

## CORPORATE GOVERNANCE



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## CORPORATE GOVERNANCE 2017

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### WORKING PROCEDURES OF THE EXECUTIVE BOARD:

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

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

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

### COMPOSITION OF THE EXECUTIVE BOARD:

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

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

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

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

**Further main functions within the Group:**

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

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

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

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

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

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

**Further main functions within the Group:**

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

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

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

**Alfred Hörtenhuber**, born 1955

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

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

**Further main functions within the Group:**

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

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

**Wolfgang Plasser**, born 1962

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

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

**Further main functions within the Group:**

Member of the Executive Board of Pankl Racing Systems AG

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

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

**WORKING PROCEDURES OF THE SUPERVISORY BOARD:**

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

**Josef Blazicek**, born 1964

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

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

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

**Ernst Chalupsky**, born 1954

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

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

**Gerald Kiska**, born 1959

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

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

**Klaus Rinnerberger**, born 1964

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

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

## COMMITTEES OF THE SUPERVISORY BOARD AND THEIR MEMBERS:

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

### Klaus Rinnerberger

- Chairman, financial expert

### Josef Blazicek

- Deputy Chairman

### Ernst Chalupsky

- Member

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

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

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

## INDEPENDENCE OF THE SUPERVISORY BOARD

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

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

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

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

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

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

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

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

#### REMUNERATION REPORT:

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 03 MEASURES TO PROMOTE WOMEN

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

## 04 DESCRIPTION OF THE DIVERSITY CONCEPT

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

### COMPOSITION OF THE EXECUTIVE BOARD

#### Concept:

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

#### Objectives:

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

#### Implementation:

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

#### Results in the reporting period:

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

### COMPOSITION OF THE SUPERVISORY BOARD

#### Concept:

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

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

**Objectives:**

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

**Implementation:**

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

**Results in the reporting period:**

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

## 05 AUDITS AND EXTERNAL EVALUATION

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

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

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

## 06 CHANGES AFTER THE END OF THE REPORTING PERIOD

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

Wels, March 2018  
The Executive Board

REPORT PURSUANT TO THE DIRECTIVE ON

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

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

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

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

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

#### 1. GROUP STRUCTURE AND SHAREHOLDER BASE

##### 1.1. Group structure

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

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

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

KTM Industries AG is the parent company of the KTM Industries Group. The KTM Industries Group is a leading European vehicle group with a strategic focus on the global racing motorcycle segment and on high-tech automotive components. The KTM Industries Group is divided into the strategic core divisions of (i) Vehicle (powered two-wheelers) with its equity holding inter alia in the KTM Group and the WP Group (under the name of KTM AG since January 2018), (ii) Design and Concept Development with the equity holdings inter alia in KTM Technologies GmbH and Kiska GmbH, and (iii) High Performance with the equity holding inter alia in the Pankl Group.

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

### KTM Group

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

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

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

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

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

### WP Group

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

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

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

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

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

Pankl Group

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

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

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

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

KTM Technologies/Kiska

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

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

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

**1.2. Significant shareholders**

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

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

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

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

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

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



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

### 1.3 Cross-shareholdings

There are no cross-shareholdings.

## 2. CAPITAL STRUCTURE

### 2.1 Capital

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

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

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

### 2.2 Authorized and conditional capital in particular

#### Authorized capital:

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

#### Conditional capital:

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

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

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

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

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

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

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

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

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

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

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

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

The following rights attach to shares in KTM Industries AG:

#### Rights over assets:

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

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

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

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

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

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

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

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

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

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

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

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

##### Right to attend

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

##### Right of petition

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

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

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

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

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

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

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

#### Right to speak

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

#### Voting rights

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

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

#### Right of objection

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

#### Right of avoidance

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

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

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

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

KTM Industries AG has issued no convertible bonds or options.

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

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

### 3. SUPERVISORY BOARD

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Mag. Gerald Kiska** (b. 1959), Austrian citizen, studied at the Linz School of Design and subsequently worked at various design bureaus and agencies

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

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

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

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

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

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

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

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

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

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



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

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

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

### 3.5 Internal organizational structure

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

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

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

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

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

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

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

### 3.6 Definition of areas of responsibility

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

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

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

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

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

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

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

## 4. EXECUTIVE BOARD

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

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

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

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

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

#### Responsibility:

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

#### Further main functions within the Group:

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

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

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

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

Responsibility:

Finance/(Group) accounting/tax and legal affairs

Further main functions within the Group:

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

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

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

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

Responsibility:

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

Further main functions within the Group:

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

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

None

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

Responsibility:

Strategic/operational management of the Pankl Group

Further main functions within the Group:

Member of the Executive Board of Pankl Racing Systems AG

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

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

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

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



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

#### 4.3 Management contracts

There are no management contracts.

### 5. COMPENSATION, SHAREHOLDINGS AND LOANS

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

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

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

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

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

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

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

\* rounded

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

## 6. SHAREHOLDERS' PARTICIPATION RIGHTS

### 6.1 Voting rights restrictions and representation

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

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

### 6.2 Quorums required by the articles of association

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

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

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

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

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

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

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

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

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

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

## 6.5 Share register

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

## 7. CHANGES OF CONTROL AND DEFENSE MEASURES

### 7.1 Duty to make an offer

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

#### Mandatory offers

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

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

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

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

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

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

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

#### Voluntary offer to achieve control

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

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

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

### Voluntary offer

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

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

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

## **8. AUDITORS**

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

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

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

### **8.2 Audit fee**

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

### **8.3 Additional fees**

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

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

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

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

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

## 9. Information policy

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

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

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

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

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

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

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

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

**KTM Industries AG**

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