-	13.43	NCA	-	-
Pankl Japan Inc., Tokyo, Japan	-	94.53	NCA	55.85	NCA
WP Suspension B.V., Malden, Netherlands	-	88.26	NCA	89.48	NCA
WP Cooling Systems (Dalian) Co., Ltd., Dalian, China	-	88.26	NCA	89.48	NCA
WP Germany GmbH, Ursensollen, Germany	-	88.26	NCA	89.48	NCA
WP Suspension North America, Inc., Murrieta, CA, USA	-	88.26	NCA	89.48	NCA

**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

<sup>1)</sup> in liquidation

in EURk	Equity		Result	
	12/31/2016	12/31/2015	2016	2015
<b>Other non-current financial assets:</b>				
KTM Australia Pty Ltd., Perth, Australia 1)	6	-6	0	0
KTM Finance GmbH, Frauenfeld, Switzerland	2)	17	2)	0
KTM Wien GmbH, Vösendorf	2)	97	2)	-6
KTM do Brasil Ltda., Sao Paulo, Brazil	746	787	-268	-289
KTM Braumandl GmbH, Wels	2)	138	2)	20
Project Moto Rütter & Holte GmbH, Oberhausen, Germany	2)	268	2)	106
MX - KTM Kini GmbH, Wiesing	2)	98	2)	14
KTM Regensburg GmbH, Regensburg, Germany	2)	-23	2)	-46
KISKA Inc., Murrieta, USA	557	203	308	111
Cero Design Studio S.L., Barcelona, Spain	2)	297	2)	151

1) Latest annual financial statements available as at August 31, 2016

2) Not yet available

## SEGMENT REPORTING

<b>2016</b>	<b>KTM</b>	<b>WP</b>	<b>PANKL</b>	<b>Other</b>	<b>Consolidation</b>	<b>Group continuing operations</b>
<i>in EURk</i>						
Revenues (including revenues within the segments)	1,141,819	166,106	185,991	8,553	-159,507	1,342,962
External revenues	1,141,453	26,171	174,910	428	0	1,342,962
Result from operating activities	102,795	12,099	13,210	-3,823	-1,964	122,317
Investments	107,526	12,831	23,979	76	0	144,412
Depreciation and amortization	57,215	4,549	13,011	1,345	0	76,120
Share in the result of companies accounted for using the equity method	2,357	0	0	0	-1,964	393
Balance sheet total	1,056,523	106,514	195,628	590,705	-557,611	1,391,759
Equity	427,978	53,460	80,229	396,879	-503,608	454,937
<b>2015</b>	<b>KTM</b>	<b>WP</b>	<b>PANKL</b>	<b>Other</b>	<b>Consolidation</b>	<b>Group continuing operations</b>
<i>in EURk</i>						
Revenues (including revenues within the segments)	1,022,487	144,583	173,638	19,641	-136,779	1,223,570
External revenues	1,021,385	24,377	165,494	12,314	0	1,223,570
Result from operating activities	95,105	9,692	10,205	-2,080	-69	112,853
Investments	110,893	10,464	11,639	184	-224	132,956
Depreciation and amortization	46,419	3,876	13,437	1,839	0	65,571
Share in the result of companies accounted for using the equity method	133	0	0	-2,984	0	-2,851
Balance sheet total	848,933	99,628	180,662	516,124	-469,400	1,175,947
Equity	379,814	42,266	82,854	316,306	-434,624	386,616

# AUDITOR'S REPORT

## Report on the Consolidated Financial Statements

### Audit Opinion

**We have audited the consolidated financial statements of  
KTM Industries AG (formerly: CROSS Industries AG),  
Wels, Austria**

and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016, 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 2016, 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, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code).

### Basis for our Opinion

We conducted our audit in accordance with Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities pursuant to these rules and standards are described in the "Auditors' Responsibility" section of our report. We are independent of the audited entity within the meaning of Austrian commercial law and professional regulations, and 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 consolidated financial statements. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

### Impairment of Goodwill

We refer to section Accounting and Valuation Principles (page 99ff, page 104) and points 17 and 18, of the notes to the consolidated financial statements.

### Risk for the Financial Statements

In its consolidated financial statements, KTM Industries AG has recognized goodwill with a carrying value of MEUR 117.7.

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 allocated to the cash-generating units 'KTM', 'Pankl' and 'WP' for testing purposes. 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 five-year-planning as approved by the supervisory board. We analyzed adherence to budget on the basis of historical information.

We evaluated the appropriateness of the significant assumptions and management judgment on which the five-year-planning is based as well as the calculation of the impairment test.

We compared the cost of capital used by KTM Industries AG to the discount rates used by a peer-group of comparable companies. 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; 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 insufficiently 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'**

We refer to section Accounting and Valuation Principles (page 100f, page 104) and point 18, of the notes to the consolidated financial statements.

## **Risk for the 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 is 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 license fee 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 five-year-planning as approved by the supervisory board. We analyzed the adherence to budget on the basis of historical information.

We evaluated the appropriateness of the significant assumptions and management judgment on which the five-year-planning is based as well as the calculation of the impairment test.

We compared the cost of capital, discount rates and the underlying license rates used by KTM Industries AG to those used by a peer-group of comparable companies.

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; 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.

### **Management's Responsibility and Responsibility of the Audit Committee for the Consolidated Financial Statements**

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) 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, and, where appropriate, to disclose matters that are relevant to the Group's ability to continue as a going concern and to apply the going concern assumption in its financial reporting, except in circumstances in which liquidation of the Group or closure of operations is planned or cases in which such measures appear unavoidable.

The audit committee is responsible for overseeing the Group's financial reporting process.

### **Auditors' Responsibility**

Our aim is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatements, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance represents a high degree of assurance, but provides no guarantee that an audit conducted in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered material if they could, individually or in the aggregate, 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 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 of the consolidated financial statements, whether due to fraud or error, we plan and perform procedures to address such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk that material misstatements due to fraud remain undetected is higher than that of material misstatements due to error, since fraud may include collusion, forgery, intentional omissions, misleading representation 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 assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In case we conclude that there is a material uncertainty about the entity's ability to continue as a going concern, we are required to draw attention to the respective note in the financial statements in our audit report or, in case such disclosures are not appropriate, to modify our audit opinion. We conclude based on the audit evidence obtained until the date of our audit report. Future events or conditions however may result in the Company departing from the going concern assumption.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, 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, among 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 in the course of our audit.
- We report to the audit committee that we have complied with the relevant professional requirements in respect of our independence and that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, related measures taken to ensure our independence.
- From the matters communicated with the audit committee we determine those matters that required significant auditor attention in performing the audit and which are therefore key audit matters. We describe these key audit matters in our audit report except in the circumstances where laws or other legal regulations forbid publication of such matter or in very rare cases, we determine that a matter should not be included in our audit report because the negative effects of such communication are reasonably expected to outweigh its benefits for the public interest.

## Report on Other Legal Requirements

### Group Management Report

In accordance with 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 as to whether it has been prepared in accordance with legal requirements.

The legal representatives of the Company are responsible for the preparation of the group management report in accordance with 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 has been prepared in accordance with legal requirements and is consistent with the consolidated financial statements. 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 the understanding of the Group and its environment, we did not note any material misstatements in the group management report.

### Other Information

The legal representatives of the Company are responsible for other information. Other information comprises all information provided in the annual report, with the exception of the consolidated financial statements, the group management report, and the auditor's report thereon. We expect the annual report to be provided to us after the date of the opinion.

Our opinion on the consolidated financial statements does not cover other information, and we will not provide any kind of assurance on it.

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, and to assess whether it contains any material inconsistencies with the consolidated financial statements and our knowledge gained during our audit, or any apparent material misstatement of fact.

### Auditor in Charge

The auditor in charge is Mister Mag. Ernst Pichler.

Linz, 10 March 2017

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.



## STATEMENT OF ALL LEGAL REPRESENTATIVES

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 2017

The Executive Board of KTM Industries AG



DI Stefan Pierer



Mag. Friedrich Roithner



Ing. Alfred Hörtenhuber



Mag. Wolfgang Plasser

# SERVICE

## Financial calendar

January 27, 2017	Publication of Preliminary Financial Result 2016
March 27, 2017	Publication of Annual Financial Report 2016
April 17, 2017	Annual General Meeting Record Date
April 27, 2017	20th Annual General Meeting
May 2, 2017	Ex-Dividend Date
May 3, 2017	Dividend Record Date
May 4, 2017	Dividend Payment Date
August 29, 2017	Report on the First Half-Year 2017

## Imprint

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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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