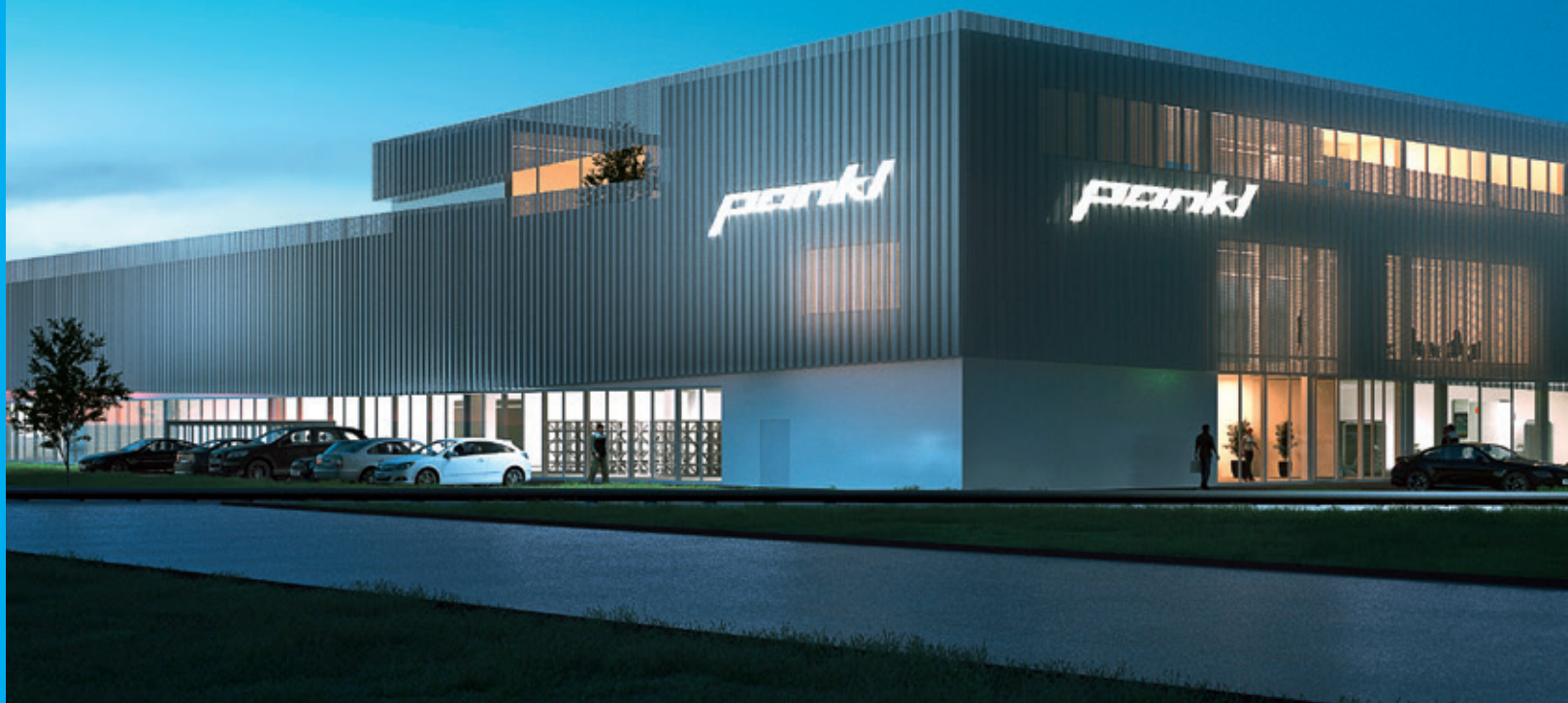


# ANNUAL REPORT 2017



# PANKL KEY FIGURES

PROFITABILITY RATIOS		2013	2014	2015	2016	2017	VDG
Revenues	in €k	139,803	165,027	173,638	185,991	195,388	5%
EBITDA	in €k	17,473	24,316	23,641	26,222	25,942	(1%)
EBIT	in €k	6,150	11,893	10,204	13,210	11,790	(11%)
Earnings before taxes (EBT)	in €k	2,850	8,749	8,431	10,842	8,990	(17%)
Earnings after taxes	in €k	2,493	6,861	7,931	9,985	5,731	(43%)
EBITDA margin		12%	15%	14%	14%	13%	–
EBIT margin		4%	7%	6%	7%	6%	–

BALANCE SHEET RATIOS							
Total assets	in €k	170,650	182,678	180,663	195,628	220,231	13%
Net working capital <sup>1</sup>	in €k	53,018	60,247	65,123	59,344	68,437	15%
Capital employed <sup>2</sup>	in €k	136,567	147,695	151,979	153,616	179,931	17%
Shareholders' equity	in €k	68,336	76,780	82,853	80,228	91,312	14%
Equity in % of total assets		40%	42%	46%	41%	42%	–
Net debt <sup>3</sup>	in €k	68,231	70,915	69,126	73,388	88,619	21%
Gearing <sup>4</sup>		100%	92%	83%	91%	97%	–

CASH FLOW AND CAPEX							
Cash flow from operating activities	in €k	(403)	14,662	16,541	23,916	13,024	(46%)
Free cash flow	in €k	(17,913)	(1,267)	5,208	2,553	(22,206)	> (100%)
Capital expenditure	in €k	18,394	17,008	11,381	23,326	34,930	50%

EMPLOYEES							
Employees as of 31 Dec		1,230	1,287	1,319	1,514	1,680	11%

VALUE CREATION							
ROCE (Return on capital employed) <sup>5</sup>		3%	6%	5%	8%	4%	–
ROE (Return on equity) <sup>6</sup>		4%	9%	10%	12%	7%	–

STOCK EXCHANGE RATIOS							
Share price as of 31 Dec	in €	25.00	27.12	27.50	34.00	41.00	21%
Number of shares issued	m share	3.15	3.15	3.15	3.15	3.15	0%
Market capitalisation	in €m	78.75	85.43	86.63	107.10	129.15	21%
Earnings per share	in €	0.67	1.95	2.43	3.22	1.93	(40%)
Book value per share	in €	21.69	24.37	26.30	25.47	28.99	14%

<sup>1</sup> Net working capital = Inventories + accounts receivable, other current receivables – accounts payable, current provisions, other provisions, other current liabilities

<sup>2</sup> Capital employed = Shareholders' equity including minorities + financial liabilities (current, non-current) – cash and cash equivalents

<sup>3</sup> Net debt = Financial liabilities (current, non-current) – cash and cash equivalents

<sup>4</sup> Gearing = Net debt / shareholders' equity including minorities

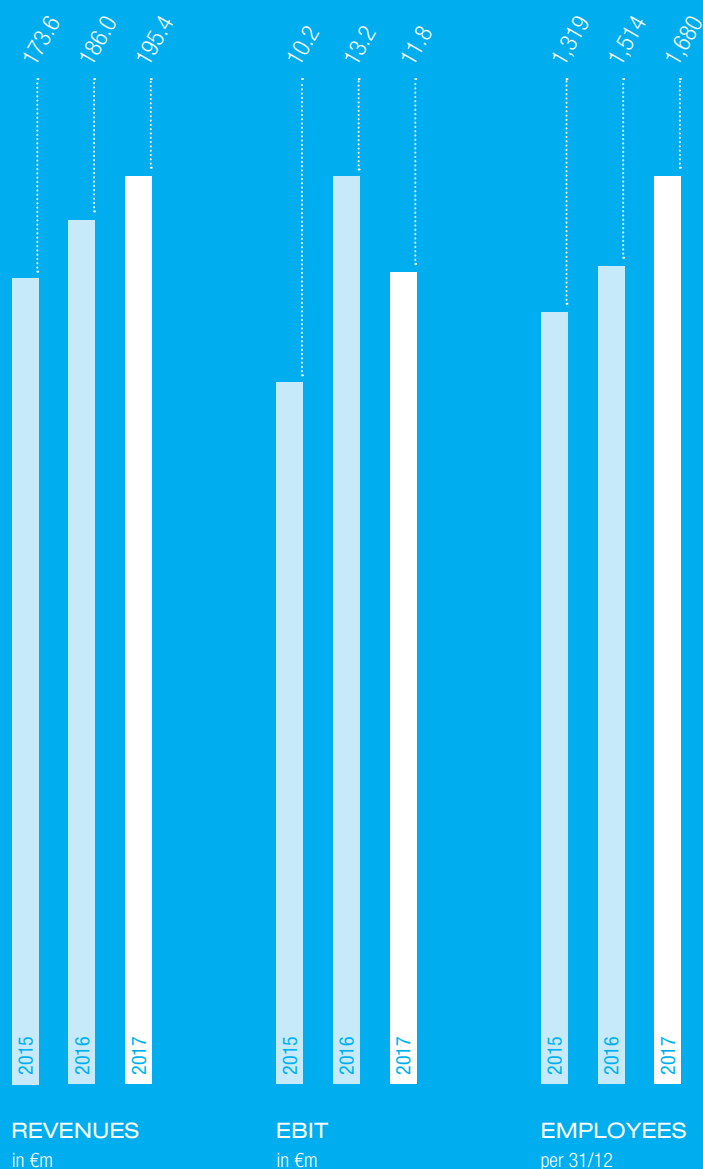
<sup>5</sup> ROCE (Return on capital employed) = NOPAT (Net operating profit after tax) / average capital employed

<sup>6</sup> ROE (Return on equity) = Earnings after tax / average shareholders' equity

PANKL.  
THE  
FUTURE HAS  
STARTED.

***PANKL***  
RACING SYSTEMS

# 2017 AT A GLANCE



## FINANCIAL CALENDAR 2018

15/04/2018	Date of evidence of "Annual General Meeting"
25/04/2018	Annual General Meeting, Kapfenberg
02/05/2018	Ex-Dividend Day
03/05/2018	Date of evidence of "Dividend" (record date)
04/05/2018	Dividend Payment Day
28/08/2018	Publication half-year results 2018

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# ANNUAL REPORT 2017

In 2017, Pankl Group increased revenues by 5% and achieved excellent earnings despite significant start-up expenses.

The fiscal year 2017 was mainly characterised by the successful start of production at the new Kapfenberg high performance drivetrain production facility. It was built within two years, consists of the three areas gearbox component production, heat treatment and additive manufacturing and with an invested amount of € 40m represents the largest capex project in the Company's corporate history to date.



# LEADING SYSTEMS' SUPPLIER AND DEVELOPMENT PARTNER

It is the primary strategic aim of Pankl Group to be the leading systems supplier and development partner for engine and drivetrain systems. This position as a systems supplier being able to provide customers with services ranging from development and calculations to production and assembly and to testing and maintenance of high performance components differentiates us from our competitors. We focus on niche markets such as international motor racing, the international luxury and high performance automotive industry and aerospace. All our strategic measures aim at profitable growth. Our strategy is therefore based on the following principles:

## PRODUCT DEVELOPMENT AND INNOVATION

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

## KNOW-HOW TRANSFER

While the motor racing market is characterised by very short-term planning horizons and short product lifecycles, the high performance market allows the execution of longer-term projects. The major requirement of aerospace customers is complete process reliability and quality assurance. A permanent know-how transfer between the divisions leads to incremental improvements.

## CUSTOMER SATISFACTION

We aim to serve our customers' needs by constant further development and improvement of all components and systems and by flexibility to react to customer requirements and change requests. This is ensured by our global network of companies with facilities in Austria, Germany, United Kingdom, Slovakia, Japan and the United States.

## STAFF AS AN IMPORTANT SUCCESS FACTOR

Our employees are the most important success factor of the company. Therefore, we pursue responsible human resources policies.

## DEAR SHAREHOLDERS, DEAR BUSINESS PARTNERS,

in the past fiscal year, the overall economic environment finally improved also in Europe after nearly nine years of ongoing crisis sentiment. In the US we saw already the third year of sound economic growth and also Asia experienced a positive development so that 2017, from a global perspective, was the best year in a long time. This trend is expected to continue, so the outlook for 2018 is clearly positive.

In the Racing/High Performance segment, the fiscal year 2017 showed two contrary developments. In motor racing, we had a strong first half driven by Formula One rule changes and a weak second half due to the exit of some automotive suppliers from different racing series. Our high performance business developed in the opposite direction. The first half was burdened by delays in customer projects, the second half showed a significant business improvement.

In total, motor racing revenues increased by 1.5% to € 107.3m. The EBIT margin increased by 0.9 percentage points to 10.6% due a better product mix. In the high performance business, revenues increased by 12.4% to € 70.7m. The EBIT margin, adjusted for start-up expenses from the new high performance drivetrain production facility, increased from 3.3% to 5.4% due to higher capacity utilisation and better productivity. Aerospace revenues increased by 7.8% to € 27.5m due to the first major jet engine drive shaft revenues. Aerospace EBIT was stable at 4.4%.

For Pankl the fiscal year 2017 was mainly characterised by the successful start of production at our new Kapfenberg high performance drivetrain production facility. True to our motto "High Tech, High Speed, High Quality" we completed a state-of-the-art production facility with a number of different, complex and partly automatised manufacturing systems within 18 months. During this time we also carried

out start of production and ramping up of serial production. Within a period of two years, we invested a record sum of € 40m for this production facility for the three areas gearbox component production, heat treatment and additive manufacturing. In the fiscal year 2017, total start-up expenses from this new facility amounted to € 4m, which were according to plan and fully expensed.

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

Successful research and development is the key to be strategically well positioned also in the future. With increasing electrification and hybridisation, we want to continue to be a leading systems supplier of performance and/or emission critical engine, drivetrain and chassis systems and lightweight components in our market niches.

At this point, I wish to express my deep gratitude to all our employees, who showed great commitment. I would also like to thank our customers, business partners and shareholders for their trust in the past fiscal year. We will continue to fully commit ourselves to the best possible development of the Pankl Group in the future.

Kapfenberg, on 16 February 2018



Wolfgang Plasser  
CEO



The Management Board (from left): Stefan Seidel, Wolfgang Plasser, Christoph Prattes



## MANAGEMENT BOARD

### WOLFGANG PLASSER

*Chief Executive Officer (CEO)*

Responsible for the divisions  
Racing and Aerospace

Appointed until 31 May 2022

### CHRISTOPH PRATTES

*Chief Operating Officer (COO)*

Responsible for the divisions  
Racing and High Performance

Appointed until 31 July 2020

### STEFAN SEIDEL

*Chief Technical Officer (CTO)*

Responsible for the divisions  
Racing and High Performance

Appointed until 31 July 2020

## SUPERVISORY BOARD

### STEFAN PIERER

*Chairman*

Elected until the Annual General  
Meeting which votes on the discharge  
for the fiscal year 2018

### JOSEF BLAZICEK

*Deputy Chairman*

Elected until the Annual General  
Meeting which votes on the discharge  
for the fiscal year 2018

### ALFRED HÖRTENHUBER

*Member*

Elected until the Annual General  
Meeting which votes on the discharge  
for the fiscal year 2021

### HARALD PLÖCKINGER

*Member*

Elected until the Annual General  
Meeting which votes on the discharge  
for the fiscal year 2020

### FRIEDRICH ROITHNER

*Member*

Elected until the Annual General  
Meeting which votes on the discharge  
for the fiscal year 2021





# INDIVIDUAL.

FLEXIBLE PRODUCTION  
PROCESSES  
ALLOW BATCHES  
OF ONE.

10 PRODUCTION SITES

1 68

UNITED KINGDOM  
Pankl Racing Systems UK

1 37

GERMANY  
Pankl Turbosystems



Irvine  
Cerritos

Leicester  
Bicester

Mannheim

Bruck/Mur  
Kapfenberg

Topolčany

Sales Office  
Tokyo

210

USA (CALIFORNIA)  
CP-CARRILLO  
Pankl Aerospace Systems



893

AUSTRIA  
Pankl Engine Systems  
Pankl Drivetrain Systems  
Pankl Forging Systems  
Pankl High Performance Systems  
Pankl Aerospace Systems Europe

378

SLOVAKIA  
Pankl Automotive Slovakia

1

JAPAN  
Pankl Japan

## PANKL RACING

ENGINE

DRIVETRAIN



**Pankl Systems Austria**  
Engine Systems  
Bruck upon Mur (AT), 100%

**CP-CARRILLO**  
Irvine, CA (US), 100%

**Pankl Racing Systems UK**  
Trading as Northbridge  
Leicester (UK), 100%

**Pankl Japan**  
Tokyo (JP), 100%

**Pankl Turbosystems**  
Mannheim (GE), 70%

**Pankl Systems Austria**  
Drivetrain Systems  
Kapfenberg (AT), 100%

**Pankl Racing Systems UK**  
Bicester (UK), 100%

## PANKL HIGH PERFORMANCE



**Pankl Systems Austria**  
Forging Systems  
Kapfenberg (AT), 100%

**Pankl Systems Austria**  
High Performance Systems  
Kapfenberg (AT), 100%

**Pankl Automotive Slovakia**  
Topoľčany (SK), 100%

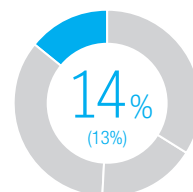
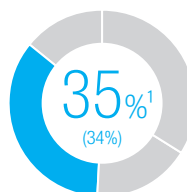
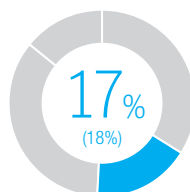
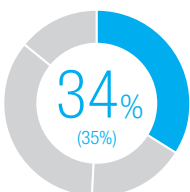
## PANKL AEROSPACE



**Pankl Aerospace Systems Europe**  
Kapfenberg (AT), 100%

**Pankl Aerospace Systems**  
Cerritos, CA (US), 100%

## SHARE ON TOTAL REVENUE



The number in parentheses indicates the value of the previous year.

<sup>1</sup> Including series conrods and pistons

# 12 DEVELOPMENT OF SHARES AND INVESTOR RELATIONS

## PANKL SHARES

Pankl shares are quoted on the Vienna Stock Exchange. In September 2016, the Pankl Management Board decided to move the shares from the Mid-Market segment to the Standard Market Auction segment of the Vienna Stock Exchange due to low trading volumes. This move of trading segments was executed in March 2017. In this segment, trading is conducted on the XETRA trading platform with one daily auction. In Germany, the shares are traded in the unofficial market segments of the Frankfurt, Stuttgart, Berlin, Munich, Hamburg and Dusseldorf exchanges.

Pankl shares started the year 2017 trading at € 34.00. On 4 September 2017, Pankl shares reached their year high at € 45.04. On 13 January 2017, Pankl shares reached their year low at € 33.50. At the end of the fiscal year 2017, the shares closed at € 41.00. The market capitalisation of Pankl shares amounted to € 129.15m at the year end. The number of shares in issue remained the same as in the previous year and amounted to 3,150,000.

On 3 January 2018, KTM Industries AG demanded as main shareholder of Pankl Racing Systems AG that Pankl Racing Systems AG applies for the revocation of the admission of its 3,150,000 shares to the official market segment of the Vienna Stock Exchange (delisting). The Management Board of Pankl Racing Systems AG assessed

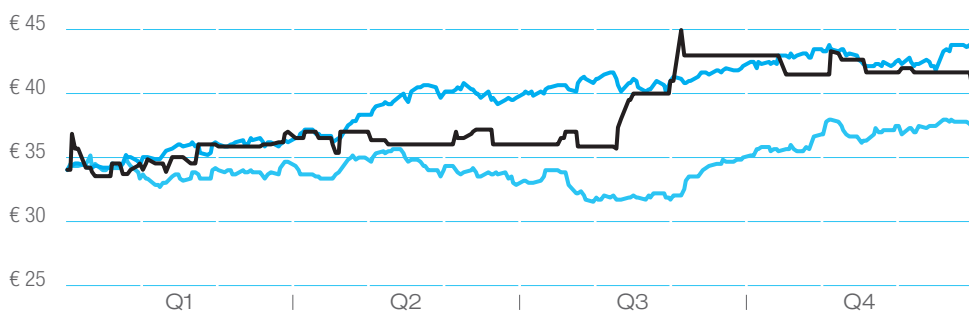
whether the requirements for a delisting are fulfilled and with the approval of the Supervisory Board decided to comply with the demand of KTM Industries AG. On 14 February 2018, the Company filed with Wiener Börse AG the application to revoke the admission of its shares to be traded on the official market segment of the Vienna Stock Exchange in accordance with article 38 para 6 of the Austrian Stock Exchange Act (§ 38 Abs. 6 BörseG). Wiener Börse AG approved this application. The last day of trading of Pankl Racing Systems AG shares on the Vienna Stock Exchange will be 30 May 2018.

## INVESTOR RELATIONS ACTIVITIES

The Management Board of Pankl Racing Systems AG aims to inform market participants and the wider public and communicate with them in a transparent, timely and comprehensive manner. Therefore, we regularly give updates on the corporate development and outlook of the Pankl Group.

To ensure transparency and an effective and efficient service, we publish all financial reports, press announcements, ad-hoc announcements, announcements regarding voting rights thresholds and investor presentations on our website [www.pankl.com](http://www.pankl.com) under Investor Relations. All this information is hence provided to all shareholders simultaneously.

## SHARE PRICE DEVELOPMENT OF PANKL SHARES 01/01/2017 – 31/12/2017



## DETAILS ON PANKL SHARES 01/01/2017 – 31/12/2017

Share price on 31/12/2017	€ 41.00
High (04/09/2017)	€ 45.04
Low (13/01/2017)	€ 33.50
Performance Pankl Racing Systems AG	20.6%
Performance Prime Automobile (XETRA)	10.4%
Market capitalisation	€ 129.15m

## SHAREHOLDER STRUCTURE

The share capital amounts to € 3,150,000 and is represented by 3,150,000 shares without nominal value with each share carrying an equal voting right. Each share represents the same share in the share capital.

## DIVIDEND

Pankl Racing Systems AG is committed to a stable dividend policy. The Management Board recommends the AGM, which will be held on 25 April 2018, the distribution of a dividend amounting to € 0.60 per share. This corresponds to a payout ratio of 31.2% from the net profit after tax attributable to the shareholders.

Based on 3,150,000 shares the dividend payment would amount to € 1,890k.

## FURTHER INFORMATION ON PANKL SHARES

Investor relations: Nicole Barth  
 Phone: +43-3862-33 999-130  
 Fax: +43-3862-33 999-181  
 e-mail: [ir@pankl.com](mailto:ir@pankl.com), [www.pankl.com](http://www.pankl.com)

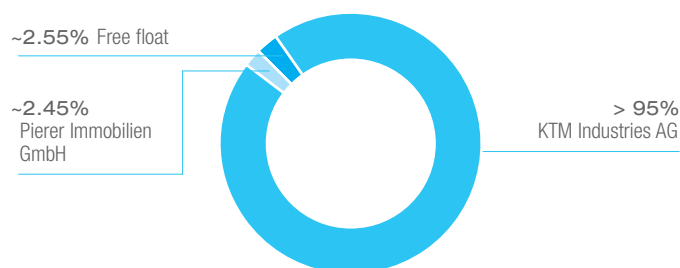
Securities identification code (NM): 914732  
 ISIN code: AT0000800800  
 Bloomberg code: PARS:AV  
 Reuters code: PARS.VI



*For more information, please visit the Company's website under [www.pankl.com](http://www.pankl.com).*

## SHAREHOLDER STRUCTURE

31/12/2017



## FINANCIAL CALENDAR 2018

15 Apr	Date of evidence of "Annual General Meeting"
25 Apr	Annual General Meeting, Kapfenberg
2 May	Ex-Dividend Day
3 May	Date of evidence of "Dividend" (record date)
4 May	Dividend Payment Day
28 Aug	Publication half-year results 2018

# SUSTAINABILITY REPORT

## OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2017

Respect for the environment and sustainable management have the highest priorities for Pankl Group. As a high technology business, the combination of our corporate values “High Tech, High Speed, High Quality” with a responsible treatment of the environment is very important to us, because only in this way we can build a solid foundation for the future and secure success over generations.

Speaking of sustainability today refers not just to one topic, it deals with three topics at the same time:

- Ecological responsibility for the environment.
- Humane sense of conscientiousness towards our fellow human beings.
- Economical responsibility for healthy growth and a secure future.

These three topics must be treated comprehensively in order that a company can be considered sustainable. For Pankl Racing Systems AG such a complete view has been playing a central role for many years. Our position as a leading systems supplier and development partner can only be maintained through ongoing further development in the Racing/High Performance and Aerospace divisions

### SUSTAINABILITY DEFINES OUR CORPORATE VALUES

The Pankl Group sustainability strategy should be seen as thinking and actions designed to save resources and energy and to innovate. In doing so, we have to consider the interests of all employees and the expectations of all stakeholders. Sustainability based on our corporate values is reflected in all segments.

#### “High Tech” – Intense R&D secures Pankl a technological lead in the Racing/High Performance and Aerospace divisions

We aim to realise new ideas as efficiently as possible. High technological complexity requires us to save resources in both development and production.

#### “High Speed” – Pankl shares with its customers the desire to win

We aim to be the fastest in the technological execution of our tasks to establish ourselves as the innovation leader in the global market. Through our thinking and actions, we want to make a difference. We are prepared to improve ourselves continuously.

#### “High Quality” – For Pankl quality means perfection to the smallest detail

For this reason, we carry out regular trainings and audits to assure proper and high quality business activities of the Company. This aims not just at compliance with legal requirements and rules but also at the standardisation of rules and internal values and principles imposed on ourselves voluntarily. Pankl takes seriously a long-term and sustained relationship of trust with its business partners and employees.

### THE ENVIRONMENT AS A SCARCE PRODUCTION FACTOR

Pankl has formulated a number of guidelines and principles regarding relevant sustainability aspects, because it considers the environment a scarce production factor which is not freely available and just as important as the factors capital and labour.



For Pankl a major milestone was the ISO 14001 environmental certification. This international standard aims at protecting the environment in a sustained manner and at reacting to environmental changes based on socioeconomic requirements. In 2014, Pankl Group started the extension of its Environmental Management System to ISO 14001. The Austrian and Slovak production facilities were certified in the fiscal year 2015. In the fiscal year 2017, preparations were made to certify also the other Pankl facilities according to ISO 14001, which will be completed in the fiscal year 2018.

According to ISO 14001, the core of an environmental management system is the definition of internal processes, competencies and responsibilities to improve the environmental situation of operations. The major components within the certification process are:

- Implementation, documentation, execution, maintenance and improvement of an environmental management system
- Definition of an internal environmental policy
- Prevention of environmental burdens, fulfilment of legal obligations and definition of environmental targets
- Provision of required resources (personnel and infrastructure) and appointment of an environmental officer
- Documentation of the environmental management system in particular regarding environmental policy, main elements and targets
- Training and information for employees and internal audits in defined intervals

The Environmental Management System is based on a cycle of planning, execution, inspection and action. In a first step, the status of legal compliance was ascertained and environmental targets and processes derived therefrom in order to achieve results which conform to the environmental policy. Then the individual process components were executed in compliance with the specifications and continuously measured against the environmental policy with its requirements, targets and process criteria. In the last step, derived results were reported and measures for improvements implemented.

## OUR ENVIRONMENTAL POLICY PRINCIPLES

- We comply with legal requirements.
- We aim to save resources.
- We prevent dangerous waste.
- We fulfil the requirements of our customers.
- We set ourselves targets and achieve them.
- We permanently improve whatever we do.

## ENVIRONMENTAL ASPECTS AND ANALYSIS OF THEIR IMPACT

Pankl assessed the environmental aspects of its operating activities and analysed their impact based on the defined scope of application of the Environmental Management System. These environmental aspects were listed in an extensive matrix, valued according to their impact and associated risks and as for all other environmental topics openly communicated and freely made available to all employees via the intranet.

For all Austrian facilities, Pankl defined environmental targets for all relevant functional areas and levels which take account of the determined environmental aspects and the related mandatory obligations as well as their risks and opportunities. These targets conform to the Pankl environmental policy, are audited in regular intervals and are, if required, updated appropriately.

From 2016, environment strategy meetings are carried out quarterly. In these meetings management co-ordinates its environmental management programme with security experts as well as quality and maintenance management.

Pankl fulfils the requirements according to NaDiVeG and is hence exempted to add data according to article 243 of the Austrian Commercial Code (§ 243 UGB) to the status report. The consolidated NFI declaration is included in the sustainability report of KTM Industries AG.



**FAST.**

PRODUCT DEVELOPMENT  
IN GLOBAL VALUE  
CREATION NETWORKS.



SCANNING

GARNILLO

Franki  
RACING SYSTEMS

# CORPORATE GOVERNANCE REPORT

OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2017

## COMMITMENT TO THE AUSTRIAN CORPORATE GOVERNANCE CODE

The Austrian Corporate Governance Code ("ÖCGK") represents a set of rules to support responsible management and leadership of companies in Austria. The code comprises international standards for good corporate leadership and also relevant rules of the Austrian public companies' law. The code aims at establishing sustainable and long-term values for the control and management of companies and groups leading to a large degree of transparency for all their stakeholders.

The code is based on legal provisions, primarily within the Austrian corporate, stock exchange and capital markets laws, EU recommendations regarding supervisory board member duties and directors' remunerations as well as the OECD guidelines for corporate governance. The code was adapted several times since 2002, the present corporate governance report is based on the code revision published in January 2018. The code is publicly available on the internet under [www.corporate-governance.at](http://www.corporate-governance.at).

Pankl Racing Systems AG commits to the ÖCGK without restriction in its current form. This commitment is a voluntary self-obligation of Pankl Racing Systems AG with the aim to further improve shareholders' trust and to further optimise the already high legal, good conduct and ethical company standards continuously. Due to its Vienna Stock Exchange listing, the Company is obliged to comply with the ÖCGK rules.

The corporate governance report 2017 is publicly available on the homepage of the Company [www.pankl.com](http://www.pankl.com) under Investor Relations > Corporate Governance > Report.

Due to its commitment to the code, Pankl Racing Systems AG is not just required to comply with the legal rules (L-rules), but also has to explain non-conformance with C-rules ("comply or explain"). C-rules go beyond the legal requirements.

Following this system of the ÖCGK, Pankl Racing Systems AG explains discrepancies from C-rules as follows (C-rule 60):

- **C-rules 27 and 30:** Variable annual remuneration components are not capped and depend on agreed performance related targets including the development of EBIT, earnings before taxes and cash flow of Pankl Racing Systems Group companies. The Company does not publish all details regarding management board remuneration especially as far as individual performance criteria is concerned. The Company believes that such information in addition to the information published in the corporate governance report would not provide any additional information contents relevant for capital markets issues.
- **C-rule 36 (first paragraph):** The Supervisory Board aims to improve its organisation, procedures and efficiency continuously. It did not carry out a dedicated self-evaluation in the past fiscal year.
- **C-rules 39, 41 and 43,** which require the establishment of supervisory board sub-committees, are not complied with, because the Supervisory Board only consists of not more than six members. The functions of nominating and remuneration committees are carried out by the whole Supervisory Board.
- **C-rule 62** is not complied with to the extent that Pankl Racing Systems AG has not yet undergone an external evaluation. Up until now, internal and random evaluations are considered sufficient. In the next years it will be decided again whether to carry out an external evaluation.
- **C-rule 83** is not complied with to the extent that the effectiveness of the internal control system is not subject to a separate evaluation by the auditor. The Company has off course implemented a risk management system.

In addition, Pankl Racing Systems AG ensures not just to comply with minimum requirements but also to fulfil all R-rules ("recommendation") of the ÖCGK without exception.



For more information, please visit the Company's website under [www.pankl.com](http://www.pankl.com).

The Company undertakes to provide transparency and a true and fair view to all shareholders. All relevant information is published in reports, the Company homepage [www.pankl.com](http://www.pankl.com) and within the ongoing PR work. Financial reports are produced based on international recognised accounting standards (IFRS). Pankl Racing Systems AG informs its shareholders via ad-hoc or press releases regarding all relevant corporate issues. The financial calendar lists all important corporate events. All information is published under the Investor Relations section of the Company homepage [www.pankl.com](http://www.pankl.com) and is hence available to all shareholders at the same time.

The Company has issued 3,150,000 shares. There are no preference shares or restrictions on common shares ensuring the “one share – one vote” principle. The Austrian Takeover Code ensures that every shareholder receives the same price per share in case of a takeover bid (obligatory public takeover bid).

## COMPOSITION OF THE BOARDS AND REMUNERATION

The representative bodies of Pankl Racing Systems AG are the Management Board, the Supervisory Board and the shareholders’ assembly. Management Board and Supervisory Board interact regularly based on open and transparent discussion.

### Working procedures of the Management Board

The Management Board of Pankl Racing Systems AG respectively its individual members act on the basis of the law, the articles of association and the Management Board rules of procedures which were determined by the Supervisory Board and represent the rules of co-operation between the Management Board members and their allocation of duties.

The Management Board members liaise in regular meetings and also in the form of an informal exchange of information. In Management Board meetings, current business and corporate strategies are discussed. Management and control measures are co-ordinated and then executed by the Management Board member who is responsible according to the allocation of duties.

The rules of procedures require the Management Board respectively its members to inform and report to the Supervisory Board in a comprehensive manner. In addition, it lists a whole range of measures and transactions which are subject to Supervisory Board approval.

### Composition of the Management Board

The Management Board of Pankl Racing Systems AG consists of three members (C-rule 16 of the ÖCGK):

- **Wolfgang Plasser**, born in 1962  
 Member of the Management Board since 1 October 2004  
 Chief Executive Officer (CEO) since 2007  
 Expiration of current contract: 31 May 2022  
 Responsible for the Racing und Aerospace divisions

*Other major functions in the Group:*

Member of the Management Board of KTM Industries AG

- **Christoph Prattes**, born in 1976  
 Chief Operating Officer (COO) since 1 August 2015  
 Expiration of current contract: 31 July 2020  
 Responsible for the Racing and High Performance divisions

- **Stefan Seidel**, born in 1976  
 Chief Technical Officer since 1 August 2015  
 Expiration of current contract: 31 July 2020  
 Responsible for the Racing and High Performance divisions

### Working procedures of the Supervisory Board

In the fiscal year 2017, the Supervisory Board has diligently carried out its duties as defined by law, the articles of association, the ÖCGK and the rules of procedures. All Supervisory Board and committee members are free and independent as defined by the ÖCGK.

In the fiscal year 2017, four Supervisory Board meetings took place, i.e. one per quarter as required by C-rule 36 of the ÖCGK. All members took part personally in at least three meetings (C-rule 58 of the ÖCGK). Hence no Supervisory Board member was absent in more than half of the meetings. The sessions lasted about two hours on average.

In addition, there were two meetings of the audit committee. The sessions of the audit committee lasted about one hour on average.

In accordance with the articles of association, the Supervisory Board elected a chairman and a deputy chairman. In accordance with the law, the Supervisory Board established an audit committee.

The Company concluded no contracts with members of the Supervisory Board which would require Supervisory Board approval (C-rule 49 of the ÖCGK).

The audit committee supervised accounting processes (including consolidation), the audit (including the Group audit), the effectiveness of the internal control system, the risk management system and the internal audit system. In addition, the audit committee also scrutinised the independence of the auditor (Group auditor), in particular with respect to additional services carried out for the audited companies.

For further information regarding working procedures of the Supervisory Board, please refer to the report of the Supervisory Board chairman in the annual report.

### Composition of the Supervisory Board

At the end of the fiscal year 2017, the Supervisory Board of the Company consisted of the following five members (C-rule 58 of the ÖCGK):

- **Stefan Pierer**, Wels, born in 1956  
Chairman of the Supervisory Board  
Member of the Supervisory Board since 29 June 2006  
Elected until the AGM which votes on the discharge for the fiscal year 2018

*Other Supervisory Board mandates for quoted companies:*  
Member of the ATHOS Immobilien AG (until 9 March 2017)

- **Josef Blazicek**, Limassol, Cyprus, born in 1964  
Deputy Chairman of the Supervisory Board since 5 December 2012  
Member of the Supervisory Board since 22 April 2005  
Elected until the AGM which votes on the discharge for the fiscal year 2018

*Other Supervisory Board mandates for quoted companies:*  
Chairman of the KTM Industries AG  
Chairman of the All for One Steeb AG

- **Alfred Hörtenhuber**, Wels, born in 1955  
Member of the Supervisory Board since 27 April 2012  
Elected until the AGM which votes on the discharge for the fiscal year 2021

- **Harald Plöckinger**, Wels, born in 1961  
Member of the Supervisory Board since 22 April 2016  
Elected until the AGM which votes on the discharge for the fiscal year 2020

- **Friedrich Roithner**, Linz, born in 1963  
Member of the Supervisory Board since 27 April 2012  
Elected until the AGM which votes on the discharge for the fiscal year 2021

### Supervisory Board committees and their members

The audit committee of the Company consists of Josef Blazicek and Friedrich Roithner. In the fiscal year 2017, the audit committee of Pankl Racing Systems AG held two meetings.

The audit committee is responsible for the annual financial statements to be audited and prepared for Supervisory Board confirmation, the dividend proposal, the status report, the audit of the Group financial statements and the corporate governance report. In addition, it deals with the management letter prepared by the auditor and the auditor's report regarding the effectiveness of the risk management system. The audit committee has to make a proposal for the election of the auditor and prepares such Supervisory Board proposal for the AGM. In accordance with C-rule 81a of the ÖCGK, the audit committee has to discuss with the auditor the processes of mutual communications.

Services rendered between the Company and members of the Supervisory Board respectively companies, in which members of the Supervisory Board have a material economic interest, are invoiced at arm's length basis.

The duties of the nomination and remuneration committees are carried out by the whole Supervisory Board, because it does not consist of more than six members.

In 2017, there were the following business relationships between the Company and members of the Supervisory Board, respectively companies in which Supervisory Board members had a material economic interest (C-rule 49 of the ÖCGK):

- The Company achieved revenues of € 16,445k with KTM Industries AG and its subsidiaries. There are supply and services agreements at arms' lengths basis with KTM AG and its subsidiaries and WP AG, which are indirectly controlled by Stefan Pierer. In the period from 1 January 2017 until 31 December 2017, Pankl Group generated revenues from the KTM Group in the amount of € 16,435k and from the WP Group in the amount of € 10k.
- KTM Group invoices Pankl Group the use of software licenses and the participation in the group insurance scheme. These services amounted to € 3,432k in the period from 1 January 2017 until 31 December 2017.
- The services of Wolfgang Plasser as member of the Management Board are invoiced by KTM Industries AG.

#### Independence of the Supervisory Board

According to C-rule 53 of the ÖCGK, a supervisory board member is deemed independent if he/she does not have any business or personal relationships with the Company or its management board, which may constitute a material conflict of interest and hence may have an influence on the actions of the supervisory board member.

On this basis, the Supervisory Board's rules of procedures define the independence of Supervisory Board members. These rules of procedures are publicly available on the Homepage of the Company. On the basis of these criteria from the Supervisory Board members

in office as per the end of the fiscal year, Josef Blazicek, Friedrich Roithner, Alfred Hörtenhuber and Harald Plöckinger are considered to be independent, which is more than half of all Supervisory Board members (C-rule 53 of the ÖCGK).

C-rule 54 of the ÖCGK does not apply as the free float of the Company is less than 20%.

The table below lists other supervisory board mandates or similar functions of Supervisory Board members (C-rule 58, para 2 of the ÖCGK).

The independence of Supervisory Board members is defined based on the following criteria:

- Criterion 1: The Supervisory Board member has not been a member of the Management Board or management team of Pankl Racing Systems AG or any of its subsidiaries for the past two years.
- Criterion 2: The Supervisory Board member must not entertain a business relationship with Pankl Racing Systems AG or any of its subsidiaries to an extent which is significant for him/her during the current or previous fiscal year. This applies also to business relationships with companies in which the Supervisory Board member has a material economic interest. The Supervisory Board's obligation to approve certain transactions does not lead automatically to a qualification as not independent.
- Criterion 3: The Supervisory Board member has not been the auditor of Pankl Racing Systems AG or partner or employee of the audit company for the last three years.
- Criterion 4: The Supervisory Board member is not a management board member of a company in which a Pankl Racing Systems AG Management Board member is a member of the supervisory board.
- Criterion 5: The Supervisory Board member has no close family relationships (direct descendant, spouse, partner, uncle, aunt, sibling, niece, nephew) with a Pankl Racing Systems AG Management Board member or any person mentioned in the criteria above.

### Remuneration report

The Supervisory Board has to define Management Board remuneration in a way that is reasonable based on the duties and services of the individual Management Board members, takes into account the Company's situation and other remunerations and contains long-term incentives for a sustainable corporate development.

Management Board member's remuneration contains fixed and variable components. Variable income components depend on the achievement of defined financial ratios and/or completed project milestones. The Company and management agree on the major parameters for payment of variable remuneration components on an annual basis.

Management Board members have an entitlement to a company car. Accident insurance provides cover for death and disability. D&O liability insurance covers legal liability of Management Board members resulting from third parties' personal and property damages. There is cover for damages claims resulting from financial loss of third parties or the Company from Management Board members' breaches of duty.

The Company pays for the cost of these insurance products. There is no remuneration for additional mandates or functions within the Group. In the case Management Board contracts are terminated early without cause, the fixed remuneration components will be paid for the remainder of the contract period.

Except for Wolfgang Plasser, the Management Board members provide their services on the basis of PAYE-based employment agreements. The Management Board services of Wolfgang Plasser are invoiced by KTM Industries AG.

There are no pension agreements between members of the Management Board and the Company. According to their contracts, the management board members are entitled to severance payments in accordance with the Austrian "severance pay NEW" system.

There are no share options or similar share-based compensation schemes. There is a D&O insurance which covers members of the Management Board, the Supervisory Board and managing directors of Group companies.

In the fiscal year 2017, total Management Board remuneration including variable components amounted to € 1,299k (2016: € 1,192k). Besides individually agreed performance related targets, EBIT, earnings before taxes and cash flow represented the major parameters for variable remuneration components. In the fiscal year 2017, Management Board entitlements were the following:

### COMPENSATION OF THE MANAGEMENT BOARD (AT GROUP LEVEL)

in €k	Fixed	Variable	Total
Wolfgang Plasser, <i>Chief Executive Officer</i>	398 (63%)	235 (37%)	633
Christoph Prattes, <i>Chief Operating Officer</i>	244 (73%)	89 (27%)	333
Stefan Seidel, <i>Chief Technical Officer</i>	244 (73%)	89 (27%)	333
Total	886 (68%)	413 (32%)	1,299

As of 31 December 2017 there were no loans or prepayments for current or former members of the Management Board.

Generally, the chairman of the Supervisory Board receives a higher remuneration than ordinary members. Supervisory Board remunerations are concluded by the AGM after the end of the fiscal year. For the period 1 January 2017 until 31 December 2017, the remuneration for the chairman of the Supervisory Board amounted to € 6.0k, for ordinary members of the Supervisory Board € 4.0k, each pro rata temporis. Supervisory Board members who join or leave the Supervisory Board during a fiscal year receive their remuneration pro rata based on the time they were members of the Supervisory Board. For the fiscal year 2017, total Supervisory Board remuneration of € 24.0k was accrued.



In the 20<sup>th</sup> AGM for the fiscal year 2017 to be held on 25 April 2018, the Management Board will propose such Supervisory Board remuneration. Subject to AGM approval, it shall be divided as follows:

#### COMPENSATION OF THE SUPERVISORY BOARD

in €k	Total
Stefan Pierer <i>Chairman of the Supervisory Board</i>	6.0
Josef Blazicek <i>Deputy chairman of the Supervisory Board Chairman of the audit committee</i>	4.0
Alfred Hörtenhuber <i>Member of the Supervisory Board</i>	4.0
Harald Plöckinger <i>Member of the Supervisory Board</i>	4.0
Friedrich Roithner <i>Member of the Supervisory Board Member of the audit committee</i>	4.0
Total	22.0

#### COMPLIANCE

##### Guidelines to avoid illegal insider dealings

It is a major priority for Pankl Racing Systems AG to ensure that all shareholders are treated equally and are informed comprehensively. A compliance guideline was implemented to avoid illegal insider dealings. This compliance guideline is based on the requirements of the issuer compliance directive of the Austrian Financial Markets Authority (Finanzmarktaufsicht, FMA) and is also binding for all Supervisory Board members. The organisational measures contained in the compliance guideline are compulsory without exception for all persons acting for Pankl Racing Systems AG (including members of the Management and Supervisory Boards). The compliance officer is responsible to monitor compliance with the compliance guideline on a permanent basis.

#### MEASURES TO PROMOTE WOMEN

It is not anticipated that a woman will be appointed into the Management Board for the time being. Equal treatment of female and male employees and equal career chances are a matter of fact for Pankl Racing Systems AG. A number of programmes such as flexitime models increase the attractiveness of the Company for female employees. Hence, we anticipate that the portion of female employees in management will increase in the medium-term future. In middle management, there are already a number of functions filled by women, at the moment the percentage is 20%.

#### AUDITS AND EXTERNAL VALUATIONS

In the 19<sup>th</sup> AGM, KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, was elected as the auditor and Group auditor of the Company for the fiscal year from 1 January 2017 until 31 December 2017. Audit expenses consist of the following: Group audit € 87.0k (2016: € 78.0k), audit of financial statements € 93.0k (2016: € 95.0k), other consulting in connection with audit related services € 33.0k. In addition, the global partner offices of KPMG provide tax advice and financial consulting for Group companies.

C-rule 62 of the Austrian corporate governance code (ÖCGK), which requires the Company to engage an external institution to evaluate compliance of C-rules and R-rules of the code regularly every three years is not followed. The company will refrain from an external evaluation due to the pending delisting from the official market segment of the Vienna Stock Exchange.

## DIVERSITY CONCEPT (TBD)

The Supervisory Board has adopted a diversity concept in accordance with article 243c para 2 item 2a of the Austrian Commercial Code (§ 243c Abs. 2 Z 2a UGB) for the composition of the management board and supervisory board:

### Composition of the Management Board Concept

■ The selection of Management Board member candidates is based on their professional qualifications for the department in question, their leadership skills, past performance and their knowledge about the company.

■ The Management Board as a whole shall combine long-term experience in the areas development, production, distribution and finance.

■ Age and gender of a person shall be irrelevant for decisions regarding the composition of the Management Board to avoid any preferential treatment or discrimination.

■ At least one member of the Management Board shall have completed technical professional education.

### Targets

The aim of the diversity concept is that the Management Board is filled with personalities which complement each other due to their different professional and life experiences. The concept shall ensure that the Management Board as a whole has the maximum experience and professional qualifications to lead the Pankl Group successfully and to generate optimal results.

### Execution

The Supervisory Board decides regarding the composition of the Management Board based on criteria defined in the diversity concept bearing in mind the Company's interests.

### Results During the Reporting Period

In the fiscal year 2017, there were no changes in the composition of the Management Board. In the fiscal year 2017, the composition of the Management Board complied with the diversity concept.

### Composition of the Supervisory Board Concept

■ The Supervisory Board shall be filled with persons who are qualified in a personal and professional manner. The composition of the Supervisory Board shall reflect the corporate structure and business areas of Pankl Racing Systems AG in a balanced mode.

■ The Supervisory Board shall consist of at least two members with international experience or special expertise in one or more international markets which are important for Pankl Racing Systems AG.

■ The Supervisory Board shall consist of at least one member who has intimate knowledge of Pankl Racing Systems AG due to his/her previous experiences.

■ The composition of the Supervisory Board shall take into account diversity aspects with regards to gender and age groups. With increasing numbers of Supervisory Board members, such criteria shall be considered to an even higher degree.

### Targets

The aim of the diversity concept is that the Supervisory Board is filled with personalities which complement each other due to their different professional and life experiences. The concept shall ensure that the Supervisory Board as a whole has the maximum experience and professional qualifications to supervise the business activities of Pankl Racing Systems AG and its subsidiaries in a critical manner from as many different aspects as possible.

### Execution

Election proposals for Supervisory Board members in the Annual General Meeting shall take into account the criteria defined in the diversity concept. The Annual General Meeting is, however, free to vote for Supervisory Board members and is not restricted by the appointment objectives of the Supervisory Board.

### Results During the Reporting Period

During the reporting period, there were no changes in the composition of the Supervisory Board. In the fiscal year 2017, the composition of the Supervisory Board complied with the diversity concept.

## MAJOR EVENTS AFTER THE BALANCE SHEET DATE

The shares of Pankl Racing Systems AG are quoted on the Vienna Stock Exchange and are admitted to be traded on the Standard Market Auction segment (ISIN AT0000800800). On 3 January 2018, the Austrian stock exchange act 2018 came into force, which allows for stock exchange quoted companies to voluntarily leave the official trading segment (so called delisting). On 3 January 2018, KTM Industries AG demanded as main shareholder of Pankl Racing Systems AG that Pankl Racing Systems AG applies for the revocation of the admission of its 3,150,000 shares to the official market segment of the Vienna Stock Exchange.

KTM Industries AG made a public bid for the remaining Pankl Racing Systems AG shares in accordance with article 38 para 6 to 8 of the Austrian Stock Exchange Act (§ 38 Abs. 6–8 BörseG) and the 5<sup>th</sup> part of the Austrian Takeover Code to end the admission of the shares to be traded on the official market segment of the Vienna Stock Exchange. On 2 February 2018, the offer document was published. The offer price amounts to € 42.18 cum dividend for 2017 per share of Pankl Racing Systems AG. The acceptance period for the offer

is from 2 February 2018 until 23 March 2018. The offer refers to all Pankl Racing Systems AG shares which are not held by KTM Industries AG or any parties acting in concert, i.e. 95,235 Pankl Racing Systems AG shares. The offer aims at ending the admission of the Pankl Racing Systems AG shares to be traded on the official market segment of the Vienna Stock Exchange.

The Management Board of Pankl Racing Systems AG assessed whether the requirements for a delisting are fulfilled and with the approval of the Supervisory Board decided to comply with the demand of KTM Industries AG. On 14 February 2018, the Company filed with Wiener Börse AG the application to revoke the trading admission of its shares in the official market segment of the Vienna Stock Exchange in accordance with article 38 para 6 of the Austrian Stock Exchange Act (§ 38 Abs. 6 BörseG).

With resolution dated 19 February 2018, Wiener Börse AG approved this application and ruled that the revocation of the admission of the shares to be traded on the Vienna Stock Exchange shall take place on 31 May 2018. The last day of trading of Pankl Racing Systems AG shares on the Vienna Stock Exchange will be 30 May 2018.

Kapfenberg, on 20 February 2018

The Management Board of Pankl Racing Systems AG



Wolfgang Plasser  
CEO



Christoph Prattes  
COO



Stefan Seidel  
CTO

# REPORT OF THE SUPERVISORY BOARD CHAIRMAN OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2017



In the fiscal year 2017, the Supervisory Board carried out the tasks as required by law and the Articles of Association in its four formal meetings. In addition, the Management Board regularly briefed the Supervisory Board on business progress and the financial position of the Company and its subsidiaries. The chairman of the Supervisory Board entertained regular contact to the Management Board discussing strategy, business developments and risk management also outside formal supervisory board meetings.

In March 2017 and in November 2017, the audit committee held its meetings. On 22 November 2017, an audit committee meeting was held for the auditor to give an overview of the planned audit procedures and the main focus of the audit for the fiscal year 2017. In March 2018, the dividend distribution proposal, the proposal for the election of the auditor and all accounting and financial reporting issues of the Group were discussed. The members of the Audit Committee were Josef Blazicek and Friedrich Roithner.

All audit documents and the audit reports of the auditor (including the additional report to the audit committee regarding the audit of the financial statements in accordance with article 11 of the EU guideline No. 537/2014 per 31 December 2017) were discussed with the auditor in detail in the audit committee meeting on 8 March 2018. In the subsequent meeting of the Supervisory Board all these documents as well as the Management Board's status report and the corporate governance report were presented.

KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, in accordance with the legal requirements, audited the unconsolidated financial statements and the status report of the Company and the consolidated financial statements and the status report of the Group. The audit did not raise any issues or complaints. The auditor issued unqualified audit opinions on the financial statements and the status report of the Company and the Group. The auditor confirmed that the accounting systems and the financial statements per 31 December 2017 are in compliance with all appropriate rules and regulations. The financial statements show a true and fair view of the financial situation of the Company in accordance with generally accepted accounting principles. The status report is consistent with the financial statements. The auditor also confirms that the consolidated financial statements are in accordance with all appropriate rules and regulations and show a true and fair view of the financial situation of the Company as of 31 December 2017 and that the profitability and cash flows are shown in accordance with International Financial Reporting Standards (IFRS). The Group status report is consistent with the consolidated financial statements. The Supervisory Board confirmed the unconsolidated financial statements per 31 December 2017 and the status report for the fiscal year 2017.

The financial statements of the Company for the fiscal year 2017 were hence formally concluded in accordance with article 96 para 4 of the Austrian Public Companies Act (§ 96 Abs. 4 AktG). The Supervisory Board acknowledges the consolidated financial statements and the Group status report for the fiscal year 2017 without objections and supports the Management Board proposal regarding the profit distribution.

As chairman of the Supervisory Board and on behalf of my colleagues of the Supervisory Board I would like to express my sincere gratitude to the management and all employees of the Pankl Group for their contribution to the good results in the past fiscal year. Equally I would also like to thank all shareholders, customers and partners for their trust in the Pankl Group that has made this success possible.

Kapfenberg, on 12 March 2018

A handwritten signature in black ink, appearing to read 'Stefan Pierer', written in a cursive style.

Stefan Pierer  
Chairman of the Supervisory Board

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**EXTENSIVE.**

NEW POSSIBILITIES  
IN THE  
INTERACTION OF  
HUMAN AND MACHINE.

## 1. BUSINESS DEVELOPMENT

### MARKET ENVIRONMENT

Pankl Group is a leading international supplier of high-tech mechanical systems for dynamic components in the global niche markets motor racing, luxury/high performance cars and aerospace. Pankl focuses primarily on developing, optimising and testing products to be able to react to its special market challenges. In accordance with the mission statement “High Tech – High Speed – High Quality” Pankl aims at premium technologies, lowest tolerances and prompt delivery.

It is an integral part of Pankl’s corporate culture to anticipate and meet customers’ needs and requirements with the outmost flexibility and in a timely fashion. Pankl can serve its customers in an optimal manner due to its highly diversified network of production facilities. Pankl sites are located in Austria, Germany, the United Kingdom, Slovakia, Japan and the USA.

### RACING/HIGH PERFORMANCE SEGMENT

In motor racing, Pankl focuses on the development, design, production and testing of crank assemblies, pistons, piston pins, turbo super-charger applications and complete drivetrain and suspension systems. Pankl supplies international motor racing series such as Formula One, NASCAR (National Association for Stock Car Auto Racing), MotoGP (highest motorbike world championship racing class), WEC (World Endurance Championship), DTM (German Touring Championship) or WRC (World Rallye Championship). In terms of revenues, Formula One continues to represent the most important racing series for Pankl.

The motor racing market demands extreme flexibility, short planning and product life cycles. Pankl offers its products as single components or complete systems. The customers require state-of-the-art technology and top quality, which is why this market features significant barriers to market entry.

Pankl is well known and respected for its development, design and production competences with regards to lightweight components to be operated under extreme conditions. As the Group combines research, development, production and testing expertise and infrastructure, it is able to provide customers with comprehensive solutions consisting of highly sophisticated products and extensive technical support.

In the High Performance division, Pankl Group develops and produces drivetrain and engine components for high performance luxury cars, engine components for the aftermarket and high performance aluminium forgings. In 2017, the Company launched production in a new high performance drivetrain facility, where it produces gearbox



components for motor cycles. The last few years saw a trend towards super sports cars, i.e. serial produced cars with similar performance as racing cars, which increases the importance of this market segment for the Pankl Group.

Motor racing know how continuously filters into serial production. Pankl targets OEMs (Original Equipment Manufacturers) producing vehicles (sports cars, sports motor bikes) with high performance engines in production lots from a few hundred up to 30,000 units per year. Sports car customers include Porsche, Mercedes AMG, Ferrari, McLaren, GM, Audi, Bugatti and Lamborghini. Sports motor bike customers include Honda, Yamaha, KTM and Ducati.

Racing market demand is generally determined by the global economic environment and, in particular, the development of the automotive industry. Cyclical fluctuations influence motor racing budgets and the

number of racing participants. Racing series organisers aim to improve the attractiveness of their racing series for the various stakeholders via rule changes. In difficult economic times this leads to development and testing restrictions to reduce the cost to participate.

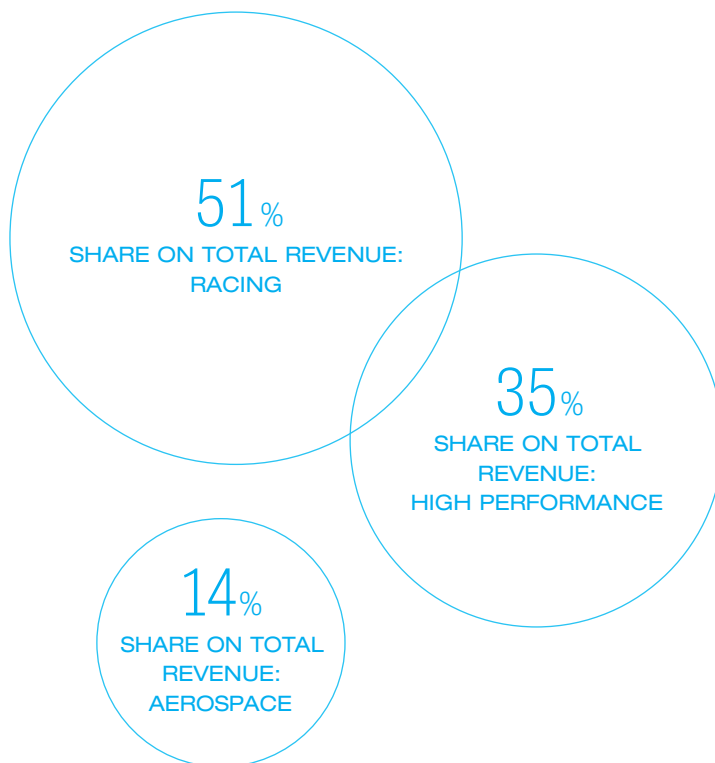
## AEROSPACE SEGMENT

Pankl serves the aerospace industry with complex drivetrain components, jet engine driveshafts, inflight refuelling pipes and suspension components for fixed wing aircraft and helicopters as a tier-1 supplier from its facilities in Europe and the USA. Pankl products have to fulfil the highest requirements as the safe operation of aircraft and jet engines depends on them. The product portfolio comprises the development and production of highly reliable lightweight drivetrain components and systems for more than 60 different types of fixed wing aircraft and helicopters.

Pankl is qualified and certified by many prominent OEMs to produce so called flight safety parts and systems (i.e. safety critical components) for aerospace market leaders.

## OTHERS SEGMENT

The "Others" segment includes the business activities of the holding companies.



## 2. DEVELOPMENT OF PANKL GROUP

### REVENUES AND EARNINGS

#### PROFITABILITY RATIOS

in €k	2015	2016	2017
Revenues	173,638	185,991	195,388
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	23,641	26,222	25,942
Earnings before interest and taxes (EBIT)	10,204	13,210	11,790
Earnings before taxes (EBT)	8,431	10,842	8,990
Earnings after taxes	7,931	9,985	5,731
EBITDA margin	14%	14%	13%
EBIT margin	6%	7%	6%

For Pankl Racing Systems AG, the fiscal year 2017 was mainly characterised by the successful start of production at our new Kapfenberg high performance drivetrain production facility. It was built within two fiscal years, consists of the three areas gearbox component production, heat treatment and additive manufacturing and represents

the largest capex project in our corporate history to date. By October 2017, the plant started operation and sample and retraction components were manufactured. In the fiscal year 2017, total start-up expenses from this new facility amounted to € 4m, which were according to plan and fully expensed in the operating results.

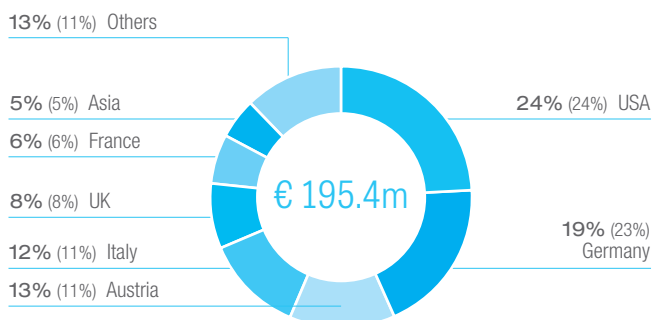
In the fiscal year 2017, revenues of Pankl Group increased by 5.1% to a record € 195.4m. In the Racing/High Performance segment, revenues increased significantly in both the racing and the High Performance divisions versus 2016. Also, in the Aerospace segment, revenues grew compared to the past years.

The USA continued to be the largest single geographic market accounting for 24.3% of revenues. The largest European markets were Germany (19.0% of revenues), Austria (13.2% of revenues) and Italy (12.3% of revenues). Operating earnings of Pankl Group remained at a high level despite start-up expenses for the new high performance drivetrain production facility and reached € 11.8m or 6.0% of revenues (2016: € 13.2m or 7.1% of revenues).

Adding back depreciation of € 14.2m resulted in EBITDA of € 25.9m or 13.3% of revenues versus € 26.2m or 14.1% of revenues in the previous year.

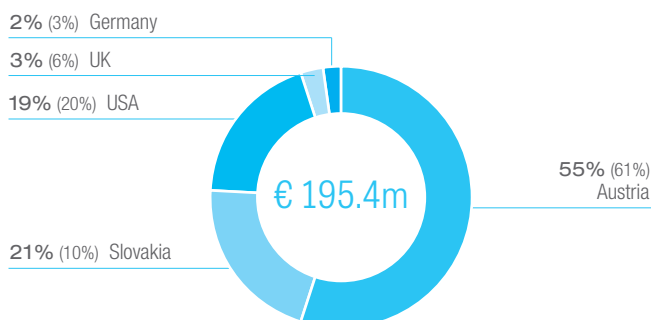
#### REVENUES BY REGION

31/12/2017



#### REVENUES BY PRODUCTION SITE

31/12/2017



The net financial result amounted to € –2.8m (2016: € –2.4m). Consolidated net earnings after taxes and minorities decreased from € 10.1m or € 3.22 per share in 2016 to € 6.1m or € 1.93 per share in 2017.

## CAPITAL EXPENDITURE

In the fiscal year 2017, capital expenditure in tangible and intangible assets amounted to € 35.8m and was broken down in fixed assets categories as follows: intangible assets € 0.8m and tangible fixed assets € 35.0m. In 2017, capital expenditure was significantly higher than depreciation due to the investments into the new drive-train production facility.

## CASH FLOW

### CASH FLOW AND CAPEX

in €k	2015	2016	2017
Cash flow from operating activities	16,541	23,916	13,024
Operating free cash flow	5,208	2,553	(22,206)
Capital expenditure	11,381	23,326	34,930

In the fiscal year 2017, cash flow from results amounted to € 21.4m versus € 25.1m in the same period last year. During the course of the year, working capital increased by € 9.1m to € 68.4m (2016: € 59.3m). Taking into account other non-current assets and liabilities gives cash flow from operating activities of € 13.0m versus € 23.9m in 2016.

Cash flow from investing activities amounted to € –35.2m adjusted for non-cash investment transactions and was hence significantly higher than in the previous year (2016: € –21.4m). Operating free cash flow amounted to € –22.2m versus € 2.5m in 2016. This was due to heavy capital expenditure in 2017.

Cash flow from financing activities amounted to € 22.4m (2016: € –0.7m). As of 31 December 2017, Pankl Group had cash and cash equivalents of € 9.8m (31 December 2016: € 9.1m).

## BALANCE SHEET AND FINANCIAL POSITION

### BALANCE SHEET RATIOS

in €k	2015	2016	2017
Total assets	180,663	195,628	220,231
Net working capital <sup>1</sup>	65,123	59,344	68,437
Capital employed <sup>2</sup>	151,979	153,616	179,931
Shareholders' equity	82,853	80,228	91,312
Equity in %			
of total assets	46%	41%	42%
Net debt <sup>3</sup>	69,126	73,388	88,619
Gearing <sup>4</sup>	83%	91%	97%

As of 31 December 2017, the balance sheet total amounted to € 220.2m and hence increased by € 24.6m versus the previous year (31 December 2016: € 195.6m).

Shareholders' equity in % of total assets increased slightly to 41.5% (31 December 2016: 41.0% of total assets). In the fiscal year 2017, the € 10m nominal value of the 3.25%, 2013–2017 bond was redeemed. Net debt of the Group amounted to € 88.6m versus € 73.4m at the end of the previous year.

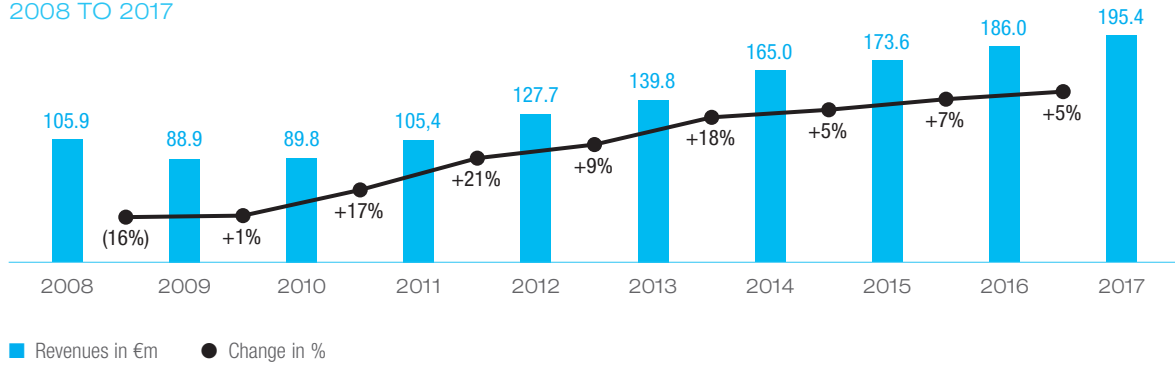
<sup>1</sup> Net working capital = Inventories + accounts receivable, other current receivables – accounts payable, current provisions, other provisions, other current liabilities

<sup>2</sup> Capital employed = Shareholders' equity including minorities + financial liabilities (current, non-current) – cash and cash equivalents

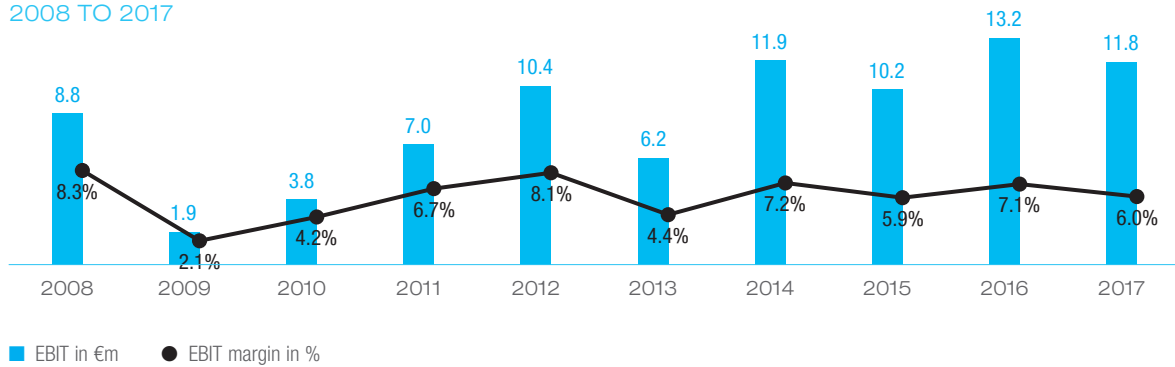
<sup>3</sup> Net debt = Financial liabilities (current, non-current) – cash and cash equivalents

<sup>4</sup> Gearing = Net debt / shareholders' equity including minorities

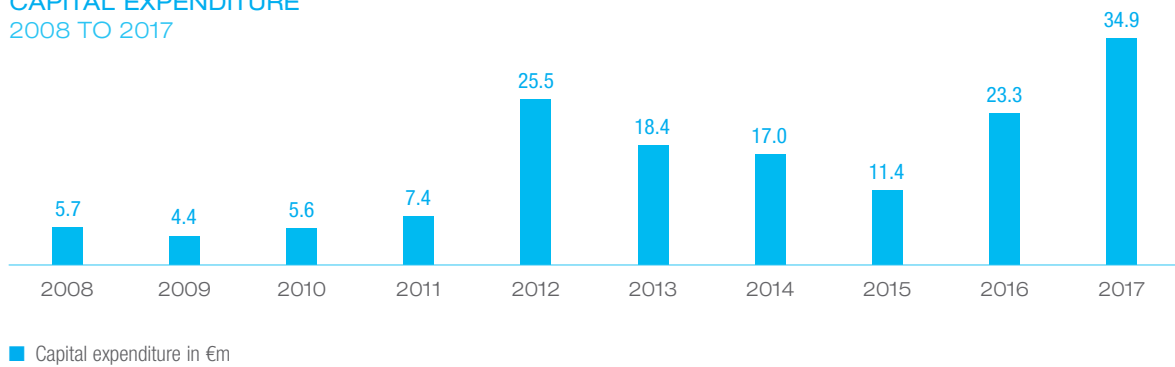
### DEVELOPMENT OF REVENUES 2008 TO 2017



### DEVELOPMENT OF EBIT AND EBIT MARGIN 2008 TO 2017



### CAPITAL EXPENDITURE 2008 TO 2017



## ENVIRONMENT AND SUSTAINABILITY

Acting in an environmentally responsible und sustainable manner is of highest priority to Pankl Group. In the reporting period, energy expenses amounted to 1.6% of turnover, which was a similar level as in the previous year (2016: 1.8%). Pankl Group did not incur any expenses in connection with the acquisition of CO<sub>2</sub>-certificates and is not included in the National Allocation Plan (NAP). In the fiscal year 2014, Pankl Group extended its environment management system by the ISO 14001 standard and since then further strengthened it on an ongoing basis.

## MAJOR EVENTS DURING THE FISCAL YEAR

■ To continue the simplification of the group structure which started in 2016, the businesses of Pankl Drivetrain Systems GmbH & Co KG, Pankl Engine Systems GmbH & Co KG and Pankl Schmiedetechnik GmbH & Co KG were merged into Pankl Systems Austria GmbH (formerly: Pankl Beteiligungs GmbH). These changes were entered into the commercial register on 3 March 2017. Pankl Emission Control

Systems GmbH was merged into Capital Technology Beteiligungs GmbH, which in turn was merged into Pankl Racing Systems AG. These transactions were entered into the commercial register on 4 July 2017 and 26 August 2017. Finally, Pankl Vermögensverwaltungs GmbH was merged into Pankl Racing Systems AG, which was entered into the commercial register on 22 November 2017.

■ In the 19<sup>th</sup> AGM held on 28 April 2017, the shareholders approved the Management Board proposal which was also backed by the Supervisory Board to pay a dividend of € 0.60 per share for the fiscal year 2016. The remaining amount of the balance sheet profit was carried forward for new account. In addition, it was decided to decrease the number of supervisory board members from six to five. The articles of the Company were amended that the Company can be represented either by one management board member if the Management Board of the Company consists of one person or by two management board members or one management board member and an authorised signatory if the Management Board of the Company consists of two or more members. The Supervisory Board is, however, authorised to grant single signatory rights to individual management board members. Mr. Alfred Hoertenhuber and Mr. Friedrich Roithner were re-elected as members of the Supervisory Board.

# 3. SEGMENT REPORTING

## RACING/HIGH PERFORMANCE SEGMENT

Due to Formula One rule changes, profitability in the racing division developed favourably. During the reporting period, the high performance business was stable taking into account start-up expenses. In 2017, the Racing/High Performance segment revenues increased by 4.6% from € 161.5m to € 169.0m.

Due to the start-up expenses of the new high performance drivetrain production facility, operating earnings (EBIT) decreased from € 12.0m or 7.4% of revenues in 2016 to € 10.7m or 6.3% of revenues in 2017.

## AEROSPACE SEGMENT

The aerospace business developed favourably despite ongoing weakness in the helicopter market. This is mainly due to increasing revenues from jet engine driveshafts. In 2017, aerospace revenues amounted to € 27.5m and were above the level in the previous year (2016: € 25.5m). Also operating earnings (EBIT) increased slightly from € 1.1m or 4.4% of revenues in 2016 to € 1.2m or 4.4% of revenues in 2017.

## OTHERS SEGMENT

“Others” segment revenues amounted to € 7.3m (2016: € 7.1m), EBIT amounted to € –95k (2016: € 131k).

## 4. RESEARCH AND DEVELOPMENT, INNOVATION AND QUALITY

Technological leadership is one of the major success factors in the motor racing and high performance businesses and in aerospace. Research and development is hence of major importance for the companies of Pankl Group. In 2017, expenses for intense research and development activities amounted to € 15.3m (2016: € 13.2m).

### RACING/HIGH PERFORMANCE SEGMENT

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

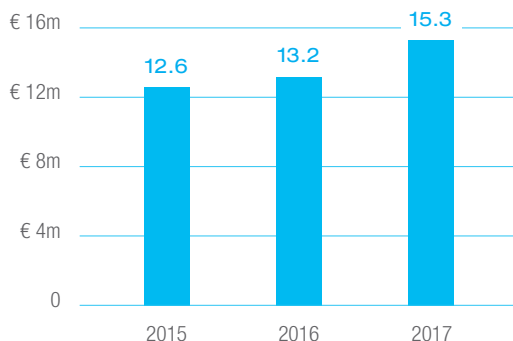
In terms of product development, we work on a piston with an integrated cooling channel to allow for better heat transfer. In 2017, we established a dedicated measurement engineering department which allowed us for the first time to further develop circuit boards for i-shaft applications ourselves.

Process improvements are an essential part of our research and development work besides material and product development. We successfully transferred a large number of heat treatment processes to the new drivetrain production facility, where we were able to not just maintain but even improve some of the mechanical properties. In addition, we developed optimisations in the area gearboxes, where we work on a heat treatment process for a new material for gear wheels. We further developed a significantly improved process to manufacture wishbones. We achieved improvements in the area simulation know how and examine innovative processes for pre-forming forged components.

Another major focus is development work for Formula One. Our new steel pistons achieved already first positive results with Formula One customers. We developed innovative central nut solutions with a rotation lock for so called blown axles allowing shorter pit stop times. We comprehensively tested a gas nitrified integrated driveshaft for the first time without failure.

In the drivetrain area, one innovation highlight is the so called swaging driveshaft made from highest strength steel. This material and technology combination allows the design of the lightest driveshafts available globally. Another successful development is a half-integrated driveshaft solution for super cars featuring extreme load requirements never seen before.

R&D EXPENSES  
2015–2017



As part of the new drivetrain production facility we established a completely new area called Pankl additive manufacturing technologies within the Company. We created a dedicated department for print and post-editing equipped with seven laser melting machines and one electron beam unit to research 3D printing of components. We can print alloys from aluminium, titanium, steel and non-ferrous materials. In 2017, we completed a comprehensive properties programme taking different design parameters, heat treatment and hot-isostatic pressing into consideration for aluminium, titanium and two steel alloys. We characterised the materials regarding their static and dynamic properties.

We carried out benchmark tests of different inhouse and external surface finishing methods for various materials, which focus primarily on finishing internal cavities respectively cooling channels which cannot be accessed in a conventional manner. Additive manufacturing allows close-contoured production of such structures for the first time. We further used CFD simulation and component tests to characterise cooling channels regarding their loss of pressure. This allowed us to significantly reduce the loss of pressure compared to competitors.

A key area to be able to fully utilise the advantages of additive manufacturing is topology optimisation. We compared five software solutions using test calculations and evaluated scope of simulation, usability, integration into the existing licensing system and cost.

Co-operation with academic and other research institutions such as the Vienna (TU Wien), Graz (TU Graz) and Leoben (Montanuniversität Leoben) universities generates optimal synergies to be able to fulfil the high requirements of our markets.

## AEROSPACE SEGMENT

Further ongoing technological development is also a major success factor in the aerospace business. In the fiscal year 2017, development of hybrid driveshafts for jet engines progressed decisively. In a ground test, first prototypes were tested successfully in a jet engine run.

We paved the way for massive technology in-sourcing in the jet engine area. Our defined future goal is the in-house realisation of special processes, such as special coating methods or non-destructive materials testing. We already completed major steps in this direction in the current fiscal year.

It is our defined target to certify these special processes in accordance with our customers' requirements and with Nadcap (National Aeronautical and Defence Contractors Accreditation Programme). We were able to complete numerous projects in the area aircraft interior after receipt of the official authorisation to be a design organisation according to EASA Part 21 Subpart J – DOA (Design Organisation Approval).

## QUALITY

The development, production and distribution of high quality products are major constituents of the Pankl Group mission statement. We secure highest quality standards via comprehensive quality management regarding product quality and process supervision.

Registrations and certifications guarantee customers highest product quality. Annual compliance audits are required to maintain the certified status. Pankl Group has the following certifications complying with the appropriate requirements of the automotive and aerospace industries: ISO 9001, ISO 14001, ISO/TS 16949, ISO 27001, ISO 31000, VDA 6.1 and AS/EN 9100.

## 5. HUMAN RESOURCES<sup>1</sup>

### EMPLOYEES ANNUAL AVERAGE

	2015	2016	2017
Number of employees	1,306	1,409	1,587
<b>By segment</b>			
Racing/High Performance	1,147	1,197	1,359
Aerospace	142	135	145
Others	17	77	83
<b>By region</b>			
Austria	729	761	893
Slovakia	254	324	378
USA	197	204	210
United Kingdom	71	65	68
Germany	55	55	37
Japan	-	-	1
<b>By employment type</b>			
Manual workers	794	811	993
Clerical staff	512	598	594

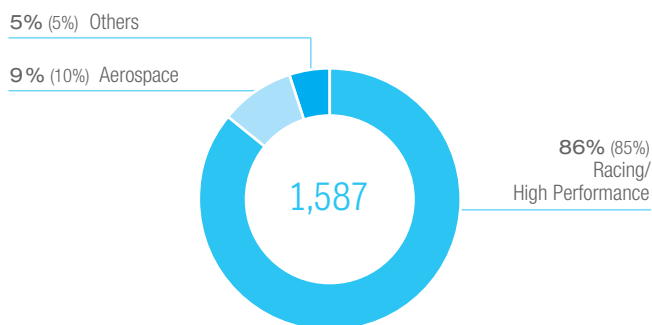
In the fiscal year 2017, Pankl Group employed 1,587 persons (2016: 1,409 persons) on average. 893 persons from the total were employed in Austria (2016: 761 persons) and 694 persons were employed in the international group companies (2016: 648 persons).

The number of employees is broken down in the segments as follows:

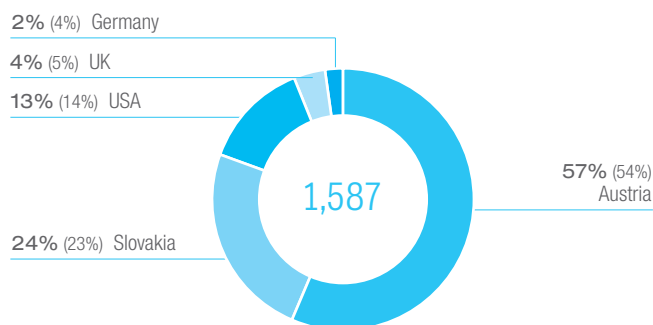
- Racing/High Performance segment: 1,359 persons (2016: 1,197 persons)
- Aerospace segment: 145 persons (2016: 135 persons)
- Others segment: 83 persons (2016: 77 persons)

The employees are major, valuable and success defining resources for Pankl Group. They secure the Company's growth and success through their know how and dedication at nine facilities in international locations. Pankl provides interesting job opportunities in an international group and puts special emphasis on the satisfaction of each employee and on individual training models. HR management focuses on the topics health, training, education and work life balance.

### EMPLOYEES BY SEGMENT 2017



### EMPLOYEES BY REGION 2017



The number in parentheses indicates the value of the previous year.

<sup>1</sup> According to article 267a of the Austrian Commercial Code (§ 267a UGB), Pankl Racing Systems AG is obliged to include a non-financial declaration instead of just stating non-financial performance indicators in the group status report or to provide a separate consolidated non-financial report. The Company is exempted from this obligation because it is included in the separate non-financial report of KTM Industries AG, Wels. The information according to article 243 para 5 of the Austrian Commercial Code (§ 243 Abs. 5 UGB) is provided voluntarily.



## WORKPLACE HEALTH AND SAFETY

In 2017, as in previous years, Pankl put substantial emphasis on the health and safety of its employees. A large number of employees made use of offered medical check-ups and immunisation programmes. In the fiscal year 2017, there was an occupational health focus on skin protection in production. Our occupational health professionals carried out workshops to educate and to help prevent skin diseases. In 2017, we organised a skin-protection day on both Austrian company locations with AUVA.

In the fiscal year 2017, we again carried out fire safety training. Our safety officer and occupational health professionals carried out presentations for all new apprentices. The safety officer carries out presentations on safety at the workplace for all new employees as part of the Pankl onboarding process. All relevant employees received CE training. Our programme was rounded off by grants for reading glasses or optical safety glasses for relevant employees.

### Pankl in motion

Our health programme "Pankl in motion" attracted a lot of enthusiasm and interest by our employees and focused on relaxation, physical exercise and nutrition. The programme contained again a number of interesting presentations and workshops on the topics mentioned above and was complemented by heart fitness coaching and health clinic.

## TRAINING AND PERSONNEL DEVELOPMENT

Pankl invests heavily in ongoing improvement of employee know how and capabilities. We train and strengthen industry expertise and people skills in targeted training programmes. At our Austrian facilities, we provided more than 11,700 training hours worth more than € 272k for the optimal support of our employees in the fiscal year 2017. We offer internal and external courses. Pankl also offers practice-oriented training courses for many areas. An example is a seminar dedicated for sales assistants of all departments which focuses on teambuilding, rhetoric, conflict management and people skills.

A major issue for Pankl is also to bring out the inner potential of our employees. Future managers are trained and prepared for their new tasks in junior management programmes.

### TRAININGS BY EMPLOYMENT RATIO IN AUSTRIA 2017



In the fiscal year 2017, 245 employee interviews were conducted with white-collar employees in Austria. Blue-collar employees carry out such interviews every two years. In these conversations, employees can discuss their issues and suggestions for improvements directly with their superiors. These interviews also deal with personal development and job satisfaction. Furthermore, last year's targets are evaluated and next year's targets defined. Pankl offers its employees besides a fixed remuneration also variable bonuses. These depend not just on the financial results of the appropriate Pankl Group company, but also on the achievement of personal targets.

In the fiscal year 2016, we introduced a dedicated onboarding process for new Pankl employees in addition to the existing "start-up" programme. This onboarding process is broken down in four components and contains trainings for the topics safety at Pankl, IT, project management and ERP. This system has proven itself in 2017 and is maintained and intensified.

## CAREER THROUGH APPRENTICESHIP

Internal apprenticeships are a significant component of our personnel policies as employees contribute substantially to the success of the Company. In the fiscal year 2017, 69 apprentices (including three refugees) were trained, 51 of which as metal technicians with focus on machining, seven as office administrators, five as IT engineers, one as a trainee cook in our canteen, two in the area of operating logistics and one as a coating technician.

In the past fiscal year Pankl continued its three-way education system in which apprentices attend Pankl apprentice colleges in addition to the specific vocational education at Pankl and appropriate schools. This provides comprehensive professional training which supports and strengthens personal and social competencies of each apprentice. We offered a higher qualification in the area lean production to four apprentices who showed outstanding dedication.

Every apprentice completes five modules during his or her apprenticeship, which are aimed to strengthen teamwork, confidence, communications, conflict resolution, entrepreneurial thinking and presentation skills. This specific type of training is of strategic importance and has tradition in Pankl Group.

In 2017, we introduced a health day for apprentices, which aims to sensitize apprentices to the dangers of alcohol, energy drinks and smoking. Some apprentices complete the Austrian school leaving exam (Matura) during their apprenticeship. Also in 2017, the apprentice training was completed with a hiking event and an excursion.

## WORK AND FAMILY

Combining work and family life is a major topic. That is why Pankl tries to actively take part, support and advise employees in the times before and after childbirth and the time after parental leave. Flexi-time solutions for parents are defined individually and after extensive consultation. Working hours can be defined in a flexible manner within the framework. Pankl conducts special interviews with parents to facilitate their return to Pankl after parental leave. In these conversations, special emphasis is put on individual wishes and requirements. Pankl employees in the Austrian facilities receive financial grants for childcare, childbirth and marriage.

## DIVERSITY

The percentage of women working at Pankl Group is, as is typical for our industry, relatively small. We put a lot of effort into attracting girls to technical professions in order to be able to fulfil our future requirements for female technically qualified expert workers internally. In the past years, the percentage of female employees increased continuously in particular in the production departments. As an international company, it is very important for Pankl that there is open and respectful interaction between employees of different cultures and origin. This shows in the global scale of our company and the many nationalities represented among our staff.

## 6. RISK AND OPPORTUNITIES MANAGEMENT

### MAJOR RISKS, UNCERTAINTIES AND OPPORTUNITIES

Pankl Group is a technology business and is hence exposed to a very dynamic environment. Risks are part of the daily business. We understand risk as the probability of deviations of actual developments from our corporate targets. Risk contains positive (opportunities) as well as negative (risks) deviations from our corporate targets.

### RISK REPORT

The following are the major risks of Pankl Group:

#### Rule changes

Rule changes significantly influence demand in the motor racing market. Rule changes are continuously discussed and executed in all of the racing series which are important for Pankl Group. These ongoing rule changes mean that there are intense research and development activities of the motor racing teams, which in turn may benefit Pankl Group. There is, however, also a trend to contain cost which may lead to declining motor racing budgets.

Current changes follow the trend of engine downsizing and hybridisation in the automotive industry. The rule changes represent technological challenges for motor racing participants and opportunities for Pankl to further increase market share and to further strengthen the leading market position via innovations.

Generally motor sport is confronted with declining spectator numbers. The industry aims to counter this negative trend by the use of more aggressive designs (new aerodynamics in Formula One) and higher engine power (WRC). For Pankl Group these changes mean higher requirements for materials used and numerous development projects to be executed with customers.

Seasonality of revenues in individual racing classes may be influenced by changes to test days and the start of the season.

#### Economic development of the automotive and aerospace industries

The withdrawal of AUDI SPORT from WEC and VW Motor Sport from WRC has adversely affected a number of suppliers. Pankl has the advantage to have many individual customers and is hence well diversified. The general trend of OEMs developing super cars is positive for Pankl, because we can utilise our motor racing experience in this niche very well. Customers aim to draw on motor racing expertise to design such road-going vehicles.

In civil aerospace, growth for helicopters stagnates due to the oil price declines, which, however, could lead to opportunities in the airplanes jet engines area. Our successful Design Organisation Approval Part 21J EASA certification also creates prospects. Reductions in military budgets cause a negative development in the military aerospace segment.

#### Changes in the commodities' markets

Pankl requires premium raw materials such as stainless steel, titanium and aluminium alloys for the production of its products. Availability of appropriate raw materials at the right time and quality depends on careful forward planning of required order volumes. Any shortages of required raw materials may lead to production or delivery delays or increasing material expenses. We obtain most of our raw materials internationally and are hence subject to a large number of risks, including economic or political disturbances, transport delays or exchange rate fluctuations. Each of these risks may have a materially adverse effect on the Company's earnings or its financial position.

#### Production risks

Production facilities of the Pankl Group are equipped with state-of-the-art machinery. Continuous and regular maintenance procedures are carried out to minimise the risk of production disruptions or losses.

#### Risks from research and development

Research and development activities are of special importance for Pankl Group. R&D activities always carry the risk that they may not bring the desired results or that customers may not honour the effort with appropriate orders. Pankl Group aims to minimise these risks through ongoing market observation and close co-operation with customers.

#### Currency and interest rate risks

Pankl Group owns subsidiaries in the USA and the United Kingdom. A major portion of revenues and expenses is denominated in other currencies than the Euro, mainly in US Dollar. Exchange rate fluctuations may hence result in exchange rate losses in the consolidated financial accounts. In addition, there is a risk from the translation of financial statements of the international subsidiaries into the group currency Euro. Exchange rate fluctuations may also lead to a change in the competitive position of Pankl Group.

Interest for part of Pankl's financial liabilities is variable, in this respect there is an interest rate risk. The credit risk from holding financial assets is minimised as Pankl invests in or deposits funds only with top rated institutions.

#### Personnel risks

Employee knowledge is a decisive competitive edge for Pankl. The Company supports the idea of live-long learning. In the internal training centre, customised training is offered to enable employees to deal with changing requirements in the Company. The focus is not just on professional qualifications but also on social and methodological competences.

By filling executive positions mostly internally and thus creating career opportunities for employees within the Company, we strive to create a bond with the Company and counteract the risk to lose know how via employee fluctuation.

#### Other risks

The Pankl Group is exposed to legal risks due to numerous rules, regulations and contractual relationships. To deal with these risks, Pankl employs a number of internal specialists who are involved in important decision-making processes. If required, the Company draws also on external professionals. To assure appropriate insurance protection, there is a group-wide insurance scheme. The financial reporting is essential in supervising and monitoring the economic risks of ongoing business operations. The Management Board and the appropriate decision makers are informed about potential risks in a timely and comprehensive manner. The group-wide information flow is supported by appropriate computer systems (e.g. management information system).

## INTERNAL CONTROL SYSTEM

The internal audit department, which reports directly to the Management Board, is responsible for the ongoing improvement of the internal control system of Pankl Group and carries out adequate measures together with the appropriate specialist departments. Internal control measures to assure reliability and quality of financial reports, which are used internally or distributed to third parties, in addition to the documentation of these controls are continuously reviewed. Particular emphasis is put on compliance with group-wide standards. Internal control measures are executed by decentralised organisational units which are supervised by the internal audit department.

Group-wide accounting and reporting guidelines assure consistency of financial information within the Pankl Group. Dedicated personnel within the appropriate organisational units are responsible for the execution of these standards in a decentralised manner. Compliance with internal guidelines and processes is continuously monitored based

on the audit plan which is designed by the internal audit department and approved by the Management Board. Internal audit results are communicated to the Management Board and the managing directors of the appropriate organisational units. Know how to carry out improvements is provided, if needed. At the request of management, the internal audit department may also carry out adhoc inspections which aim at evaluating current and future risks.

The controlling departments of the subsidiaries produce standardised reports on a monthly basis, which outline the current development of the Company and analyse deviations from expectations. The scope of these reports is defined group-wide and contains detailed financial data and non-financial performance indicators. The production of these reports is supported by a group-wide management information system, which assures that management is informed in a timely

manner. The preparation of the consolidated financial statements is the responsibility of the Group controlling department. External and internal reporting is based on the same sources of information. Continuous reconciliation and checks between the local accounting departments, the controlling departments and the Group controlling department assure reliability of the reported data.

## FINANCIAL INSTRUMENTS

For information on derivative financial instruments, please refer to the chapter "book values, fair values and net results from the use of financial instruments" in the notes to the consolidated financial statements.

# 7. SUPPLEMENTARY REPORT AND FORECAST

## FUTURE DEVELOPMENT

During the fiscal year 2017, we improved operating results both in the Racing/High Performance segment and in the Aerospace segment. The launch of our new high performance drivetrain production

facility and the start-up of serial production were absolute highlights. For the fiscal year 2018, we expect revenues growth of at least 10%, which is well supported by record order books. The absence of start-up expenses and productivity improvements should lead to significant earnings growth.

## 8. DISCLOSURE ACCORDING TO ARTICLE 243 A UGB (AUSTRIAN COMMERCIAL CODE)

■ The share capital of the Company amounts to € 3,150,000. It is divided into 3,150,000 bearer shares with voting rights. Every share constitutes a pro-rata share in the share capital of the Company amounting to € 1.00. The whole share capital of the Company is paid in. There are no unpaid amounts of subscribed share capital issued by Pankl Racing Systems AG. The shares provide all customary rights defined in the Austrian public companies act. This includes payment of a dividend after appropriate resolution in the AGM and the right to vote in the AGM. All shares are admitted to be traded on the Vienna Stock Exchange (Official Market segment).

■ As of 31 December 2017, KTM Industries AG held more than 90% of the Company's share capital.

■ There are no shares with preferential voting rights. There are no share option programmes. The Management Board is not aware of any restrictions regarding voting rights or share transfers.

■ The Supervisory Board's rules of procedures define an age restriction of 65 years for members of the Supervisory Board and members of the Management Board. Other than that, there are no restrictions outside the legal provisions regarding members of the Supervisory and Management Boards. There are also no rules outside the legal provisions for changing the articles of association.

■ In the AGM held on 25 April 2013, the Management Board was authorised to issue financial instruments according to article 174 of the Austrian Public Companies Act (§ 174 AktG) subject to the approval of the Supervisory Board. This authorisation is valid from 31 January 2014 until 25 April 2018 and refers to convertible

bonds, participation bonds and certificates up to a nominal value of € 50,000,000 which may entitle to subscribe for or convert into up to 1,944,000 shares of the Company. These financial instruments may also be structured in a way that they can be accounted for as shareholders' equity. They may also be issued in several tranches and in different combinations. These financial instruments may also be issued indirectly via the use of a guarantee for financial instruments issued by a Group company to be convertible into shares of the Company. The Management Board may utilise authorised capital or own shares to serve such conversion rights. Subject to Supervisory Board approval, the Management Board is entitled to define issue prices and terms and also the exclusion of shareholders' pre-emption rights for these financial instruments.

■ In the AGM held on 25 April 2013, the following resolutions were passed:

a) Subject to Supervisory Board approval, the Management Board is authorised to increase the share capital of the Company by up to € 1,575,000 via the issue of up to 1,575,000 shares against cash or a contribution in kind, in one or more tranches until 25 April 2018. Subject to Supervisory Board approval, the Management Board is entitled to define issue prices and terms (authorised share capital according to article 169 of the Austrian Public Companies Act).

b) Subject to Supervisory Board approval, the Management Board is entitled to exclude pre-emption rights of existing shareholders only if new shares are issued against a contribution in kind being companies, establishments or shares of Austrian or other companies.

c) The existing authorised share capital from 30 January 2009 is cancelled.

■ The Company did not enter into any material contracts, which would be subject to change or termination in case of a change in control.

■ There are no compensation agreements between the Company and the Management Board and/or Supervisory Board members and/or employees in case there is a public takeover bid.

Kapfenberg, on 15 February 2018

The Management Board of Pankl Racing Systems AG



Wolfgang Plasser  
CEO



Christoph Prattes  
COO



Stefan Seidel  
CTO







**INTELLIGENT.**  
PRODUCTS  
AND PRODUCTION  
SYSTEM NETWORKS.

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# CONSOLIDATED PROFIT AND LOSS ACCOUNT

OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2017

	Notes	01/01/2017– 31/12/2017		01/01/2016– 31/12/2016	
		in €k	in %	in €k	in %
<b>REVENUES</b>		<b>195,388</b>	<b>100.0</b>	<b>185,991</b>	<b>100.0</b>
Cost of goods sold	(01)	(148,772)	(76.1)	(138,754)	(74.6)
<b>Gross profit</b>		<b>46,616</b>	<b>23.9</b>	<b>47,237</b>	<b>25.4</b>
Distribution expenses	(01)	(12,373)	(6.3)	(11,559)	(6.2)
Administration expenses	(01)	(26,474)	(13.5)	(25,182)	(13.5)
Other (operating) income	(03)	4,363	2.2	3,041	1.6
Other (operating) expenses	(03)	(342)	(0.2)	(327)	(0.2)
<b>Earnings before interest and taxes (EBIT)</b>		<b>11,790</b>	<b>6.0</b>	<b>13,210</b>	<b>7.1</b>
Financial income		219	0.1	426	0.2
Financial expenses		(3,019)	(1.5)	(2,794)	(1.5)
<b>Financial results</b>	(04)	<b>(2,800)</b>	<b>(1.4)</b>	<b>(2,368)</b>	<b>(1.3)</b>
<b>Earnings before taxes (EBT)</b>		<b>8,990</b>	<b>4.6</b>	<b>10,842</b>	<b>5.8</b>
Income taxes	(05)	(3,259)	(1.7)	(857)	(0.5)
<b>EARNINGS AFTER TAXES</b>		<b>5,731</b>	<b>2.9</b>	<b>9,985</b>	<b>5.4</b>
<i>Attributable to shareholders of parent company</i>		<i>6,067</i>	<i>3.1</i>	<i>10,141</i>	<i>5.5</i>
<i>Attributable to minorities</i>		<i>(336)</i>	<i>(0.2)</i>	<i>(156)</i>	<i>(0.1)</i>
<b>EARNINGS PER SHARE</b>					
Undiluted = fully diluted earnings per share	(16)		€ 1.93		€ 3.22

50 **CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME**  
OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2017

	Notes	01/01/2017– 31/12/2017 in €k	01/01/2016– 31/12/2016 in €k
<b>Earnings after taxes</b>		<b>5,731</b>	<b>9,985</b>
Items which are not shown in the profit and loss account:			
Actuarial profits/losses from pension plans and similar schemes	(12)	2	(91)
Deferred taxes on actuarial profits/losses from pension plans and similar schemes	(05)	(1)	23
Items which were or may be shown in the profit and loss account:			
Foreign exchange differences from net capital expenditure in foreign businesses	(Chapter 4)	(371)	2,188
Foreign exchange differences from foreign subsidiaries	(Chapter 4)	(2,387)	(2,851)
<b>Other results of the period</b>		<b>(2,757)</b>	<b>(731)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	(Chapter 4)	<b>2,974</b>	<b>9,254</b>
<i>Attributable to shareholders of parent company</i>		<i>3,310</i>	<i>9,410</i>
<i>Attributable to minorities</i>		<i>(336)</i>	<i>(156)</i>

# CONSOLIDATED BALANCE SHEET

OF PANKL RACING SYSTEMS AG AS OF 31 DECEMBER 2017

ASSETS	Notes	31/12/2017		31/12/2016	
		in €k	in %	in €k	in %
<b>NON-CURRENT ASSETS</b>					
Goodwill	(06)	12,081	5.5	12,664	6.5
Other intangible assets	(06)	1,810	0.8	1,898	1.0
Tangible fixed assets	(07)	98,536	44.7	79,142	40.5
Financial fixed assets	(08)	1,606	0.7	1,993	1.0
Deferred tax assets	(05)	2,572	1.2	4,234	2.1
<b>Total non-current assets</b>		<b>116,605</b>	<b>52.9</b>	<b>99,931</b>	<b>51.1</b>
<b>CURRENT ASSETS</b>					
Inventories	(09)	61,818	28.1	55,237	28.2
Trade accounts receivable	(10)	26,255	11.9	27,248	13.9
Other current receivables and assets	(10)	5,427	2.5	3,888	2.0
Current tax assets		354	0.2	218	0.1
Cash and cash equivalents		9,772	4.4	9,106	4.7
<b>Total current assets</b>		<b>103,626</b>	<b>47.1</b>	<b>95,697</b>	<b>48.9</b>
<b>TOTAL ASSETS</b>		<b>220,231</b>	<b>100.0</b>	<b>195,628</b>	<b>100.0</b>
<b>LIABILITIES</b>					
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	(11)	3,150	1.4	3,150	1.6
Capital reserves	(11)	37,784	17.2	37,784	19.3
Perpetual bond	(11)	10,000	4.5	0	0.0
Reserves from retained earnings	(11)	39,717	18.0	38,297	19.6
<b>Equity of parent's shareholders</b>		<b>90,651</b>	<b>41.2</b>	<b>79,231</b>	<b>40.5</b>
Minorities	(11)	661	0.3	997	0.5
<b>Total shareholders' equity</b>		<b>91,312</b>	<b>41.5</b>	<b>80,228</b>	<b>41.0</b>
<b>NON-CURRENT LIABILITIES</b>					
Non-current loans	(15)	81,851	37.2	49,456	25.3
Non-current finance lease liabilities	(07)	0	0.0	56	0.0
Personnel related provisions	(12)	1,809	0.8	1,815	0.9
Non-current provisions	(13)	25	0.0	64	0.0
Other non-current liabilities	(15)	3,210	1.5	3,653	1.9
Deferred tax liabilities	(05)	67	0.0	127	0.1
<b>Total non-current liabilities</b>		<b>86,962</b>	<b>39.5</b>	<b>55,171</b>	<b>28.2</b>
<b>CURRENT LIABILITIES</b>					
Current loans and short-term portion of non-current loans	(15)	16,479	7.5	22,703	11.6
Bond	(15)	0	0.0	9,985	5.1
Current finance lease liabilities	(07)	61	0.0	294	0.2
Other current liabilities	(14)	13,727	6.2	15,082	7.8
Trade accounts payable	(15)	11,470	5.2	11,437	5.8
Current tax liabilities	(15)	0	0.0	283	0.1
Other provisions	(13)	220	0.1	445	0.2
<b>Total current liabilities</b>		<b>41,957</b>	<b>19.1</b>	<b>60,229</b>	<b>30.8</b>
<b>Total liabilities</b>		<b>128,919</b>	<b>58.5</b>	<b>115,400</b>	<b>59.0</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>220,231</b>	<b>100.0</b>	<b>195,628</b>	<b>100.0</b>

# CONSOLIDATED CASH FLOW STATEMENT

## OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2017

Notes	01/01/2017– 31/12/2017 in €k	01/01/2016– 31/12/2016 in €k
<b>EARNINGS AFTER TAXES</b>	<b>5,731</b>	<b>9,985</b>
<b>Cash flow from operating activities derived from earnings after taxes</b>		
Depreciation and amortisation (01)	14,152	13,012
Profit/loss from the sale of fixed assets	57	(40)
Other non-cash expenses/income	3,688	3,171
Income taxes paid	(2,188)	(1,180)
Change in non-current provisions (13)	(46)	162
<b>CASH FLOW FROM EARNINGS</b>	<b>21,394</b>	<b>25,110</b>
Change of trade accounts receivable	354	822
Change of other current receivables and assets	(1,683)	(478)
Change of inventories (09)	(6,581)	(1,711)
<b>Change of current assets</b>	<b>(7,910)</b>	<b>(1,367)</b>
Change of trade accounts payable	2,054	(1,122)
Change of current provisions	(225)	202
Change of other debts and liabilities from income taxes	(1,532)	2,220
<b>Change of current liabilities</b>	<b>297</b>	<b>1,300</b>
Change of deferred taxes (05)	1,603	(869)
Change of foreign exchange differences and other non-cash expenses/income	(1,918)	(376)
Change of other non-current assets/liabilities	(442)	118
<b>Change of non-current assets/liabilities</b>	<b>(757)</b>	<b>(1,127)</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>13,024</b>	<b>23,916</b>
Capital expenditure in tangible fixed assets (07)	(36,390)	(20,611)
Proceeds from the sale of fixed assets	1,813	470
Capital expenditure in intangible assets (06)	(755)	(653)
Capital expenditure in financial assets (08)	(65)	(76)
Interest received (04)	72	74
Capital expenditure for acquisition of subsidiaries	95	(567)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(35,230)</b>	<b>(21,363)</b>

	Notes	01/01/2017– 31/12/2017 in €k	01/01/2016– 31/12/2016 in €k
Loan increases	(15)	36,369	12,400
Loan redemptions	(15)	(21,416)	(7,857)
Change of current bank account balances	(15)	1,489	3,239
Dividend payments		(1,890)	(1,890)
Transactions with minorities		0	(2,922)
Interest paid		(2,026)	(2,065)
Issue of perpetual bond	(11)	10,000	0
Other financing activities		(129)	(1,652)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>22,397</b>	<b>(747)</b>
<b>CHANGE OF CASH AND CASH EQUIVALENTS</b>		<b>191</b>	<b>1,806</b>
Cash and cash equivalents as of 01/01	(15)	9,106	7,310
Cash impact of foreign exchange differences		475	(10)
Change of cash and cash equivalents		191	1,806
<b>CASH AND CASH EQUIVALENTS AS OF 31/12</b>	(15)	<b>9,772</b>	<b>9,106</b>

The consolidated cash flow statement of Pankl Group shows how the cash position of Pankl Group is impacted by the in- and outflows of cash during the reporting period. The consolidated cash flow statement is derived from the consolidated financial statements using the indirect method. Cash is considered cash and bank deposits and corresponds to the balance sheet position "cash and cash equivalents". This position does not contain current securities and current bank liabilities.

At the balance sheet date, there were no major restrictions regarding the free availability of cash and cash equivalents.

54 **SCHEDULE OF CONSOLIDATED  
SHAREHOLDERS' EQUITY**  
OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2017

in €k	Notes	Share capital	Capital reserves	Perpetual bond
<b>Balance as of 31/12/2016 (= 01/01/2017)</b>		<b>3,150</b>	<b>37,784</b>	<b>0</b>
<b>Total results</b>				
Earnings after taxes		0	0	0
Results directly accounted for in equity	(Chapter 4)	0	0	0
<b>Total results</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>Transactions with equity holders</b>				
Perpetual bond	(11)	0	0	10,000
Dividend payments	(20)	0	0	0
<b>BALANCE AS OF 31/12/2017</b>		<b>3,150</b>	<b>37,784</b>	<b>10,000</b>
<b>Balance as of 31/12/2015 (= 01/01/2016)</b>		<b>3,150</b>	<b>37,784</b>	<b>0</b>
<b>Total results</b>				
Earnings after taxes		0	0	0
Results directly accounted for in equity	(Chapter 4)	0	0	0
<b>Total results</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>Transactions with equity holders</b>				
Acquisition of minority stakes without change of control		0	0	0
Dividend payments		0	0	0
<b>BALANCE AS OF 31/12/2016</b>		<b>3,150</b>	<b>37,784</b>	<b>0</b>



Retained earnings			Equity attributable to shareholders of parent company	Share of minorities	Total
Reserves for foreign exchange differences	IAS 19 reserve for actuarial losses	Other retained earnings			
(3,182)	(252)	41,731	79,231	997	80,228
0	0	6,067	6,067	(336)	5,731
(2,758)	1	0	(2,757)	0	(2,757)
(2,758)	1	6,067	3,310	(336)	2,974
0	0	0	10,000	0	10,000
0	0	(1,890)	(1,890)	0	(1,890)
(5,940)	(251)	45,908	90,651	661	91,312
(2,519)	(183)	39,892	78,124	4,729	82,853
0	0	10,141	10,141	(156)	9,985
(663)	(69)	0	(731)	0	(731)
(663)	(69)	10,141	9,409	(156)	9,253
0	0	(6,412)	(6,412)	(3,576)	(9,988)
0	0	(1,890)	(1,890)	0	(1,890)
(3,182)	(252)	41,731	79,231	997	80,228

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2017

### 1. THE COMPANY

Pankl Racing Systems AG and its subsidiaries (hereinafter referred to as “the Pankl Group”) are an international technology group based in Industriestrasse West 4, 8605 Kapfenberg, Austria. Pankl Racing Systems AG is registered in the commercial register (Firmenbuch) of the Leoben district court under the number FN 143981 m. The business activities of the Pankl Group are broken down in the segments: Racing/High Performance (corresponds to Racing/Automotive), Aerospace and Others. Pankl Group is part of the group of companies of Pierer Konzerngesellschaft mbH in Wels, Austria, which is the top parent company. Pankl Racing Systems AG is fully consolidated in the group financial statements of Pierer Konzerngesellschaft mbH. The consolidated financial statements of the Pierer Konzerngesellschaft mbH are filed with the commercial register of the Wels district court under the number FN 134766k and represent the financial statements with the largest consolidation scope within this group of companies.

The consolidated financial statements of KTM Industries AG in Wels, Austria, are filed with the commercial register of the Wels district court under the number FN 78112x and represent the financial statements with the smallest consolidation scope within this group of companies, of which the group financial statements of Pankl Racing Systems AG are part of.

The reporting period started on 1 January 2017 and ended on 31 December 2017.

### 2. REPORTING RULES, ACCOUNTING AND VALUATION METHODS

#### REPORTING RULES

The consolidated financial statements as of 31 December 2017 were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in accordance with interpretations of the International Reporting Interpretations Committee (IFRIC) to the extent used in the EU. According to article 245a of the Austrian Commercial Code (§ 245a UGB), these consolidated financial statements based on IFRS fulfil all Austrian reporting requirements. The consolidated financial statements were compiled using the operational currency of the parent which is the Euro. The consolidated financial statements as of 31 December 2017 were confirmed by the Supervisory Board on 15 February 2018.

#### CHANGES OF ACCOUNTING RULES

IASB issued the following amendments for existing IFRS and also some new IFRS and IFRIC, which were adopted by the EU Commission and are hence to be applied from 1 January 2017:

- IAS 7 (Amendment): Disclosure Initiative
- IAS 12 (Amendment): Recognition of Deferred Tax Assets for Unrealised Losses
- Improvements to IFRS 2014–2016: Amendments to IFRS 12

Due to the first application of the above mentioned IFRS, there are the following major changes compared to 31 December 2016:

#### Amendments to IAS 7 – Disclosure Initiative

This amendment improves the information quality regarding the change in a company's indebtedness. The company provides information about the change of financial liabilities. Appropriate payments are shown in the cash flow statement under cash flow from financing activities. Financial assets which relate to financial liabilities are also referred to in the notes (e.g. assets from hedging transactions).

The notes state changes with cash impact, changes from the acquisition or disposal of companies, foreign exchange related changes, fair value changes and other changes.

The group provides a reconciliation statement of financial liabilities from the balance at the beginning of the period to the balance at the end of the period.

#### Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The changes clarify the accounting treatment of deferred tax assets relating to unrealised losses for debt instruments valued at fair value.

The changes do not have a material impact on the consolidated financial statements of Pankl Racing Systems AG.

#### Improvements to IFRS 2014–2016

Three IFRSs were amended by the Annual Improvements to IFRSs (2014–2016). In 2017, only the following clarification applied:

For IFRS 12 it is stated that information in accordance with IFRS 12 applies also for stakes in subsidiaries, joint venture companies and associated companies which are classified as "held for sale" within the meaning of IFRS 5 with the exception of information according to IFRS 12.B10–B16 (Financial Information).

This change does not have a material impact on the consolidated financial statements of Pankl Racing Systems AG.

The first application of the other IFRS and IFRIC was of minor importance for the consolidated financial statements of Pankl Racing Systems AG as of 31 December 2017, as only few items were relevant. There were no changes to the accounting and valuation methods.

### FUTURE CHANGES OF ACCOUNTING RULES

IASB and IFRIC issued further standards and interpretations, which did not have to be applied in the fiscal year 2017 or which have not yet been adopted by the EU commission. These are the following standards and interpretations:

Standard / Amendment	To be applied from IASB	Endorsement by EU?	To be applied from in EU
IFRS 9: Financial Instruments	01/01/2018	Yes	01/01/2018
IFRS 15: Revenue from Contracts with Customers	01/01/2018	Yes	01/01/2018
IFRS 16: Leases	01/01/2019	Yes	01/01/2019
IFRS 17: Insurance Contracts	01/01/2021	No	–
IFRS 2: Share-based Payment (Amendment)	01/01/2018	No	–
IFRS 4: Financial Instruments (IFRS 9) for Insurance Contracts (IFRS 4) (Amendment)	01/01/2018	Yes	01/01/2018

Standard / Amendment	To be applied from IASB	Endorsement by EU?	To be applied from in EU
IFRS 9: Financial Assets with Negative Prepayment Penalty (Amendment)	01/01/2019	No	–
IFRS 10 and IAS 28: Sale or Deposit of Assets between Investor and Associated Company or Joint Venture Company (Amendment)	Delayed for indefinite period	No	–
IFRS 15: Clarifications for IFRS 15 (Amendment)	01/01/2018	Yes	01.01.2018
IAS 28: Investments in Associates and Joint Ventures (Amendment)	01/01/2019	No	–
IAS 40: Investment Property (Amendment)	01/01/2018	No	–
IFRIC 22: Foreign Currency Transactions and Advance Consideration	01/01/2018	No	–
IFRIC 23: Uncertainty over Income Tax Treatments	01/01/2019	No	–
Annual Improvements to IFRS Standards 2014–2016 Cycle: Changes to IFRS 1 and IAS 28	01/01/2018	Yes	01/01/2018
Annual Improvements to IFRS Standards 2015–2017 Cycle: Changes to IFRS 3, IFRS 11, IAS 12 and IAS 23	01/01/2019	No	–

The application of the following standards and interpretations will impact the consolidated financial statements:

IFRS 16 *Leases* provides a single lessee accounting model requiring lessees to recognise assets (right of use) and liabilities (leasing payment obligation) for all leases unless the lease term is twelve months or less or the underlying asset has a low value.

IFRS 16 replaces existing guidelines such as IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases* and SIC 27 *Evaluating the Substance of Transactions in the Legal Form*.

The standard has to be used from the first reporting period starting on 1 January 2019 or thereafter.

The Group started to assess the potential impact from the application of IFRS 16 to the consolidated financial statements but cannot yet quantify it. The book values of tangible fixed assets and financial liabilities will increase due to the capitalisation of leasing arrangements. Based on analysis to date, the most important impacts will result from leased land and buildings. Please refer to note (07) "operating leases". The Group will apply IFRS 16 for the first time on 1 January 2019 using the modified retrospective method.

We do not expect any major impacts on the consolidated financial statements from the other future changes. We do not expect to apply any of the new standards and interpretations early.

### IMPACTS OF APPLICATION OF NEW STANDARDS FROM 2018

A number of new standards have to be applied in the first reporting period which starts after 1 January 2018. An earlier adoption is possible. The Group has, however, not applied the new or amended standards in these consolidated financial statements.

We expect that the first application of the following standards will have a material impact on the consolidated financial statements in the appropriate reporting period.

### Estimated impact from the first application of IFRS 9 and IFRS 15

The Group is obliged to apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018 onwards. The Group has analysed the estimated impact from the first application of IFRS 9 and IFRS 15. The estimated impact on the consolidated shareholders equity is summarised below.

The actual impact from the application of these standards from 1 January 2018 may deviate from the numbers below, because

- the Group has not yet completed tests and evaluations of the control mechanisms of its new IT systems;
- the new accounting methods may be amended during the time from the first application until the publication of the next consolidated financial statements.

in € k	Balance sheet as of 31/12/2017	Expected change by application of IFRS 9	Expected change by application of IFRS 15	Expected values in opening balance sheet as of 01/01/2018
Capital reserves	37,784	0	0	37,784
Retained earnings	39,717	41	377	40,135
Minorities	661	0	0	661

Pankl Group uses the modified retrospective method for the transition to IFRS 15 and hence will record the cumulative adjustment amounts as of 1 January 2018. As a result, the Group will not apply the rules of IFRS 15 for every shown comparison period.

In general, the Group applies accounting changes due to the application of IFRS 9 retrospectively except in the following cases:

- The Group will make use of the exemption for comparison information for previous periods with regards to classification changes and valuation (including impairment). Differences due to the first application of IFRS 9 between book values of financial assets and financial liabilities will generally be recorded in retained earnings as of 1 January 2018.

The total impact after taxes on shareholders' equity as of 1 January 2018 amounts to € 418k. This impact consists mainly of the following:

- Earlier realisation of revenues from customer specific production causes an increase of retained earnings by € 377k.
- New valuation of impairment on financial assets (mainly trade accounts receivable) causes an increase of retained earnings by € 49k.
- Impairment on financial assets which have to be capitalised due to IFRS 15 causes a decrease of retained earnings by € 8k.

### IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* deals with rules to record, value and write-off financial instruments and to account for hedging transactions. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

### Classification of Financial Assets

IFRS 9 contains a new classification and valuation approach for financial assets, which corresponds to the business model through which the financial assets are held and takes into account their appropriate cash flow characteristics.

IFRS 9 contains a classification approach for financial assets. The three classifications according to IFRS 9 are: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). These new classifications replace the classifications according to IAS 39.

Pankl Group does not have any financial assets accounted for on a fair value basis at the transition date. Therefore, Pankl Group does not expect any material impacts from the classification changes.

### Valuation

IFRS 9 requires the use of the forward-looking model for expected credit losses (ECL). This model applies to financial assets which are classified under amortised cost or fair value through other comprehensive income with the exception of financial fixed assets providing dividends and contract-based assets. This requires significant discretion regarding the question whether expected credit losses are caused by a change of economic factors. We use our discretion based on weighted probabilities.

IFRS 9 requires impairments based on the following:

- 12 months credit losses: this contains expected losses from payment defaults in the twelve months from the balance sheet date;
- Life-long credit losses: this contains expected losses from all possible default events during the expected term of the respective financial instrument;

Valuation in accordance with the concept of life-long credit losses shall be used, if the credit risk of a financial asset has significantly increased during the period from first-time reporting until the balance sheet date. For reasons of simplification, trade accounts payable and contract-based assets without a major financing component shall be valued in accordance with the concept for life-long credit losses irrespective of the risk assessment.

Pankl Group expects higher volatility due to the IFRS 9 model. As of 1 January 2018, the following changes are expected:

in €k	Expected change by application of IFRS 9
Trade accounts receivable	66
Contract-based assets	(10)

The increase in trade accounts receivable is due to the fact that Pankl Group already applied impairments for trade accounts receivable. The application of IFRS 9 causes an increase by € 66k.

First Pankl Group has analysed historical default data in accordance with standard requirements. Due to the low number of defaults this data was not usable in a statistical manner. Therefore, the Company derived at default probabilities based on external ratings of the major Pankl customers taking into account special geographic characteristics. This analysis was carried out separately for the segments Racing/High Performance and Aerospace to take the diversity of the business segments of Pankl Group into consideration. The Group weighted ratings of major customers by revenues and arrived at a default probability for the whole segment.

The resulting expected impairments are as follows:

Trade accounts receivable in €k	Total	Expected default rate	Impairment
Aerospace	5,704	4.33%	(248)
Racing/High Performance	20,333	0.39%	(78)
<b>Group</b>	<b>26,037</b>		<b>(326)</b>

Until now, impairments for trade accounts receivable amounted to € 392k.

Additional impairments result from the application of IFRS 9 for assets which need to be capitalised due to IFRS 15:

Contract-based assets in €k	Total	Expected default rate	Impairment
Aerospace	142	4.33%	(6)
Racing/High Performance	1,116	0.39%	(4)
<b>Group</b>	<b>1,258</b>		<b>(10)</b>

#### Cash and cash equivalents

As of 31 December 2017, cash and cash equivalents are deposited with banks and financial institutions, which were rated by the rating agencies Standard & Poor's and Fitch from AA- to BBB-.

The expected impairment on cash and cash equivalents was calculated on the basis of the expected loss within the next twelve months because of the short maturities. The Group expects that its cash and cash equivalents have a very low default rate due to the external ratings of the banks and financial institutions. Accordingly there is no material decrease in value as of 1 January 2018.

#### Classification – Financial liabilities

IFRS 9 largely maintains the existing requirements of IAS 39 for the classification of financial liabilities.

However, IAS 39 requires all changes of the fair value of liabilities which shall be valued at fair value affecting profit or loss to be carried through the profit and loss account. IFRS 9 allows such changes of the fair value to be shown as follows:

- Changes of fair value due to changes of credit risk of the liability shall be recorded in the other results.
- Any remaining changes of fair value shall be carried through the profit and loss account.

The Group does not have any financial liabilities, which shall be valued at fair value affecting profit or loss and does not intend to form any. Group analysis showed that there are no material impacts with regards to the classification of financial liabilities as of 1 January 2018.

### Accounting for hedging transactions

Pankl does not have any hedging transaction in its balance sheet at the transition date. The new rules have hence no impact on the financial reports.

### IFRS 15 Revenue from contracts with customers

IFRS 15 defines a comprehensive framework, if, when and how much revenue shall be recognised. It replaces existing guidelines for the recognition of revenues, such as IAS 18 *Revenues*, IAS 11 *Production Orders* and IFRIC 13 *Customer Loyalty Programs*.

### Sale of goods

Currently, revenues from the sale of goods are recognised when the goods are delivered to the customer's premises. This shall be the point in time, when the customer accepts the goods and takes on the chances and risks which are associated with the change of ownership. Revenues shall be recognised at this point of time, if revenues and expenses can be valued reliably, payment is probable and there are no further rights of disposal for the supplier.

According to IFRS 15, revenues shall be recognised as soon as the customer gains effective control over the goods.

Group analysis shows that revenues in addition to related expenses for such contracts shall be recognised over a time period, i.e. before the goods are delivered to the premises of the customer.

### Sale of services

The Group provides development services for customers. If services are provided in more than one reporting period based on one single agreement, revenues shall be divided based on their relative fair values. Revenues shall be recognised in accordance with the stage-of-completion method.

Group analysis shows that there are no major differences with regards to the time when revenues for development services are recognised.

### Impacts

As is common in the industry, Pankl manufactures some orders in a customer specific manner. If in such cases according to IFRS 15.35c there is a legal entitlement for payment, the Group shall recognise such revenues already at the time of manufacturing. The resulting estimated impact from the transition is an increase of retained earnings by € 377k.

in €k	Impact from first application
Inventories	(754)
Contract-based assets	1,257
Deferred tax assets	(126)
Retained earnings	377



The transition leads to a decrease in inventories and an increase in the new balance sheet position "contract-based assets", which are receivables against customers before they are invoiced.

The Group identified dedicated performance obligations such as provision of tools and contracts with significant customer rights besides customer specific manufacturing. These changes will be considered during the completion of the financial statements, but will not lead to any material impacts at the time of transition.

## SCOPE OF CONSOLIDATION

The consolidated financial statements as of 31 December 2017 consist of the financial statements of Pankl Racing Systems AG and its subsidiaries. A subsidiary is fully consolidated for the time during which the parent company exercises control over the assets and the business of the respective subsidiary. The financial statements of all fully consolidated domestic and foreign subsidiaries were audited by independent auditors either voluntarily or based on legal requirements.

**Pankl Racing Systems AG and its subsidiaries:** The Company holds shares in nine subsidiaries (31/12/2016: 13 subsidiaries). The following list shows the nine subsidiaries included in the consolidated financial statements:

Company	Location	Share		Acquired on
		2017	2016	
Pankl Racing Systems UK Ltd.	Bicester (UK)	100%	100%	07/03/1998
Pankl Holdings, Inc.	Irvine (US)	100%	100%	07/03/1998
Pankl Japan, Inc.	Tokyo (JP)	100%	100%	09/04/1998
CP-CARRILLO, Inc.	Irvine (US)	100%	100%	03/08/1998
Pankl Aerospace Systems, Inc.	Cerritos (US)	100%	100%	25/04/2000
Pankl Systems Austria GmbH	Kapfenberg (AT)	100%	100%	13/01/2005
Pankl Aerospace Systems Europe GmbH	Kapfenberg (AT)	100%	100%	29/09/2006
Pankl Automotive Slovakia s.r.o.	Topolčany (SK)	100%	100%	24/11/2006
Pankl Turbosystems GmbH (formerly: Pankl – APC Turbosystems GmbH)	Mannheim (GE)	70%	70%	28/09/2012

Pankl Racing Systems AG's net investments in its subsidiaries consist of the financial investment shown in the fixed assets of the balance sheet and the following non-current loans:

Company	Loan amount		Currency
	31/12/2017	31/12/2016	
Pankl Racing Systems UK Ltd.	1,614,923	1,614,923	GBP
CP-CARRILLO, Inc.	1,000,000	1,069,478	USD
Pankl Holdings, Inc.	29,140,000	16,550,000	USD

It is neither planned nor foreseeable that these loans are repaid. Any profits or losses resulting from exchange rate fluctuations are directly recorded in the shareholders' equity without impacting the profit and loss account.

### Minority shares

The table below gives information on major minority shareholders of any of the group companies before intra-group eliminations:

Pankl Turbosystems GmbH in €k	31/12/2017	31/12/2016
Minority shares	30%	30%
Non-current assets	2,034	2,395
Current assets	2,273	2,383
Non-current liabilities	(1,298)	(874)
Current liabilities	(806)	(580)
<b>Net assets</b>	<b>2,203</b>	<b>3,324</b>
<i>Book value of minority shares</i>	661	997
Revenues	3,637	6,230
Net profit	(1,036)	(519)
Other results	0	0
<b>Total comprehensive income</b>	<b>(1,036)</b>	<b>(519)</b>
<i>Minorities' share of net profit</i>	(336)	(156)
<i>Minorities' share of other results</i>	0	0
Cash flow from operating activities	(93)	678
Cash flow from investing activities	(20)	(250)
Cash flow from financing activities	460	(90)
<i>Dividends paid to minority shareholders</i>	0	0
<b>Net increase/decrease of cash and cash equivalents</b>	<b>347</b>	<b>338</b>

The effective balance sheet date for all companies included in the consolidated financial statements is 31 December 2017 with the exception of Pankl Japan, Inc. The balance sheet date of Pankl Japan, Inc. is 30 September 2017. The Group carried out adjustment bookings for the Group balance sheet date, 31 December 2017.

### Changes in the scope of consolidation

As of 1 January 2017, the businesses of Pankl Drivetrain Systems GmbH & Co KG, Pankl Schmiedetechnik GmbH & Co KG and Pankl Engine Systems GmbH & Co KG were merged into Pankl Systems Austria GmbH.

Following a restructuring, Pankl Emission Control Systems GmbH and Capital Technology Bruck GmbH were merged into Pankl Racing Systems AG as of 1 January 2017.

Pankl Vermögensverwaltungs AG was merged into Pankl Racing Systems AG as of 1 July 2017.

### New additions to the scope of consolidation

Pankl Japan, Inc. was consolidated for the first time as of 31 December 2017.

## CONSOLIDATION METHODS

- **Capital consolidation** is carried out based on the acquisition method. Under this method at the time of obtaining control the newly valued identifiable assets and liabilities of the acquired operation are compared with the purchase price and if applicable the amount paid for a minority stake and the time value of a stake already held at the time of the acquisition. A remaining positive value is capitalised as goodwill. Any acquisition costs are accounted for as expenses.
  
- **Transactions with minority shareholders**, which do not lead to a loss of control are accounted for directly and exclusively in the shareholders' equity without any adjustments of assets and liabilities of the company or its goodwill.
  
- **Liabilities consolidation:** All intra-group receivables and liabilities balances are determined at the balance sheet date and eliminated via debt consolidation.
  
- **Consolidation of expenses and income:** Revenues, rent and leasing income and other operating income from activities between Group companies are eliminated.
  
- **Intra-group profits and losses:** All major intra-group profits and losses resulting from intra-group deliveries are eliminated unless they are not material.
  
- **Deferred tax items from the consolidation:** In the consolidated profit and loss account, tax implications are taken into consideration and deferred tax items are created.
  
- **Foreign currency translation:** Foreign currency transactions are translated using the exchange rate at the day of the transaction. Balance sheet items which are denominated in a foreign currency are translated using the exchange rate at the balance sheet date. Exchange rate differences represent an expense or income for the period in which the difference occurred. The financial statements of the subsidiaries are drawn up using the relevant local currencies.

In accordance with the functional currency concept the various balance sheet items of such subsidiaries, including goodwill and adaptations resulting from first-time consolidation, are translated into the group balance sheet using the mid exchange rate at the balance sheet date. Items from the profit and loss account are translated using the weighted average exchange rate for the reporting year. Resulting exchange rate gains or losses are accounted for in the comprehensive results item "foreign exchange differences", do not impact the profit and loss account and are directly recorded in shareholders' equity under "reserve for foreign exchange differences". Exchange rate differences shown as assets in the balance sheet result from the difference in the value of assets based on the exchange rates at the beginning and at the end of the reporting year.

The exchange rates used in currency conversions in the consolidated financial statements developed as follows:

in €	Exchange rate		Average exchange rate	
	31/12/2017	31/12/2016	01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
US Dollar	1.1993	1.0541	1.1293	1.1066
British Pound	0.8872	0.8562	0.8761	0.8189
Japanese Yen	135.0100	123.4000	126.6546	120.3138

## ACCOUNTING AND VALUATION METHODS

All companies included in the consolidated financial statements use consistent accounting and valuation methods. To improve readability and comprehensibility, separate positions are summarised in the profit and loss account as well as the balance sheet. Such positions are then shown separately in the notes. In principle, all current assets and liabilities are realisable or repayable within twelve months from the balance sheet date. All other assets and liabilities are generally realisable or repayable after such time period.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

- For the consolidated profit and loss account the **cost of sales method** was used.
- **Revenue realisation:** Revenues are realised when all major risks with respect to the sold product have been transferred to the buyer. With regards to services, revenue is realised after completion of the service. Rent and similar income is realised when there is a sound contractual basis for such income and its amount. Rent income, which is paid in advance or is due, is accrued. Interest is accounted for in the period to which it refers to by contract. Interest income is accounted for in the period in which it is generated and calculated using the APR method. Dividend income is accounted for on the day on which the Pankl Group receives the right to the dividend payment.

## CONSOLIDATED BALANCE SHEET

- **Cash and cash equivalents** include cash at hand, cash in banks, cheques and are valued at fair value at the balance sheet date. They have a maturity of not more than three months.
- **Receivables:** Trade receivables and other current receivables and assets are valued at their nominal amount. Assets which will lead to an inflow of cash and cash equivalents in future periods are referred to as financial receivables. Financial receivables are included in the category "loans and receivables" and are valued at amortised cost. Foreseeable risks are accounted for via appropriate write-offs. Receivables with a maturity of more than one year are shown at the discounted present value if they are not interest bearing. Receivables denominated in foreign currency are valued using the mid foreign exchange rate at the balance sheet date. Write-offs are applied to financial assets if their book value is higher than the net present value of their future discounted cash flows. Indicators for write-offs are financial difficulties, insolvency, contract breaches and material payment arrears of customers. In addition, general write downs are applied based on risk categories to account for general credit risk.
- **Inventories** are valued at the lower of historic or production cost and net selling price. The used method is in most of the cases the weighted average pricing procedure or the identity price method. Historic costs include all expenses, which are necessary to put the good in the required order and location to be used. Historic and production costs include direct material and production expenses as well as appropriate fixed and variable indirect production overheads. Cost for liabilities capital is not capitalised because the inventories do not contain any qualified assets in accordance with IAS 23.
- **Current securities** have been included in the category "available-for-sale" and are in principle valued at fair value without impacting the profit and loss account.

**■ Goodwill:** Goodwill resulting from first-time consolidation is capitalised. The intrinsic value is reviewed each year or, if required, also at shorter periods of time, using the discounted cash flow method and applying the pre-tax weighted average cost of capital (WACC) which is adapted each year. Therefore, the realisable amount of the cash-generating unit, corresponding to the value in use, has to be estimated. Pre-tax capital costs were 10.4% in the reporting period (2016: 9.0%). Data used in the discounted cash flow method is based on the budget and a four-year plan approved by the Supervisory Board. The cash flow planned for the last year of the planning period is used as the basis for the calculation of a perpetuity. For this terminal value calculation, we assume no growth rate and equal amounts for capital expenditure and depreciation. A loss in value is accounted for via an unscheduled write-off, which is shown in the consolidated profit and loss account within other operating expenses. In the fiscal year 2017 and in the previous year, there were no goodwill write-offs.

The material assumptions are arrived at using management expectation for future trends for costs, markets and prices based on external as well as internal sources. The plan also takes account of external trends through ongoing market observation both with regards to customers and suppliers and evaluation of technological and price developments. Internal sources are standardised processes in the company, which are illustrated in the process models of the appropriate Pankl Group subsidiary.

The capital cost rate and the future planned free cash flows were chosen to analyse the sensitivity of the planning parameters. The following changes are necessary that the results of the cash flow generating unit equal the book value:

Cash-generating unit	2017		2016	
	WACC	Free cash flow	WACC	Free cash flow
Racing – Drivetrain	6.3%	(48.5%)	7.0%	(53.5%)
Racing – Engine Europa	19.8%	(58.5%)	7.7%	(55.1%)
Racing – Engine USA	6.8%	(52.8%)	7.2%	(58.1%)
High Performance	0.4%	(4.5%)	0.7%	(9.5%)
Aerospace	5.3%	(45.1%)	2.6%	(28.7%)

**■ Intangible and tangible fixed assets:** Acquired intangible and tangible assets are carried in the balance sheet at historic or production cost reduced by scheduled, straight-line or utilisation-related depreciation. Historic and production costs include all expenses, which are necessary to put the good in the required order and location to be used. Production costs include direct expenses and appropriate fixed and variable indirect material and production overheads. General administration and distribution overheads as well as interest are not capitalised. Cost of liabilities capital is capitalised if it concerns a qualified asset in accordance with IAS 23. The tangible asset is written off over its useful life on a straight-line basis.

Useful lives for different asset categories are listed in the table below:

Depreciation	Useful life
Intangible assets	2 to 4 years
Buildings	10 to 50 years
Plants and machinery	2 to 10 years
Forging press	5 to 25 years
Other tangible fixed assets	3 to 5 years

Depreciation starts with the day of commencement of utilisation. Land is not written off, with the exception of unscheduled write-offs. Expenses for repairs and maintenance of buildings, land or machinery are shown in the profit and loss account of the appropriate period.

The Company also owns intangible assets with an undefined economic life amounting to € 666k respectively € 555k (31/12/2016: € 666k respectively € 632k). These assets are not amortised but are subject to an annual impairment test. These intangible assets are aerospace authorisation certificates which were acquired with Pankl Aerospace Inc. in June 2000.

Pankl Group does not hold any real estate (investment property) as financial investments. In the reporting period, Pankl Group did not capitalise any interest expenses for intangible assets or fixed assets because it would not have been material.

- **Research and development:** Research activities are directly shown as expenses in the period, in which they are carried out. As of 31 December 2017, there were no development expenses which fulfil all requirements of IAS 38.57. Therefore, the development activities are directly shown as expenses in the income statement.
- **Leasing:** Companies of the Pankl Group lease land with buildings and machinery to a certain extent via leasing contracts, which according to IFRS, are classified as finance leasing contracts if they imply a transfer of ownership. The leasing contracts attract mainly variable interest and partly contain call options. Liabilities which refers to leased assets is accounted for using the time value of the leasing asset or the lower net present value of future minimum leasing payments. At the same time an appropriate liability is shown in the balance sheet as a financial leasing liability. These assets are amortised evenly over their economic life. Normally at the end of the contract period there is a call option to buy the asset at a residual value or an agreed fixed price.
- **Other financial assets:** Shares in non-consolidated associated companies and other investments are included in the category "available-for-sale" and are valued at cost, because a fair value cannot be determined reliably. Granted loans are included in the category "loans and receivables" and are valued at amortised cost. Other financial assets (securities) are included in the category "available-for-sale" and are generally valued at their fair value without impacting the profit and loss account.
- **Write-offs:** Assets are scrutinised at every balance sheet date whether it is necessary to apply a write-off. If a write-off is necessary, the recoverable amount is determined as the higher of the fair value less cost to sell and the value in use. If the value in use is taken, future cash flows are discounted with a pre-tax discount rate to calculate the present value. A write-off is applied if the book value is higher than the value derived. The present value of an asset, the realisation of which is dependent on another fixed asset, is calculated by taking the other asset into account as well. A write-off is necessary if the book value exceeds the present value. A write-off is reversed if the expectations with regard to the realisable amount change over time. Such reversals must not exceed the original book value. Write-offs of goodwill are not reversed.
- **Liabilities** are carried in the balance sheet at nominal value or at the repayment amount. In the case of additional payments, the actually received amount is entered as the liability. Discounts and premiums or any other differences between the amounts received and the amounts due are spread over the financing time and shown in the financial result.

Trade liabilities are valued at the fair value of the received product or service at the time when they come into existence. Later on, these liabilities are valued at amortised cost. Liabilities not resulting from trading activities are carried in the balance sheet with their repayment value. Foreign exchange liabilities are valued at the average exchange rate on the reporting date.

Financial liabilities are any debt which leads to an outflow of cash in future periods. Provisions, received prepayments or contractual obligations which do not lead to cash outflows in future periods are not considered a financial liability. Financial liabilities are included in the category "liabilities at amortised cost" and are valued at amortised cost.

■ **Subsidies:** Subsidies are accounted for as soon as payment is to be expected and the Pankl Group is able to fulfil the appropriate requirements. As a principle, subsidies should impact the profit and loss account in the same manner as directly related expenses, which the subsidy is designed to eliminate.

■ **Provisions** are formed if the Pankl Group is under a legal or actual obligation towards third parties that may result in a future payment. The provision amount is estimated on the basis of the expected future cash flow.

■ **Personnel provisions:** Austrian law requires companies to pay employees that started employment before 1 January 2003 a one-off severance payment in the case of redundancy or retirement. The amount of such payment depends on the number of years served in the company and the appropriate salary. For such obligations, the Company forms a provision using the "projected-unit-credit method", accumulating the present value for such payments over the years served by the employees using an actuarial procedure.

Calculations as of 31 December 2017 are based on an interest rate of 2.0% (31/12/2016: 1.5%), expected average salary increases of 2.5% (31/12/2016: 2.25%) and a fluctuation rate depending on number of years served. The retirement age is 60 years for women and 65 years for men (31/12/2016: 60 respectively 65 years). The differences between expected and actual values ("actuarial profits and losses") are accounted for in shareholders' equity without impact to the profit and loss account. Interest expenses from personnel obligations are accounted for in the financial result of the profit and loss account.

In Austria, the employer is obliged to pay monthly installments into a retirement fund for all employees that entered into service after 1 January 2003. There is no legal requirement to pay any additional severance payments when these employees end service. Therefore, this model does not require the formation of provisions.

■ **Accruals for deferred taxes:** In accordance with IAS 12, all temporary differences between financial statements drawn up for taxation purposes and IFRS are accounted for as deferred taxes. Differences referring to valuations of investments and group equity before taking into account subsidiaries are only accounted for if their reversal is probable during a defined time period. Deferred tax assets for loss carry-forwards are only formed if it is probable that they can be utilised within a defined time period.

The calculation is based on the common corporation tax rate in the respective country at the time of the expected reversal of the value. Future changes in tax rates are considered only if the change has been valid or announced at the balance sheet date.

■ **Contingent liabilities:** Contingent liabilities are potential or existing obligations resulting from past events, which are deemed unlikely but not impossible to turn into expenses. According to IFRS, these liabilities are not shown in the balance sheet but are listed in the notes.

## ESTIMATES AND UNCERTAINTIES IN DISCRETIONARY DECISIONS AND ASSUMPTIONS

In setting up the consolidated financial statements, estimates and assumptions are necessary to a certain degree, which influence the assets and liabilities and other obligations shown at the balance sheet date as well as expenses and income during the fiscal year. Actual future amounts may deviate from these estimates. The principle of “true and fair view” has been applied without limitation to all estimates.

Uncertainty affects especially the reporting of intangible assets as well as the assessment of the ability to realise deferred tax assets.

The reporting of intangible assets and tangible fixed assets requires estimates for the expected useful lives of the assets and is based on management’s assessment of the intrinsic value of the asset or any applicable reduction in value. Smaller than expected net cash flows or changes in the discount rate may lead to a decrease in value. Regarding the assessment of goodwill, we refer to the respective text.

Deferred tax assets are stated to the extent to which it is likely that they might be used. The assessment of the future usability is based on factors like past profitability, operating plans, expiry period of tax losses carried forward and tax planning strategies. If actual results are below estimates, this may result in the write-off of deferred tax assets affecting the profit and loss account.

Valuation of inventories is influenced by estimates regarding future sales potential and probability that available stock can be used in the production process. In addition, there are uncertainties regarding estimates for the valuation of receivables, personnel-related obligations and other provisions.

## CHANGES COMPARED TO THE PREVIOUS YEAR

In the financial statements as of 31 December 2017, certain items, presentations and sequences of notes were structured in a different manner, amended or complemented.

- In the consolidated cash flow statement, interest received and tax payments are shown separately. Tax payments are shown in the cash flow from operating activities, interest received in the cash flow from investing activities and interest paid in the cash flow from financing activities. In the financial statements of the fiscal year 2016, all these items were included in the cash flow from operating activities.
- From the fiscal year 2017, current tax assets and liabilities are shown separately in the consolidated financial statements. The previous year’s figures are adjusted appropriately.
- As of 31 December 2017, the schedule of consolidated shareholders’ equity is broken down more detailed. Reserves from foreign exchange differences and reserves for actuarial losses are shown separately from other retained earnings.
- From the fiscal year 2017, the impact of foreign currency translation of net investments and other foreign currency differences of foreign subsidiaries is shown separately in the consolidated statement of comprehensive results.
- As of 31 December 2017, a transition statement is shown in the notes for major financial liabilities (loans, bond and leasing liabilities).



### 3. NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

#### (01) COST OF GOODS SOLD, DISTRIBUTION AND ADMINISTRATION EXPENSES

Cost of goods sold was broken down in expense categories as follows:

in €k	01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
Material expenses and expenses for external services	67,512	62,299
Personnel expenses	56,579	53,139
Depreciation of intangible assets and tangible fixed assets	11,163	10,292
Other operating expenses	13,518	13,024
<b>Total</b>	<b>148,772</b>	<b>138,754</b>

Distribution expenses were broken down in expense categories as follows:

in €k	01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
Personnel expenses	7,431	7,213
Depreciation of intangible assets and tangible fixed assets	319	275
Other operating expenses	4,623	4,071
<b>Total</b>	<b>12,373</b>	<b>11,559</b>

Administration expenses were broken down in expense categories as follows:

in €k	01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
Personnel expenses	14,782	14,279
Depreciation of intangible assets and tangible fixed assets	2,670	2,445
Other operating expenses	9,022	8,458
<b>Total</b>	<b>26,474</b>	<b>25,182</b>

Cost of goods sold, administration and distribution expenses contained the following personnel expenses:

in €k	01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
Wages	40,138	37,107
Salaries	36,222	35,321
Other personnel expenses	2,432	2,203
<b>Total personnel expenses</b>	<b>78,792</b>	<b>74,631</b>
<i>    Thereof statutory social security contributions</i>	<i>14,367</i>	<i>13,192</i>
<i>    Thereof expenses for contribution-based retirement schemes</i>	<i>728</i>	<i>620</i>

The cost of sales, administration and distribution expenses in total contained scheduled depreciation and amortisation charges for intangible assets and fixed assets of € 14,152k (2016: € 13,012k). Research and development expenses included in the profit and loss account amounted to € 15,325k (2016: € 13,221).

## (02) BOARD REMUNERATION AND NUMBER OF EMPLOYEES

In the fiscal year 2017, the remuneration for the Management Board amounted to € 1,299k (2016: € 1,192k). There were no agreements between the Company and the members of the Management Board regarding a pension plan and no contributions were made to a pension plan. In the fiscal year 2017, the Supervisory Board remuneration amounted to € 24k (2016: € 21k).

At the balance sheet date, there were no loans or advance payments for members of the Management Board or Supervisory Board of Pankl Racing Systems AG granted or outstanding.

### Employees

The average number of employees developed as follows:

	01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
<b>Employees by segment</b>		
Racing/High Performance segment	1,359	1,197
Aerospace segment	145	135
Others segment	83	77
<b>Employees by region</b>		
Austria	893	761
United Kingdom	68	65
USA	210	204
Slovakia	378	324
Germany	37	55
Japan	1	0
<b>Employees by type of employment</b>		
Manual workers	993	811
Clerical staff	594	598
<b>Total</b>	<b>1,587</b>	<b>1,409</b>

### (03) OTHER (OPERATING) INCOME AND EXPENSES

Other (operating) income amounted to € 4,363k (2016: € 3,041k) and contained primarily subsidies and other contributions amounting to € 2,355k (2016: € 859k).

Other (operating) expenses amounted to € –342k (2016: € –327k) and contained primarily receivable write-offs amounting to € –55k, operating foreign exchange losses of € –156k and losses from the disposal of fixed assets of € –57k (2016: expenses from receivables write-offs € –115k).

### (04) FINANCIAL RESULT

The financial results of € –2,800k (2016: € –2,368k) contain interest for loans, finance lease contracts, the bond as well as granted loans and investments.

in €k	01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
Interest and similar income	72	74
Other financial income	147	352
<b>Financial income</b>	<b>219</b>	<b>426</b>

Other financial income contained mainly changes of market values of trading securities.

in €k	01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
Interest and similar expenses	(1,941)	(2,125)
Foreign exchange differences	(341)	(7)
Other financial expenses	(737)	(662)
<b>Financial expenses</b>	<b>(3,019)</b>	<b>(2,794)</b>

The other financial expenses mainly refer to bank charges and expenses from adding on interest to personnel provisions.

### (05) INCOME TAXES

Income taxes comprise taxes on income or earnings being paid or owed by Group companies and deferred tax items.

in €k	01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
Current tax expenses	(2,004)	(1,554)
Deferred taxes	(1,255)	697
<b>Income taxes</b>	<b>(3,259)</b>	<b>(857)</b>

The companies of Pankl Group were included in the Pierer Konzerngesellschaft mbH Group from the 2014 tax assessment onwards. The appropriate tax rate according to Austrian law is 25% (2016: 25%). The corporation tax rates of foreign subsidiaries range from 19% to 30%.

The reasons for the difference between the Austrian corporation tax rate of 25% (2015: 25%) and the Group tax rate shown were as follows:

in €k	01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
Earnings before taxes	8,990	10,842
<i>Thereof implied 25% income taxes</i>	<i>2,248</i>	<i>2,711</i>
Impact of foreign tax rates	(291)	142
Permanent differences and adjustments from the tax calculation	(386)	5
Taxes from previous years	90	(301)
Utilisation or capitalisation of tax loss carry-forwards which were so far unaccounted	0	(1,862)
Change of capitalised tax loss carry-forwards	1,073	0
Not capitalised tax loss carry-forwards of foreign subsidiaries	307	0
Other impacts	218	163
<b>Effective tax expenses</b>	<b>3,259</b>	<b>857</b>

Tax losses of the Group carried forward were:

in €k	31/12/2017			31/12/2016		
	Tax loss carry- forward	Potential deferred tax asset	Booked deferred tax asset	Tax loss carry- forward	Potential deferred tax asset	Booked deferred tax asset
US tax group	7,720	1,902	1,902	9,559	3,514	3,483

Deferred tax assets were formed for some of the tax loss carry-forwards of the US tax group in the amount which is expected to be utilised during the planning period 2018 until 2021. A safety discount was applied to account for estimation uncertainties regarding future results.

On 22 December 2017, the tax law “H.R. 1 – Tax Cuts and Jobs Act” was signed in the USA. This impacts the accounting treatment of taxes in consolidated financial statements. IAS 12.47 requires deferred taxes to be calculated with the tax rate which is valid or announced on the balance sheet date. The new rules which contain a reduction of the corporation tax rate from 35% to 21% apply already for the financial statements as of 31 December 2017. The calculation of deferred tax assets results in a deferred tax expense of € 882k.

Deferred tax assets and liabilities were calculated based on the following balance sheet items:

in €k	31/12/2017	31/12/2016
<b>Deferred tax assets</b>		
Current assets	132	125
Non-current assets		
Plants and machinery	778	773
Tax loss carry-forwards	1,902	3,483
Current liabilities	62	172
Non-current liabilities	225	268
<b>Total</b>	<b>3,099</b>	<b>4,821</b>
Netting due to application of the same tax regime	(527)	(587)
<b>Deferred tax assets according to balance sheet</b>	<b>2,572</b>	<b>4,234</b>
<b>Deferred tax liabilities</b>		
Current assets	(460)	(477)
Non-current assets		
Plants and machinery	(134)	(237)
<b>Total</b>	<b>(594)</b>	<b>(714)</b>
Netting due to application of the same tax regime	527	587
<b>Deferred tax liabilities according to balance sheet</b>	<b>(67)</b>	<b>(127)</b>

Deferred taxes developed as follows during the reporting period:

in €k	01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
Net deferred taxes as of 01/01	4,107	3,316
Change of consolidation scope	0	(78)
Deferred taxes booked through profit and loss account	(1,255)	696
Deferred taxes not booked through profit and loss account	(347)	173
<i>Thereof from foreign exchange differences</i>	(346)	150
<b>Net deferred taxes as of 31/12</b>	<b>2,505</b>	<b>4,107</b>

As of 31 December 2017 there was a deferred tax liability of € 1,201k (31/12/2016: € 924k) relating to shares in subsidiaries. This liability was not accounted for because the Group defines the dividend policies of the subsidiaries. The Group can hence control the reversals of temporary differences. The Management Board assumes that there will be no such reversals in the foreseeable future.

## 4. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In the reporting period, foreign exchange differences, which were not booked through the profit and loss account, amounted to € –2,758k (2016: € –663k) and resulted from the US Dollar and the British Pound.

## 5. NOTES TO THE CONSOLIDATED BALANCE SHEET

### (06) GOODWILL AND OTHER INTANGIBLE ASSETS

The item "other intangible assets" refers primarily to software and certificates.

in €k	Goodwill	Customer base	Other intangible assets	Total
<b>01/01/2017 – 31/12/2017</b>				
Historic cost as of 01/01	15,728	2,058	6,167	23,953
Foreign exchange differences	(566)	(14)	(228)	(808)
Change of scope of consolidation	0	0	1	1
Additions	0	0	755	755
Disposals	0	0	(231)	(231)
Reclassifications	0	0	6	6
<b>Historic cost as of 31/12</b>	<b>15,162</b>	<b>2,044</b>	<b>6,470</b>	<b>23,676</b>
Accumulated depreciation as of 01/01	(3,064)	(1,937)	(4,390)	(9,391)
Foreign exchange differences	(17)	14	144	141
Additions	0	(121)	(645)	(766)
Disposals	0	0	231	231
<b>Accumulated depreciation as of 31/12</b>	<b>(3,081)</b>	<b>(2,044)</b>	<b>(4,660)</b>	<b>(9,785)</b>
<b>Book value as of 31/12</b>	<b>12,081</b>	<b>0</b>	<b>1,810</b>	<b>13,891</b>
<b>01/01/2016 – 31/12/2016</b>				
Historic cost as of 01/01	15,766	2,115	6,951	24,832
Foreign exchange differences	(307)	(57)	58	(306)
Change of scope of consolidation	269	0	311	580
Additions	0	0	653	653
Disposals	0	0	(1,806)	(1,806)
Reclassifications	0	0	0	0
<b>Historic cost as of 31/12</b>	<b>15,728</b>	<b>2,058</b>	<b>6,167</b>	<b>23,953</b>
Accumulated depreciation as of 01/01	(3,064)	(1,876)	(5,629)	(10,569)
Foreign exchange differences	0	57	(38)	19
Additions	0	(118)	(529)	(647)
Disposals	0	0	1,806	1,806
Reclassifications	0	0	0	0
<b>Accumulated depreciation as of 31/12</b>	<b>(3,064)</b>	<b>(1,937)</b>	<b>(4,390)</b>	<b>(9,391)</b>
<b>Book value as of 31/12</b>	<b>12,664</b>	<b>121</b>	<b>1,777</b>	<b>14,562</b>

At the balance sheet date, no intangible assets were pledged or restricted in their availability in any way.

At the balance sheet date, contractual obligations to acquire intangible assets amounted to € 0k (31/12/2016: € 0k).

For the impairment test, goodwill was broken down by cash-generating units (CGUs) as follows:

in €k	31/12/2017	31/12/2016
Racing – Engine Europa	4,436	4,545
Racing – Engine USA	4,159	4,633
High Performance	1,463	1,463
Aerospace	2,023	2,023
<b>Total</b>	<b>12,081</b>	<b>12,664</b>

The cash-generating units are equivalent to the divisions of the Pankl Group as defined in the internal reporting and correspond with the management and organisational structure. Impairment tests did not require any write-offs of goodwill.

## (07) FIXED ASSETS

in €k	Land and buildings	Plants and machinery	Other fixed assets and prepayments	Total
<b>01/01/2017 – 31/12/2017</b>				
Historic cost as of 01/01	45,419	116,836	29,635	191,890
Foreign exchange differences	(157)	(2,129)	(492)	(2,778)
Change of scope of consolidation	0	9	0	9
Additions	3,890	8,276	22,764	34,930
Disposals	(38)	(2,359)	(2,149)	(4,546)
Reclassifications	3,705	19,714	(23,425)	(6)
<b>Historic cost as of 31/12</b>	<b>52,819</b>	<b>140,347</b>	<b>26,333</b>	<b>219,499</b>
Accumulated depreciation as of 01/01	(18,521)	(80,668)	(13,559)	(112,748)
Foreign exchange differences	118	1,800	414	2,332
Change of scope of consolidation	0	(7)	0	(7)
Additions	(1,902)	(9,337)	(2,147)	(13,386)
Disposals	24	2,243	579	2,846
<b>Accumulated depreciation as of 31/12</b>	<b>(20,281)</b>	<b>(85,969)</b>	<b>(14,713)</b>	<b>(120,963)</b>
<b>Book value as of 31/12</b>	<b>32,538</b>	<b>54,378</b>	<b>11,620</b>	<b>98,536</b>
<b>01/01/2016 – 31/12/2016</b>				
Historic cost as of 01/01	43,012	110,856	19,849	173,717
Foreign exchange differences	(79)	(274)	66	(287)
Change of scope of consolidation	0	27	291	318
Additions	1,136	5,121	17,069	23,326
Disposals	(4)	(3,395)	(1,785)	(5,184)
Reclassifications	1,354	4,501	(5,855)	0
<b>Historic cost as of 31/12</b>	<b>45,419</b>	<b>116,836</b>	<b>29,635</b>	<b>191,890</b>

in €k	Land and buildings	Plants and machinery	Other fixed assets and prepayments	Total
<b>01/01/2016 – 31/12/2016 (continuation)</b>				
Accumulated depreciation as of 01/01	(16,864)	(75,529)	(12,438)	(104,831)
Foreign exchange differences	70	165	(74)	161
Change of scope of consolidation	0	(37)	(114)	(151)
Additions	(1,731)	(8,483)	(2,151)	(12,365)
Disposals	4	3,216	1,218	4,438
Reclassifications	0	0	0	0
Accumulated depreciation as of 31/12	(18,521)	(80,668)	(13,559)	(112,748)
Book value as of 31/12	26,898	36,168	16,076	79,142

The other fixed assets and prepayments contain € 5,900k (2016: € 11,442k) in prepayments and plants in construction. Leasing assets from finance leasing contracts were as follows:

Plant and machinery leasing in €k	31/12/2017	31/12/2016
Historic cost	3,427	3,427
Accumulated depreciation	(3,159)	(2,911)
Book value	268	516

Leasing payments from finance leasing contracts over the next years will be as follows:

in €k	Leasing payments		Net present values	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Up to 1 year	61	299	61	294
From 1 year to 5 years	0	56	0	56
More than 5 years	0	0	0	0
<b>Total</b>	<b>61</b>	<b>355</b>	<b>61</b>	<b>350</b>

Payments for operating leasing contracts, which cannot be terminated, will be as follows in the next years:

in €k	31/12/2017	31/12/2016
Up to 1 year	1,684	1,895
From 1 year to 5 years	2,411	3,239
More than 5 years	29	104
<b>Total</b>	<b>4,124</b>	<b>5,238</b>

In the fiscal year, total rental and leasing expenses from the use of tangible assets not stated in the balance sheet amounted to € 3,014k (2016: € 2,287k). The expenses shown in the accounts do not include any material conditional rental or sublease payments.

At the balance sheet date, fixed assets amounting to € 30,720k (31/12/2016: € 31,139k) were pledged against bank debt or financial leasing obligations or otherwise restricted in their availability. At the balance sheet date, there were obligations to acquire fixed assets amounting to € 9,160k (2016: € 10,495k).



## (08) FINANCIAL FIXED ASSETS

At the balance sheet date, no financial fixed assets (31/12/2016: € 0k) were pledged or restricted in their availability in any way.

in €k	Stakes in fully consolidated subsidiaries	Loans granted	Total
<b>01/01/2017 – 31/12/2017</b>			
Historic cost as of 01/01	23	1,970	1,993
Foreign exchange differences	0	(238)	(238)
Change of scope of consolidation	(23)	4	(19)
Additions	0	65	65
Disposals	0	(195)	(195)
Historic cost as of 31/12	0	1,606	1,606
Buchwert am 31, 12,	0	1,606	1,606
<b>01/01/2016 – 31/12/2016</b>			
Historic cost as of 01/01	23	2,045	2,068
Foreign exchange differences	0	67	67
Additions	0	76	76
Disposals	0	(218)	(218)
Historic cost as of 31/12	23	1,970	1,993
Book value as of 31/12	23	1,970	1,993

## (09) INVENTORIES

Inventories consisted of the following items:

in €k	31/12/2017	31/12/2016	Change
Raw and process materials	29,467	26,889	9.6%
Semi-finished products	19,566	18,266	7.1%
Finished products	12,785	10,082	26.8%
<b>Total</b>	<b>61,818</b>	<b>55,237</b>	<b>11.9%</b>

Write-offs for inventories amounted to € 4,787k (31/12/2016: € 1,810k) for products where the net sale value (sale price minus attributable distribution and administration expenses) was lower than historic or production costs. The book value of inventories valued at net sales values amounted to € 2,912k as of 31 December 2017 (31/12/2016: € 3,561k).

At the balance sheet date, inventories in the amount of € 1,543k (31/12/2016: € 0k) were pledged or restricted in their availability.

## (10) TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT RECEIVABLES AND ASSETS

Current receivables consisted of the following:

in €k	31/12/2017	31/12/2016
Other receivables and assets	4,538	2,887
Deferred assets	889	1,001
<b>Total</b>	<b>5,427</b>	<b>3,888</b>

All receivables were repayable within one year. Other receivables and assets were mainly receivables against tax authorities.

Direct write-offs of receivables and other assets are deducted from the nominal value. As of 31 December 2017, value adjustments amounted to € 265k (31/12/2016: € 403k).

General value adjustments to receivables developed as follows:

in €k	Trade accounts receivable
<b>Balance as of 01/01/2016</b>	<b>591</b>
Foreign exchange differences	0
Additions	256
Utilisations	(65)
Reversals	(94)
<b>Balance as of 31/12/2016 (= 01/01/2017)</b>	<b>688</b>
Foreign exchange differences	(33)
Additions	55
Utilisations	0
Reversals	(169)
<b>Balance as of 31/12/2017</b>	<b>541</b>

General value adjustments consisted of several positions, of which we consider no single one to be material.

In the fiscal year 2016, a reverse factoring programme (supplier finance agreement) was started in co-operation with KTM AG (an affiliated company) and a domestic credit institution. As all risks and rewards from the trade account receivables are transferred to the domestic credit institution and no risks and rewards remain with Pankl Group, we book out all trade receivables in accordance with IAS 39 as soon as the credit institution transfers the due amount from the trade account receivable to us.

## (11) GROUP SHAREHOLDERS' EQUITY AND NOTES TO CAPITAL MANAGEMENT

As of 31 December 2017, the share capital of the Company amounted to € 3,150k and was represented by 3,150,000 shares without nominal value.

In the AGM held on 25 April 2013, the Management Board was authorised to issue financial instruments according to article 174 of the Austrian Public Companies Act (§ 174 AktG) subject to the approval of the Supervisory Board. This authorisation is valid from 30 January 2014 until 25 April 2018 and refers to convertible bonds, participation bonds and certificates up to a nominal value of € 50,000,000 which may entitle to subscribe

for or convert into up to 1,944,000 shares of the Company. These financial instruments may also be structured in a way that they can be accounted for as shareholders' equity. They may also be issued in several tranches and in different combinations. These financial instruments may also be issued indirectly via the use of a guarantee for financial instruments issued by a Group company to be convertible into shares of the Company. The Management Board may utilise authorised capital or own shares to serve such conversion rights. Subject to Supervisory Board approval, the Management Board is entitled to define issue prices and conditions and also the exclusion of preemption rights of shareholders for these financial instruments.

Subject to the approval of the Supervisory Board, the Management Board is authorised to increase the share capital of the Company by up to € 1,575,000 via the issue of up to 1,575,000 shares against cash or a contribution in kind, in one or more tranches until 25 April 2018.

Subject to the approval of the Supervisory Board, the Management Board is entitled to define issue prices and conditions (authorised share capital according to article 169 of the Austrian Public Companies Act (§ 169 AktG)). Subject to the approval of the Supervisory Board, the Management Board is entitled to exclude preemption rights of existing shareholders only if new shares are issued against a contribution in kind such as companies, establishments or shares in Austrian or any other companies. The existing authorised share capital from 30 January 2009 was cancelled.

The capital reserves consist primarily of share premiums which were generated when Pankl shares were issued and also from the capital decrease when own shares were cancelled. **Retained earnings** show the net profit of the period, results carried forward from previous years, actuarial results and results from foreign exchange translations.

The aim of **capital management** is to maintain a strong capital base to allow shareholders to receive an appropriate level of return given the risk situation of the Company, to allow development of the Company and benefits also for other stakeholders. Management considers as capital the book value of the IFRS shareholders' equity. At the balance sheet date, shareholders' equity in percent of total assets amounted to 41.5% (31/12/2016: 41.0%).

In 2017, Pankl Racing Systems AG issued a subordinated perpetual bond with a nominal value of € 10,000,000 and a coupon of 5.00% p.a. to strengthen its capital position and to finance acquisitions in its core holdings. This bond is shown as shareholders' equity because its proceeds are available to Pankl Racing Systems AG without restrictions and there are no termination rights for the bond holders. In accordance with IAS 32.20 there is no effective repayment obligation. In the fiscal year 2017, shareholders' equity increased due to this bond issue by € 10,000k.

The perpetual bond is characterised as a partial debenture without collateral which ranks behind all existing and future unsecured unsubordinated liabilities of Pankl Racing Systems AG. The Company shall only pay interest, if a dividend or other distribution to shareholders is resolved, other subordinated liabilities or shareholder loans are redeemed or interest on shareholder loans is paid.

## (12) PERSONNEL PROVISIONS

The provision for severance payments shown in the balance sheet developed as follows:

in €k	01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
<b>Net present value of obligation (DBO) = provision for severance payments</b>	<b>1,815</b>	<b>1,609</b>
+ Expenses from current service	55	52
+ Interest expenses	27	32
– Actual severance payments for the period	(64)	(11)
– Profit/loss DBO for past service cost	(22)	0
± Transfer	0	42
± Actuarial profits/losses	(2)	91
<b>Provision for severance payments as of 31/12</b>	<b>1,809</b>	<b>1,815</b>

A change in the parameters “capitalisation rate” and “estimated remuneration increases” ( $\pm 0.5$  percentage points) would have the following impact on the present value of the future payments:

Parameter	Net present value of obligation	
	-0.5 percentage points	+0.5% percentage points
Capitalisation rate	7.6%	(6.9%)
Estimated remuneration increases	(6.9%)	7.5%

As of 31 December 2017, the duration amounted to 14.44 years (31/12/2016: 15.10 years).

### (13) PROVISIONS

The provisions contained the following items:

in €k	31/12/2016	Additions	Utilisation/ reversal	Foreign exchange differences	31/12/2017
Warranties and guarantees	483	46	(301)	(8)	220
Obligations for remedial actions	26	0	0	(1)	25
<b>Total</b>	<b>509</b>	<b>46</b>	<b>(301)</b>	<b>(9)</b>	<b>245</b>

Provisions for warranties and guarantees are formed to provide for expenses resulting from customer complaints.

### (14) OTHER CURRENT LIABILITIES

The other current liabilities consisted of the following:

in €k	31/12/2017	31/12/2016
Liabilities from not consumed holiday entitlements	2,504	2,118
Liabilities from the accrual of outstanding invoices	2,582	1,962
Liabilities from derivatives	0	147
Other	8,641	10,855
<b>Total</b>	<b>13,727</b>	<b>15,082</b>

Other liabilities were mainly liabilities against employees or liabilities referring to salary related taxes or social insurance contributions from the current payroll, VAT which is not yet due and provisions for audit and legal expenses.

## 6. OTHER NOTES

### (15) FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

#### BASIC PRINCIPLES

The Pankl Group holds exclusively primary financial instruments. Primary financial instruments mainly include other financial assets, trade accounts receivable, cash in banks, financial liabilities and trade account payables. The level of primary financial instruments held by the Group is shown in the balance sheet and the notes.

All purchases and sales of financial instruments are recorded at the completion day.

Financial instruments are initially generally valued at cost. Financial instruments are removed from the balance sheet as soon as all rights to payments from the investment have ceased to exist or have been transferred and the Group has generally transferred all risks and chances connected with the instrument's ownership.

#### BOOK VALUES, FAIR VALUES AND NET RESULTS OF THE FINANCIAL INSTRUMENTS

Book values, fair values and valuations of financial assets (financial instruments representing assets) were broken down as follows, according to the valuation categories of IAS 39:

in €k	Valuation category acc. to IAS 39	Book value	Fair value	Valuation acc. to IAS 39				
				Amor- tised historic cost	Historic cost	Fair value through profit and loss	Fair value through balance sheet	Cash and cash equiva- lents
<b>31/12/2017</b>								
Cash and cash equivalents	Loans and receivables	9,772	9,772	0	0	0	0	9,772
Trade accounts receivable	Loans and receivables	26,255	26,255	26,255	0	0	0	0
Financial assets – non-current loans granted	Loans and receivables	1,606	1,606	1,606	0	0	0	0
<b>Total</b>		<b>37,633</b>	<b>37,633</b>	<b>27,861</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,772</b>
<b>31/12/2016</b>								
Cash and cash equivalents	Loans and receivables	9,106	9,106	0	0	0	0	9,106
Trade accounts receivable	Loans and receivables	27,248	27,248	27,248	0	0	0	0
Other financial assets – consolidated subsidiaries and investments	Available-for-sale (at cost)	23	23	0	23	0	0	0
Financial assets – non-current loans granted	Loans and receivables	1,970	1,970	1,970	0	0	0	0
<b>Total</b>		<b>38,347</b>	<b>38,347</b>	<b>29,218</b>	<b>23</b>	<b>0</b>	<b>0</b>	<b>9,106</b>

Trade accounts receivable as well as other current financial receivables mainly have short maturities. Therefore, their book values at the balance sheet date correspond more or less with the appropriate fair value. The fair values of non-current loans equal the net present value of the payments associated with the assets, taking the respective current market parameters into account.

The financial assets of the valuation category “available-for-sale” contained non-stock exchange quoted equity instruments amounting to € 0k (31/12/2016: € 23k), whose fair value was not reliably definable. These equity instruments are shown in the tables above in the valuation category “available-for-sale (at cost)” and are valued at cost.

The book values, fair values and valuations of financial liabilities (financial instruments representing liabilities) according to the valuation categories of IAS 39 or IAS 17 were broken down as follows:

in €k	Valuation category acc. to IAS 39	Book value	Fair value	Valuation acc. to IAS 39				Valuation in acc. to IAS 17	Non financial
				Amor-tised historic cost	Historic cost	Fair value through profit and loss	Fair value through balance sheet		
<b>31/12/2017</b>									
Current loans and short-term portion of non-current loans	Financial liabilities at amortised cost	16,479	16,479	16,479	0	0	0	0	0
Trade accounts payable	Financial liabilities at amortised cost	11,470	11,470	11,470	0	0	0	0	0
Other current financial liabilities – finance lease liabilities	Not applicable	61	61	0	0	0	0	61	0
Other current liabilities	Financial liabilities at amortised cost	13,727	4,624	4,624	0	0	0	0	9,103
Non-current liabilities	Financial liabilities at amortised cost	81,851	81,851	81,851	0	0	0	0	0
<b>Total</b>		<b>123,588</b>	<b>114,485</b>	<b>114,424</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>61</b>	<b>9,103</b>

in €k	Valuation category acc. to IAS 39	Book value	Fair value	Valuation acc. to IAS 39				Valuation in acc. to IAS 17	Non financial
				Amor- tised historic cost	Historic cost	Fair value through profit and loss	Fair value through balance sheet		
<b>31/12/2016</b>									
Current loans and short-term portion of non-current loans	Financial liabilities at amortised cost	22,703	22,703	22,703	0	0	0	0	0
Trade accounts payable	Financial liabilities at amortised cost	11,437	11,437	11,437	0	0	0	0	0
Other current financial liabilities – finance lease liabilities	Not applicable	294	294	0	0	0	0	294	0
Non-current liabilities	Financial liabilities at amortised cost	15,218	4,088	4,088	0	0	0	0	11,130
Other current financial liabilities – derivatives with negative market values	Trading/hedging instrument	147	147	0	0	147	0	0	0
Bond	Financial liabilities at amortised cost	9,985	10,323	9,985	0	0	0	0	0
Non-current loans	Financial liabilities at amortised cost	49,456	50,889	49,456	0	0	0	0	0
Non-current finance lease liabilities	Not applicable	56	56	0	0	0	0	56	0
<b>Total</b>		<b>109,296</b>	<b>99,937</b>	<b>97,669</b>	<b>0</b>	<b>147</b>	<b>0</b>	<b>350</b>	<b>11,130</b>

Current loans and short-term portions of non-current loans, trade payables as well as other current liabilities regularly have short maturities; the book values are estimates for the respective fair values. The fair values of non-current loans, bonds and non-current finance lease liabilities are determined as the net present values of the payments associated with the liabilities, taking the respective market parameters into account.

The development of current and non-current loans, the bond and the lease liabilities can be shown as follows taking into account non-cash changes:

in €k	Loans	Bond	Lease liabilities
<b>Balance as of 01/01/2017</b>	72,159	9,985	349
+ Issue/increase	36,369	0	0
– Redemption	(11,416)	(10,000)	0
± Reclassification	0	0	0
± Current account movement	1,489	0	0
± Valuation	(372)	15	0
± Others	101	0	(288)
<b>Balance as of 31/12/2017</b>	<b>98,330</b>	<b>0</b>	<b>61</b>

As of 31 December 2017, financial instruments in the amount of € 0k (31/12/2016: € –147k) were held and accounted for at fair value.

The fair value of a financial instrument shall be defined by stock exchange quoted market prices for identical financial instruments which are actively traded (level 1). If there are no quoted market prices for identical financial instruments which are actively traded available, the fair value shall be defined by a valuation method in which the main parameters are based on observable market data (level 2). In any other case, the fair value shall be defined by valuation methods in which at least one parameter is not based on observable market data (level 3):

in €k	Input factor			Total
	Level 1	Level 2	Level 3	
<b>31/12/2017</b>				
Other current financial liabilities – derivatives with negative market values	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>31/12/2016</b>				
Other current financial liabilities – derivatives with negative market values	0	147	0	147
<b>Total</b>	<b>0</b>	<b>147</b>	<b>0</b>	<b>147</b>

Fair values shall be determined by recurring valuations. In the fiscal years 2017 and 2016 there were no changes within the level hierarchy.



The table below shows valuation methods which were used to determine the relevant fair values in levels 2 and 3. The table also shows the major input factors which were used but not based on observable market data:

Type	Valuation method	Major non-market based input factors	Relationship between major non-market based input factors and the fair value valuation
Other financial liabilities	Discounted cash flows	Not applicable	Not applicable

Other financial liabilities contained bank loans with and without collateral, bonds without collateral and financial lease obligations.

Net results from financial instruments broken down in classes or valuation categories contain according to IAS 39 net profits/losses, total interest income/expenses and impairment losses. The table below gives the relevant breakdown:

in €k	From interest	From subsequent fair value valuation	From impairment	Net result
<b>01/01/2017 – 31/12/2017</b>				
Loans and receivables	72	0	50	122
Trading	0	147	0	147
Financial liabilities at amortised cost	(1,935)	0	0	(1,935)
<b>Total</b>	<b>(1,863)</b>	<b>147</b>	<b>50</b>	<b>(1,666)</b>
<b>01/01/2016 – 31/12/2016</b>				
Loans and receivables	74	0	(242)	(168)
Trading	0	353	0	353
Financial liabilities at amortised cost	(2,110)	0	0	(2,110)
<b>Total</b>	<b>(2,036)</b>	<b>353</b>	<b>(242)</b>	<b>(1,925)</b>

The changes of the value adjustments for loans and receivables are shown in the other operating expenses. The other components of the net result are contained in the financial income or expenses.

## FINANCIAL RISK MANAGEMENT

### Principles of financial risk management

The assets, liabilities and planned transactions of Pankl Group are subject to credit, market and liquidity risks. Financial risk management is aiming at controlling and limiting these risks. The Management Board and the Supervisory Board are periodically informed about risks which may significantly impact business development.

The principles of financial risk management are defined by the Management Board, which also monitors compliance. Implementation is carried out by the group treasury and the decentralised treasury departments.

### Currency risks

The Group faces currency risks if financial assets and liabilities are denominated in other currencies than the local currency of the respective company. Group companies invoice primarily in their local currency and provide for funding in their local currency (Euro, US Dollar, British Pound, Japanese Yen). Foreign exchange fluctuations may lead to foreign exchange losses in the consolidated financial statements.

Foreign currency risks were analysed by a sensitivity analysis which shows the consequences of hypothetical changes in currency exchange rates on the net result (after taxes) and the equity. The calculations were based on the balance sheet positions at the balance sheet date, assuming that the risk at the balance sheet date was basically the same as during the fiscal year. The tax rate applied was the Group tax rate of 25%. Furthermore, the analysis was based on the assumption that all other factors, especially interest rates, would remain constant. The analysis included the foreign currency risks of all financial instruments that are denominated in a currency other than the functional currency. Currency risks from Euro positions of subsidiaries with a functional currency other than the Euro were included in the foreign currency risk of the functional currency of the respective subsidiary. Risks from foreign non-Euro currency positions were aggregated at Group level. Exchange rate-related differences from conversion of financial statements into the Group currency were not taken into consideration.

Based on the assumptions mentioned above, an increase (decrease) in the value of the Euro by 10% compared to all other currencies would have resulted in a decrease (increase) in net income (after taxes) and equity in the amount of € -353k or € +353k respectively (31/12/2016: € -688k or € +688k respectively). In this analysis, the sensitivity of equity was only influenced by the sensitivity of the net income (after taxes).

### Interest rate risks

Both financial assets and financial liabilities are partly based on contracts with variable interest rates. Interest rate risks, therefore, arise from rising interest rates for interest expenses and decreasing interest rates for interest income due to a disadvantageous change in the interest rates in the debt markets.

Interest rate risks mainly derive from financial instruments with variable interest payments (cash flow risk). Interest risks of these instruments were analysed by a sensitivity analysis. This analysis shows the effect of hypothetical changes in market interest rates on the net profit (after tax) and on equity. The calculations were based on the balance sheet values at the balance sheet date. It was assumed that the risk at the balance sheet date is basically the same as during the fiscal year. The tax rate applied was the Group tax rate of 25%. Furthermore, the analysis was based on the assumption that all other factors, especially exchange rates, remain constant.

Based on the assumptions mentioned above, an increase (decrease) in market interest rates by 50 basis points at the balance sheet date would have resulted in a decrease (increase) of the net income (after taxes) and equity by € -43k or € +43k respectively (31/12/2016: € -46k or € +46k respectively). The sensitivity of equity was only influenced by the sensitivity of the net income (after taxes).

### Other market price risks

The Pankl Group is also subject to other market price risks besides interest rate risks and foreign currency risks. These are, however, considered to be of minor importance.

### Credit risks

Credit risks of trade receivables can be regarded as small as the creditworthiness of all new and existing customers is monitored continuously. Credit risks of other financial instruments shown on the assets side of the balance sheet are also regarded as small since the debtors are of highest creditworthiness. Internal guidelines define credit risks which are monitored.

The values shown on the assets side of the balance sheet represent the maximum potential loss from credit risks because there were no general netting agreements.

Book values of financial receivables were as follows:

in €k	Book value	Thereof not impaired or overdue as of the balance sheet date	Thereof not impaired and overdue as of the respective time periods				Thereof impaired
			Less than 30 days	30 to 60 days	60 to 90 days	More than 90 days	
<b>31/12/2017</b>							
Trade accounts receivable	26,255	19,406	3,054	1,673	489	214	1,419
Non-current loans granted	1,606	1,606	0	0	0	0	0
<b>Total</b>	<b>27,861</b>	<b>21,012</b>	<b>3,054</b>	<b>1,673</b>	<b>489</b>	<b>214</b>	<b>1,419</b>
<b>31/12/2016</b>							
Trade accounts receivable	27,248	20,214	4,348	1,654	428	47	557
Non-current loans granted	1,970	1,970	0	0	0	0	0
<b>Total</b>	<b>29,218</b>	<b>22,184</b>	<b>4,348</b>	<b>1,654</b>	<b>428</b>	<b>47</b>	<b>557</b>

Regarding financial receivables which were neither written off nor in default, there were no signs at the balance sheet date that the debtors may not fulfil their financial obligations.

### Liquidity risks

An important aim of financial risk management in the Pankl Group is to guarantee liquidity and financial flexibility at any time. For this purpose, a liquidity reserve consisting of unused credit lines (cash credits and guarantees) – and also cash, if required – is maintained with banks of high rating. These unused credit lines mostly have a term of twelve months after which they are renewed.

The maturities of financial liabilities were as follows:

in €k	Valuation category acc. to IAS 39	Book value	Maturities		
			Within 1 year	1 to 5 years	More than 5 years
<b>31/12/2017</b>					
Current loans and short-term portion of non-current loans	Financial liabilities at amortised cost	16,479	16,479	0	0
Trade accounts payable	Financial liabilities at amortised cost	11,470	11,470	0	0
Other current financial liabilities – finance lease liabilities	Not applicable	61	61	0	0
Other current financial liabilities	Financial liabilities at amortised cost	4,624	4,624	0	0
Non-current loans	Financial liabilities at amortised cost	81,851	0	67,495	14,356
<b>Total</b>		<b>114,485</b>	<b>32,634</b>	<b>67,495</b>	<b>14,356</b>
<b>31/12/2016</b>					
Current loans and short-term portion of non-current loans	Financial liabilities at amortised cost	22,703	22,703	0	0
Trade accounts payable	Financial liabilities at amortised cost	11,437	11,437	0	0
Other current financial liabilities – finance lease liabilities	Not applicable	294	294	0	0
Other current financial liabilities	Financial liabilities at amortised cost	4,088	4,088	0	0
Bond	Financial liabilities at amortised cost	9,985	9,985	0	0
Non-current loans	Financial liabilities at amortised cost	49,456	0	49,019	437
Non-current finance lease liabilities	Not applicable	56	0	56	0
<b>Total</b>		<b>98,019</b>	<b>48,507</b>	<b>49,075</b>	<b>437</b>

The contractually agreed (not discounted) cash flows (interest and repayments) of financial liabilities were as follows:

in €k	Book value	Cash flow 2018			Cash flow 2019 until 2022			Cash flow from 2023		
		Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment
<b>31/12/2017</b>										
Loans	98,330	(1,330)	(143)	(16,479)	(4,119)	(163)	(67,495)	(206)	(188)	(14,356)
Bond	0	0	0	0	0	0	0	0	0	0
Trade accounts payable	11,470	0	0	(11,470)	0	0	0	0	0	0
Finance lease liabilities	61	0	0	-61	0	0	0	0	0	0
Other current financial liabilities	4,624	0	0	(4,624)	0	0	0	0	0	0
<b>Total</b>	<b>114,485</b>	<b>(1,330)</b>	<b>(143)</b>	<b>(32,634)</b>	<b>(4,119)</b>	<b>(163)</b>	<b>(67,495)</b>	<b>(206)</b>	<b>(188)</b>	<b>(14,356)</b>

in €k	Book value	Cash flow 2017			Cash flow 2018 until 2021			Cash flow from 2022		
		Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment
<b>31/12/2016</b>										
Loans	72,159	(1,340)	(116)	(22,702)	(2,229)	(160)	(49,019)	(461)	0	(438)
Bond	9,985	(325)	0	(10,000)	0	0	0	0	0	0
Trade accounts payable	11,437	0	0	(11,437)	0	0	0	0	0	0
Finance lease liabilities	350	0	(2)	(294)	0	0	(56)	0	0	0
Other current financial liabilities	4,088	0	0	(4,088)	0	0	0	0	0	0
<b>Total</b>	<b>98,019</b>	<b>(1,665)</b>	<b>(118)</b>	<b>(48,521)</b>	<b>(2,229)</b>	<b>(160)</b>	<b>(49,075)</b>	<b>(461)</b>	<b>0</b>	<b>(438)</b>

Included are all financial instruments that were held at the balance sheet date and where payments have already been agreed upon on a contractual basis. Budgeted figures for any additional future financial liabilities are not included. Working capital loans are assumed to have a twelve-month term. These loans are regularly renewed and are therefore in economic terms available to the Company for a longer period of time. Foreign exchange balances were converted using the exchange rate at the balance sheet date. Variable interest payments were estimated based on the most recent interest rate fixing before the balance sheet date. Financial liabilities repayable at any time are allocated to the group with the shortest maturity.

## (16) EARNINGS PER SHARE

Earnings per share were calculated as follows:

		01/01/2017– 31/12/2017	01/01/2016– 31/12/2016
Consolidated net profit after tax	in €k	5,731	9,985
Net profit attributable to shareholders of parent company	in €k	6,067	10,141
Average number of shares in issue	shares	3,150,000	3,150,000
Undiluted = fully diluted earnings per share	in € per share	1.93	3.22

## (17) SEGMENT REPORTING

The business activities of the Company are managed in the business segments Racing/High Performance (engine and drivetrain components for motor racing and the luxury automotive industry), Aerospace (drivetrain systems for the helicopter market) and Others (investment and financing companies). The breakdown in business segments and the presentation of segment results follows the Management Approach according to IFRS 8 and the internal reporting of the management information system to the Management Board as the chief operating decision maker.

The segment EBIT is defined as operating earnings for the period before deduction of financial results and income taxes. Apart from depreciation, there were no other material non-cash expenses in the respective segments. The segment results refer to earnings before deducting minority shares.

Expenses and earnings of a segment refer either directly to the relevant segment or can reliably be allocated using an appropriate formula.

Expenses and income of a segment derive either from external sources or from appropriate other segments. In principle, services rendered between segments are invoiced at market prices. Amounts, which are not directly related to a segment, mainly refer to administration, research and development costs as well as other expenses.

Assets, which are contributed to a segment, refer either directly to the segment or are allocated using an appropriate formula. Write-offs are directly deducted from the appropriate assets.

Segment assets include that part of current and non-current assets which are required for the operations of the segment. They particularly comprise intangible assets (including goodwill from acquisition), tangible fixed assets, inventories, trade accounts receivable as well as the portion of other receivables and assets resulting from operations. Segment assets do not account for any deferred or other taxes.

Segment liabilities include that part of current and non-current liabilities resulting from the operations of the segment. They particularly comprise provisions for personnel and other expenses, trade accounts payable as well as the portion of provisions and liabilities resulting from operations. Both segment assets as well as segment liabilities do not carry any interest.

Segment capital expenditures include all historic and production costs resulting from the purchase or production of segment assets during the reporting period as well as investments in non-current financial assets.

Revenues within a segment are consolidated.

in €k	Racing/ High Performance	Aerospace	Others	Total	Recon- ciliation	Group
<b>01/01/2017 – 31/12/2017</b>						
Segment revenues	169,013	27,499	7,255	203,767	(8,379)	195,388
<i>Thereof intra-group sales</i>	582	801	6,996			
<i>Thereof external revenues</i>	168,431	26,698	259			
Earnings before interest and taxes (EBIT)	10,674	1,211	(95)	11,790	0	11,790
EBIT in % of segment revenues	6.3%	4.4%	(1.3%)	5.8%	–	6.0%
Interest expenses	(1,424)	(349)	(2,052)	(3,825)	1,884	(1,941)
Interest income	3	2	1,951	1,956	(1,884)	72
Segment assets	172,468	25,097	11,652	209,217	11,014	220,231
Segment liabilities	19,664	3,021	7,837	30,522	98,397	128,919
Segment capital expenditure	32,361	1,605	1,784	35,750	0	35,750
Segment depreciation and amortisation	(11,345)	(1,595)	(1,212)	(14,152)	0	(14,152)
<i>Thereof impairments</i>	0	0	0	0	0	0
<b>01/01/2016 – 31/12/2016</b>						
Segment revenues	161,544	25,511	7,090	194,145	(8,154)	185,991
<i>Thereof intra-group sales</i>	327	744	7,083			
<i>Thereof external revenues</i>	161,217	24,767	7			
Earnings before interest and taxes (EBIT)	11,959	1,120	131	13,210	0	13,210
EBIT in % of segment revenues	7.4%	4.4%	1.8%	6.8%	–	7.1%
Interest expenses	(1,248)	(328)	(2,176)	(3,752)	1,627	(2,125)
Interest income	1	0	1,700	1,701	(1,627)	74
Segment assets	143,636	27,258	11,050	181,944	13,684	195,628
Segment liabilities	20,618	2,238	10,273	33,129	82,271	115,400
Segment capital expenditure	21,323	2,196	536	24,055	0	24,055
Segment depreciation and amortisation	(11,122)	(1,682)	(208)	(13,012)	0	(13,012)
<i>Thereof impairments</i>	0	0	0	0	0	0

The column "reconciliation" contains intra-segment revenues and interest expenses/income and assets/liabilities which cannot be directly allocated to individual segments (e.g. liquid funds and bank loans).

Segment revenues according to the customers' geographic location were as follows:

in €k	01/01/2017 – 31/12/2017		01/01/2016 – 31/12/2016	
	Revenue	Share	Revenue	Share
USA	47,494	24.3%	46,431	25.0%
United Kingdom	16,086	8.2%	15,812	8.5%
Germany	37,084	19.0%	42,546	22.9%
Austria	25,851	13.2%	20,616	11.1%
France	10,802	5.5%	10,284	5.5%
Italy	23,967	12.3%	19,813	10.6%
Asia	10,106	5.2%	9,281	5.0%
Others	23,998	12.3%	21,208	11.4%
<b>Total</b>	<b>195,388</b>	<b>100.0%</b>	<b>185,991</b>	<b>100.0%</b>

## 7. OTHER INFORMATION

### (18) MAJOR EVENTS AFTER THE BALANCE SHEET DATE

On 3 January 2018, KTM Industries AG demanded as shareholder of Pankl Racing Systems AG in accordance with article 38 para 7 of the Austrian Stock Exchange Act (§ 38 Abs 7 BörseG) that Pankl Racing Systems AG applies for the revocation of the admission of its 3,150,000 shares to the official market segment of the Vienna Stock Exchange. KTM Industries AG further notified Pankl Racing Systems AG that it will make a public bid for the remaining Pankl Racing Systems AG shares in accordance with article 38 para 6–8 of the Austrian Stock Exchange Act (§38 Abs 6–8 BörseG) and the fifth part of the Austrian Takeover Code. On 2 February 2018, the offer document was published. The offer price amounts to € 42.18 cum dividend for 2017 per share of Pankl Racing Systems AG. The acceptance period for the offer is from 2 February 2018 until 23 March 2018.

On 14 February 2018, the Company filed the application to revoke the trading admission of its shares in the official market segment of the Vienna Stock Exchange. The Vienna Stock exchange shall define the point in time from when the revocation becomes effective and shall make this public appropriately. The time period between this publication and the revocation becoming effective shall not be less than three months and shall not exceed twelve months.

### (19) RELATED PARTIES TRANSACTIONS

Since the fiscal year 2006/2007, Pankl Group is fully consolidated in the consolidated financial statements of KTM Industries AG, domiciled in Wels, Austria. Because of business relationships between the two groups, Pankl Group achieved revenues of € 16,445k with KTM Industries AG and its subsidiaries (2016: € 11,081k). Related parties invoiced Pankl Group for services (software licences € 277k, participation in the group insurance scheme € 334k; rent € 486k; sponsoring € 500k; salaries € 668k; intra-group charges € 397k and other group services € 158k) in the amount of



€ 3,432k (2016: € 2,731k). KTM AG invoiced € 612k for operating expenses. At the balance sheet date, there were outstanding accounts receivable and payable against KTM Industries AG and its subsidiaries in the amount of € 1,204k (31/12/2016: € 380k). All services are invoiced at arm's length basis. For information regarding Management Board and Supervisory Board remuneration please refer to note (02).

The balances with related parties were as of 31 December 2017 as follows:

in €k	Revenue	Expenses	Receivables	Liabilities
KTM Group	16,435	1,182	671	105
WP Group	10	0	0	0
KTM Industries AG	0	1,487	676	38
Pierer Konzerngesellschaft mbH	0	277	0	0
Pierer Immoreal GmbH	0	486	0	0
<b>Total</b>	<b>16,445</b>	<b>3,432</b>	<b>1,347</b>	<b>143</b>

In accordance with article 9 of the Austrian Corporation Tax Act (§ 9 KStG), the Company is a member of the group of companies of Pierer Konzerngesellschaft mbH located in Wels. The taxable profits of all group members are allocated to the group parent. The appropriate tax contribution to be paid by each group member to the group parent were defined by a group and tax allocation agreement. Tax losses including the ones of subsidiaries are recorded and offset with future tax profits. There shall be an appropriate compensation payment, if tax losses remain after termination of the agreement.

## (20) PROFIT DISTRIBUTION

■ According to the Austrian companies' act, the non-consolidated financial statements of Pankl Racing Systems AG as of 31 December 2017 according to Austrian accounting standards are the basis for the dividend pay-out. These financial statements showed a balance sheet profit of € 36,215k (31/12/2016: € 22,268k).

■ From the balance sheet profit 2016, a dividend of € 1,890k was distributed, the remainder of the profit was carried forward for new account. For the fiscal year 2017, the Management Board intends to propose the payment of a dividend amounting to € 0.60 per share and to carry forward the remainder for new account.

## (21) AUDITOR FEES

The total fees of the auditor KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft referring to the reporting period amounted to € 213k (2016: € 181k). Of this total, € 93k referred to the audit of the non-consolidated financial statements as of 31 December 2017 (31/12/2016: € 95k), € 87k referred to the audit of the consolidated financial statements as of 31 December 2017 (31/12/2016: € 78k) and € 33k referred to other services (2016: € 8k).

## (22) LEGAL REPRESENTATIVES OF PANKL RACING SYSTEMS AG

During the fiscal year 2017 and until the preparation of the consolidated financial statements, members of the Company's **Management Board** were:

- Wolfgang Plasser
- Christoph Prattes
- Stefan Seidel

During the fiscal year 2017 and until the preparation of the consolidated financial statements, members of the Company's **Supervisory Board** were:

- Stefan Pierer (Chairman)
- Josef Blazicek (Deputy Chairman)
- Alfred Hörtenhuber
- Harald Plöckinger
- Friedrich Roithner

Kapfenberg, on 15 February 2018

The Management Board of Pankl Racing Systems AG



Wolfgang Plasser  
CEO



Christoph Prattes  
COO



Stefan Seidel  
CTO

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

### AUDIT OPINION

We have audited the consolidated financial statements of **Pankl Racing Systems AG, Kapfenberg, Austria**, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated profit and loss account, consolidated statement of comprehensive income, schedule of consolidated shareholder's equity and consolidated cash flow statement for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code).

### BASIS FOR OUR OPINION

We conducted our audit in accordance with the EU Regulation 537/2014 ("EU Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon.

#### Impairment of Goodwill

We refer to section "Accounting and Valuation Methods" and section (06) "Goodwill and other Intangible Assets" of the notes to the consolidated financial statements.

#### Risk for the Financial Statements

In its consolidated financial statements, Pankl Racing Systems AG has recognized goodwill with a carrying value of € 12.1m.

Goodwill is tested for impairment at least annually and whenever there is an indication that goodwill may be impaired. For this purpose, Pankl Racing Systems AG estimates the recoverable amount, which represents the relevant measure of value for the impairment test, using the discounted cash flow method. Goodwill is tested for impairment separately for each of the cash-generating units "Racing – Engine Europe",

“Racing – Engine USA”, “High Performance” and “Aerospace”. The outcome of the valuation is highly dependent on the assessment of future cash flows (taking into account future revenue growth, profit margins and long-term growth rates) and the discount rate used, and is therefore subject to significant uncertainty. A review of the impairment test is complex and based on a number of judgmental factors.

The risk for the consolidated financial statements is an overstatement of goodwill.

#### Our Response

We compared the cash flows on which the impairment test is based with the current four-year-planning as approved by the supervisory board and we assessed the valuation methodology. In order to evaluate the appropriateness of the planning, we gained an understanding of the planning process and compared the estimates with the historical development. We have discussed the assumptions and estimates with management and in doing so, gained an understanding of how historical experiences affects the planning of management.

We assessed the appropriateness of assumptions used to determine the discount rate by comparing them to reference values specific to the relevant market and sector (peer-group data); furthermore we re-performed the calculation used to determine the discount rate.

We carried out a sensitivity analysis to determine whether the carrying value tested is sufficiently covered by the recoverable amount taking into account realistic changes in the underlying assumptions. We assessed whether the long-term development of the level of profitability in the terminal value period is consistent and plausible.

In performing these audit procedures we made use of our valuation specialists.

We also evaluated whether the disclosures on the impairment of goodwill made by Pankl Racing Systems AG in the consolidated notes are complete and appropriate.

### MANAGEMENT’S RESPONSIBILITY AND RESPONSIBILITY OF THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, Austrian Generally Accepted Accounting Principles as well as the additional requirements under Section 245a UGB and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

## AUDITORS' RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

## REPORT ON OTHER LEGAL REQUIREMENTS

### GROUP MANAGEMENT REPORT

In accordance with the Austrian Generally Accepted Accounting Principles, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with the Austrian Generally Accepted Accounting Principles.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

#### Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

#### Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

## OTHER INFORMATION

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report and the auditor's report. We expect the annual report to be provided to us after the date of the auditor's report.

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

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

### Additional Information in accordance with Article 10 EU Regulation

At the Annual General Meeting dated on 28 April 2017, we were elected as group auditors. We were appointed by the Supervisory Board on 31 August 2017. We have been the Group's auditors from 30 September 2001 without interruption.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

## ENGAGEMENT PARTNER

The engagement partner on this engagement is Mr. Ernst Pichler.

Linz, 15 February 2018

KPMG Austria GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

*signed by*  
Mag. Ernst Pichler  
Wirtschaftsprüfer  
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid. The consolidated financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the group management report are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

102 **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 position and profit or loss of the Group as required by the applicable accounting standards and that the group 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 parent Company financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss 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 company, together with a description of the principal risks and uncertainties the company faces.

Kapfenberg, on 15 February 2018

The Management Board of Pankl Racing Systems AG



Wolfgang Plasser  
CEO



Christoph Prattes  
COO



Stefan Seidel  
CTO



### A

**Additive manufacturing:** Manufacturing methods based on chemical and physical processes using 3D printers

**Annular groove:** Part of a piston

### B

**BRICS:** Organisation of aspiring emerging nations (Brazil, Russia, India, China, South Africa)

### C

**Capital employed:** Total capital required for the usual business activities, consisting of non-current assets and working capital

**Cash flow hedge:** Hedge of fluctuations of cash flow due to volatile market parameters, e.g. interest rate swap for conversion of variable interest payments in fixed interest payments, can be shown directly in equity

**CGU:** Cash generating unit

**COGS:** Cost of goods sold; costs arising from the realization of revenue

**Common stock:** Core capital of a company, stock connected to a vote at the annual general meeting

**Continuous trading:** Ongoing trading at stock market, orders can be placed and executed during the whole trading time

**Convertible bond:** Bond giving the creditor the right to convert their share of the bond into stock

### D

**Deferred tax assets:** Potential future tax reduction arising from differences in IFRS and tax balance sheet

**Deferred tax liabilities:** Potential future tax burden arising from differences in IFRS and tax balance sheet

**Discounted-cashflow-method:** Methodology of firm valuation, where forecasted future cashflows are discounted with the WACC

**Dividend:** (Annual) payment to the shareholders

**DOA:** Design Organization Approval; certificate of EASA

**DTM:** German Touring Car Masters; racing series for near-serial touring cars

### E

**EASA:** European Aviation Safety Agency

**EBIT:** Earnings before interest and tax

**EBIT margin:** Ratio of EBIT to revenue

**EBITDA:** Earnings before interest, tax, depreciation and amortization

**EBITDA margin:** Ratio of EBITDA to revenue

## F

**Fair value:** Time value of an asset or liability, at which it could be traded

**Free cash flow:** Cash flow before financial activities, which can be used freely for payments to shareholders and creditors

**FX fluctuation:** Deviations of the exchange rate of two currencies

## G

**Gearing:** Ratio of net debt to equity

**Goodwill:** Positive difference of acquisition costs and fair value of an acquired company

**Green plate:** Reward for the offer of a balanced and healthy meal

## I

**IAS:** International Accounting Standards

**IFRIC:** International Financial Reporting Interpretations Committee; publishes interpretations of IFRS and IAS

**IFRS:** International Financial Reporting Standards

## J

**Jet engine driveshaft:** Driveshafts for jet engines (turbines)

## M

**Mid market:** Stock market segment at stock market Vienna, specialized on small and medium-sized companies

**MotoGP:** Premier-class of motorcycle road racing

## N

**NASCAR:** National Association for Stock Car Auto Racing; American racing series with touring cars

**Net debt:** Financial liabilities less cash and cash equivalents

**Net working capital:** Current assets (stock or accounts receivable, but not cash), reduced by current liabilities (accounts payable); assets available for the generation of revenue, financed with non-current capital

**Non-par value share:** Stock without par value, all stocks have the same share

## O

**OECD:** Organization for Economic Cooperation and Development

**Offshore:** Off the coast; in this case oil production at platforms

**P**

**Participating bond:** Bond giving the creditor the right to receive a part of the annual profit besides the nominal interest rate

**Participation right:** Right to receive parts of the annual profit without having the right to vote at the annual general meeting

**Payout ratio:** Percentage of earnings after taxes (attributable to shareholders) paid out to the shareholders

**POA:** Production Organization Approval; certificate of EASA

**Prime market:** Stocks fulfilling special requirements at the Vienna exchange, e.g. minimum free float

**Pro rata temporis:** For the concerned time period

**R**

**ROCE:** Return on capital employed

**ROE:** Return on equity

**S**

**Solvency:** Liquidity of a company

**Stakeholder:** People with valid interests in the matters of the company

**T**

**Tribological system:** Friction processes of interacting surfaces in relative motion

**W**

**WACC:** Weighted average cost of capital

**WEC:** World Endurance Championship; racing series with focus on long-runs

**WRC:** World Rallye Championship

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