

ANNUAL REPORT 2018



penki

penki

PANKL KEY FIGURES

PROFITABILITY RATIOS		2014	2015	2016	2017	2018	Change
Revenues	€k	165,027	173,638	185,991	195,388	217,192	11%
EBITDA	€k	24,316	23,641	26,222	25,942	28,277	9%
EBIT	€k	11,893	10,204	13,210	11,790	10,250	(13%)
Earnings before taxes (EBT)	€k	8,749	8,431	10,842	8,990	7,664	(15%)
Earnings after taxes	€k	6,861	7,931	9,985	5,731	7,878	38%
EBITDA margin		15%	14%	14%	13%	13%	–
EBIT margin		7%	6%	7%	6%	5%	–

BALANCE SHEET RATIOS		2014	2015	2016	2017	2018	Change
Total assets	€k	182,678	180,663	195,628	220,231	244,911	11%
Net working capital ¹	€k	60,247	65,123	59,344	68,437	82,530	21%
Capital employed ²	€k	147,695	151,979	153,616	179,931	206,888	15%
Shareholders' equity	€k	76,780	82,853	80,228	91,312	97,956	7%
Equity in % of total assets		42%	46%	41%	42%	40%	–
Net debt ³	€k	70,915	69,126	73,388	88,619	108,932	23%
Gearing ⁴		92%	83%	91%	97%	111%	–

CASH FLOW AND CAPEX		2014	2015	2016	2017	2018	Change
Cash flow from operating activities	€k	14,662	16,541	23,916	13,024	11,729	(10%)
Free cash flow	€k	(1,267)	5,208	2,553	(22,206)	(13,698)	38%
Capital expenditure	€k	17,008	11,381	23,326	34,930	26,742	(23%)

EMPLOYEES		2014	2015	2016	2017	2018	Change
Employees as of 31 Dec		1,287	1,319	1,514	1,680	1,838	9%

VALUE CREATION		2014	2015	2016	2017	2018	Change
ROCE (Return on capital employed) ⁵		6%	5%	8%	4%	5%	–
ROE (Return on equity) ⁶		9%	10%	12%	7%	8%	–

STOCK EXCHANGE RATIOS		2014	2015	2016	2017	2018	Change
Share price as of 31 Dec	€	27.12	27.50	34.00	41.00		
Number of shares issued	m share	3.15	3.15	3.15	3.15	3.15	0%
Market capitalisation	€m	85.43	86.63	107.10	129.15		
Earnings per share	€	1.95	2.43	3.22	1.93	2.52	31%
Book value per share	€	24.37	26.30	25.47	28.99	31.10	7%

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

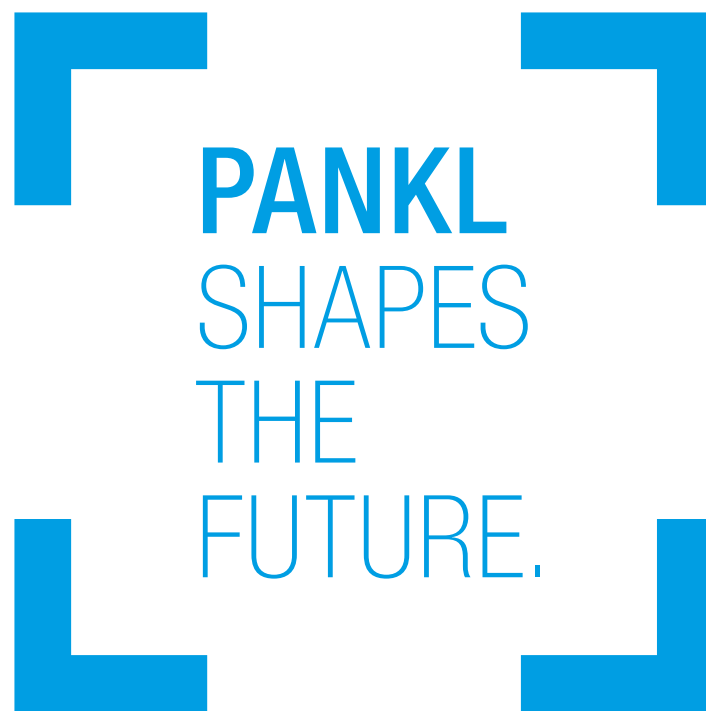
² Capital employed = Shareholders' equity including minorities + financial liabilities (current, non-current) – cash and cash equivalents

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

⁴ Gearing = Net debt / shareholders' equity including minorities

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

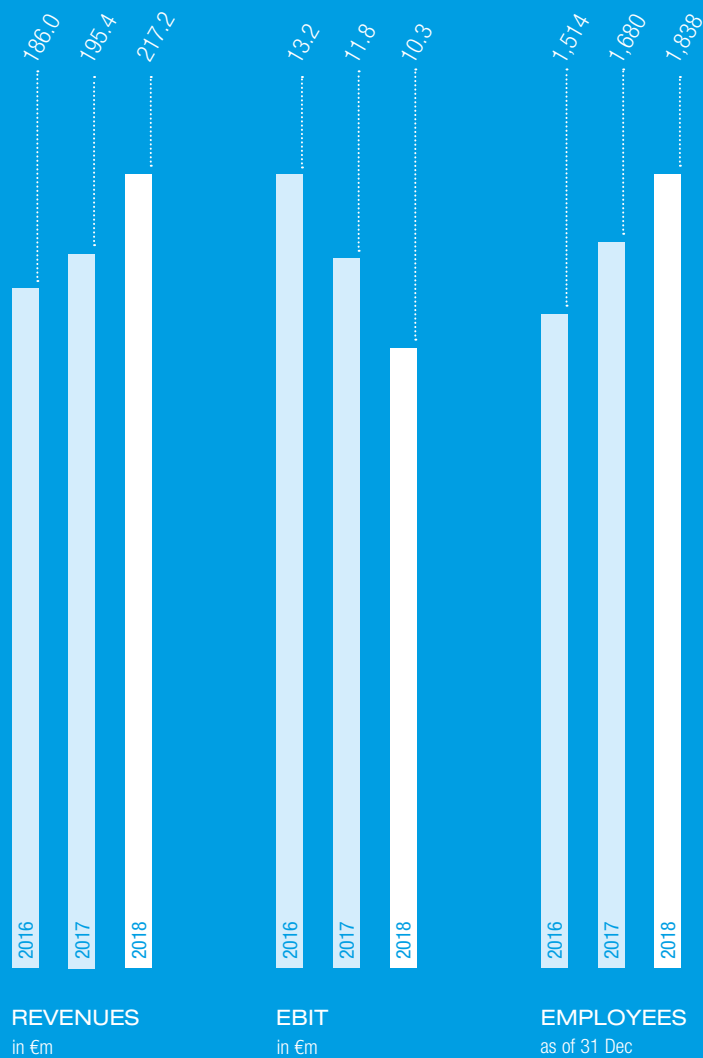
⁶ ROE (Return on equity) = Earnings after taxes / average shareholders' equity



PANKL
SHAPES
THE
FUTURE.

PANKL
RACING SYSTEMS

2018 AT A GLANCE



GROUP STRUCTURE

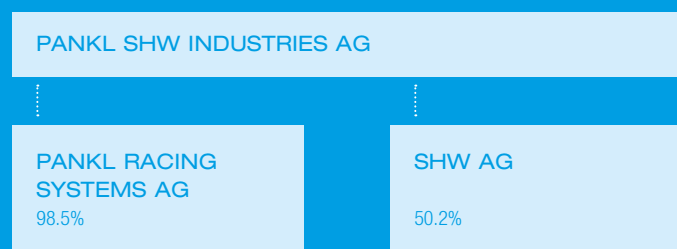


TABLE OF CONTENTS

04	THE COMPANY
04	Targets and strategies
05	CEO's letter to shareholders
07	Legal representatives
10	Production sites
11	Group structure
12	Report of the chairman of the Supervisory Board
16	GROUP STATUS REPORT 2018
16	Business development
18	Development of the Pankl Group
21	Segment reporting
22	Research and development, innovation and quality
26	Human resources report
30	Risk and opportunities management
31	Supplementary report and forecast
34	CONSOLIDATED FINANCIAL STATEMENTS 2018
35	Consolidated profit and loss account
36	Consolidated statement of comprehensive income
37	Consolidated balance sheet
38	Consolidated cash flow statement
40	Schedule of consolidated shareholders' equity
42	Notes
85	Auditor's report
88	Statement of all legal representatives
89	Pankl glossary
91	Important addresses

ANNUAL REPORT 2018

New materials in engine and drivetrain technology require innovative approaches that reach beyond the existing standards. The Pankl Additive Manufacturing Competence Center is so far the most significant cooperation of leading technological companies in the fields of powder development, process technology and application technology with the aim to establish additive manufacturing in the automotive high performance and aerospace sectors.

Of course, an introduction of new technologies is connected to ongoing challenges, but at the same time it also enables us to enter new business fields and to secure our continuous growth. – Pankl shapes the future.



04 LEADING SYSTEM SUPPLIER AND DEVELOPMENT PARTNER

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

PRODUCT DEVELOPMENT AND INNOVATION

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

TRANSFER OF KNOW-HOW

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

CUSTOMER SATISFACTION

We aim to fulfil customer expectations by the permanent development and continuous improvement of all components and systems, as well as through the flexibility to react to customer requirements and change requests. This is ensured by our global network of companies with facilities in Austria, Germany, United Kingdom, Slovakia, Japan and the United States.

SUCCESS FACTOR EMPLOYEES

As our employees are our most important asset, we pursue a targeted and responsible human resources policy.

DEAR SHAREHOLDERS, DEAR BUSINESS PARTNERS,

Pankl Racing Systems AG's time as a stock exchange listed company ended on 30 May 2018. In 1998 and 1999 the company raised € 45m in two capital increases to fund a technology, growth and internationalisation offensive. The Pankl Group built new production facilities, extended existing ones, carried out international acquisitions and invested heavily in technological development. In these 20 years, Pankl developed from a Styrian technology company with 94 employees and € 15m annual revenues to a successful and well-diversified international high-tech group with 1,800 employees and € 216m annual revenues operating in ten locations in six countries on three continents.

In early 2018, the free float of Pankl shares fell below 2%, hence it was time for the company to enter a new path. I would like to thank all shareholders who joined us on our successful journey in the last 20 years and all who are still with us. Our shareholders have made an important contribution to fund our corporate development. Today, Pankl Racing Systems AG is very well integrated into the Pierer Industrie AG Group.

In 2018, we entered a new chapter. Pierer Industrie AG formed "Pankl SHW Industries AG" as its dedicated automotive supply holding after it acquired a majority stake in the German SHW AG. This new strategic holding has 3,500 employees and generates € 630m annual revenues. The aim is to realise as many synergies between Pankl and SHW as possible to allow for further growth. Such synergies were already realised in the areas R&D, procurement, production, IT and distribution. We expect first positive impacts already in 2019.

In the fiscal year 2018, the general business environment was favourable and positive. However, for the automotive serial production sector this was true only for the first half of the year. From September 2018, new licensing rules (Worldwide Harmonised Light Vehicles Test Procedure or WLTP in short) have been introduced, through which the actual emissions measured during real driving conditions became

crucial. These new rules caused significant distortions and revenue declines in the whole automotive supply sector from July 2018. Up to this day visibility remained as low and volatility as high as never before.

Nevertheless, Pankl was able to increase revenues in the serial production business substantially, mainly due to various starts of production in the new Kapfenberg high performance drivetrain production facility. Racing revenues were, however, slightly lower and decreased by 1.5% to € 105.7m. The main cause for this was a lack of regulation changes and the departure of some automobile manufacturers from various racing series. In total, revenues in the Racing/High Performance segment increased by 10.8% to € 197.2m. In the Aerospace segment, we mainly focused on extensive prototype manufacturing for jet engine projects.

In 2018, to maintain our technology and innovation leadership position in our niche markets we continued to carry out numerous investment, development and optimisation projects. One example is our state-of-the-art Pankl Additive Manufacturing Competence Centre "PAMCC" where we co-operate with world market leaders such as Böhler, EOS and Quintus in an internationally unique manner. Together, we can cover complete value-added chains and aim to develop new applications for "Additive Manufacturing". Successful R&D strategies are the key to maintain sound strategic positioning in the future. In an environment of increasing automotive electrification and hybridisation, we aim to be a leading systems supplier for performance and/or emission related engine, drivetrain and chassis systems as well as lightweight components in our market niches.

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

Kapfenberg, on 20 February 2019



Wolfgang Plasser
CEO



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

MANAGEMENT BOARD

WOLFGANG PLASSER

Chief Executive Officer (CEO)

Responsible for the Aerospace segment

Appointed until 31 May 2022

Further Management Board mandates:

- CEO of SHW AG
- Member of Pankl SHW Industries AG
- Member of Pierer Industrie AG

THOMAS KARAZMANN

Chief Financial Officer (CFO)

since 1 December 2018

Responsible for Finance, Personnel,
Legal and IT

Appointed until 30 November 2021

Further Management Board mandates:

- CFO of SHW AG

CHRISTOPH PRATTES

Chief Operating Officer (COO)

Responsible for operations in the

Racing/High Performance segment

Appointed until 31 July 2020

STEFAN SEIDEL

Chief Technical Officer (CTO)

Responsible for Sales and R&D in the

Racing/High Performance segment

Appointed until 31 July 2020

SUPERVISORY BOARD

STEFAN PIERER

Chairman

Elected until the Annual General

Meeting which votes on the discharge

for the fiscal year 2018

JOSEF BLAZICEK

Deputy Chairman

Elected until the Annual General

Meeting which votes on the discharge

for the fiscal year 2018

ALFRED HÖRTENHUBER

Member

Elected until the Annual General

Meeting which votes on the discharge

for the fiscal year 2021

HARALD PLÖCKINGER

Member

Elected until the Annual General

Meeting which votes on the discharge

for the fiscal year 2020

FRIEDRICH ROITHNER

Member

Elected until the Annual General

Meeting which votes on the discharge

for the fiscal year 2021



A modern industrial machine with a control panel and a monitor. The control panel features a red emergency stop button, a yellow button, and a black knob. The monitor displays a technical diagram. The machine is light grey and blue.

CREATIVE IDEAS

PANKL AIMS TO ACHIEVE CREATIVE AND INTELLIGENT SOLUTIONS THAT FOLLOW ASPECTS OF PERFORMANCE, ENDURANCE, EFFICIENCY AND ENVIRONMENTAL PERFORMANCE. THE ACTIVITIES VARY FROM THE DEVELOPMENT OF NEW MATERIALS, OF PRODUCTION PROCESSES THROUGH PROTOTYPING TO PRODUCTION OPTIMISATION.

10 PRODUCTION SITES

51

UNITED KINGDOM
Pankl Racing Systems UK

26

GERMANY
Pankl Turbosystems



Irvine
Cerritos

Leicester

Mannheim

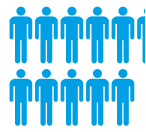
Bruck/Mur
Kapfenberg

Topolčany

Sales Office
Tokyo

229

USA (CALIFORNIA)
CP-CARRILLO
Pankl Aerospace Systems



1038

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

430

SLOVAKIA
Pankl Automotive Slovakia

2

JAPAN
Pankl Japan

PANKL RACING

ENGINE

DRIVETRAIN



Pankl Systems Austria
Engine Systems
Bruck an der Mur (AT), 100%

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

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

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

Pankl Japan
Tokyo (JP), 100%

Pankl Turbosystems
Mannheim (GE), 70%

PANKL HIGH PERFORMANCE



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

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

Pankl Automotive Slovakia
Topoľčany (SK), 100%

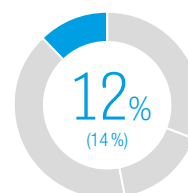
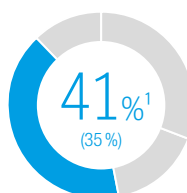
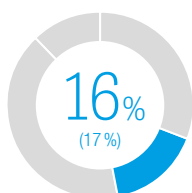
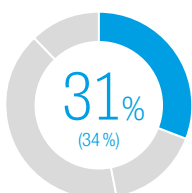
PANKL AEROSPACE



Pankl Aerospace Systems Europe
Kapfenberg (AT), 100%

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

SHARE ON TOTAL REVENUE



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

¹ Including serial conrods and pistons

REPORT OF THE SUPERVISORY BOARD CHAIRMAN

OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2018



In the fiscal year 2018, the Supervisory Board carried out the tasks as required by law and the articles of association in its five formal meetings. In addition, the Management Board regularly briefed the Supervisory Board on business progress and the financial position of the Company and its subsidiaries. The chairman of the Supervisory Board entertained regular contact to the Management Board discussing strategy, business developments and risk management also outside formal supervisory board meetings.

In March 2018 and in December 2018, the audit committee held its meetings. On 19 December 2018, an audit committee meeting was held for the auditor to give an overview of the planned audit procedures and the main focus of the audit for the fiscal year 2018. In March 2019, the dividend distribution proposal, the proposal for the election of the auditor and all accounting and financial reporting issues of the Group were discussed. The members of the audit committee were Josef Blazicek and Friedrich Roithner.

On 20 March 2019, the audit committee discussed with the auditors all documentation regarding the financial statements and the auditors' reports (including the "additional report to the audit committee regarding the audit of the financial statements per 31 December 2018" according to Article 11 of the EU directive 537/2014). These documents and reports were then presented to the Supervisory Board in the subsequent meeting together with the Management Board's status report and corporate governance report.

KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, in accordance with the legal requirements, audited the unconsolidated financial statements and the status report of the Company and the consolidated financial statements and the status report of the Group. The audit did not raise any issues or complaints. The auditor issued unqualified audit opinions on the financial statements and the status report of the Company and the Group.

The auditor confirmed that the accounting systems and the financial statements per 31 December 2018 comply with all appropriate rules and regulations. The financial statements show a true and fair view of the financial situation of the Company in accordance with generally accepted accounting principles. The status report is consistent with the financial statements. The auditor also confirms that the consolidated financial statements are in accordance with all appropriate rules and regulations and show a true and fair view of the financial situation of the Company as of 31 December 2018 and that the profitability and cash flows are shown in accordance with International Financial Reporting Standards (IFRS). The Group status report is consistent with the consolidated financial statements. The Supervisory Board confirmed the unconsolidated financial statements per 31 December 2018 and the status report for the fiscal year 2018.

The Supervisory Board endorsed the financial statements as of 31 December 2018 and the status report for the fiscal year 2018. The financial statements of the Company for the fiscal year 2018 were hence formally concluded in accordance with Chapter 96 Paragraph 4


of the Austrian Public Companies Act (§96 Abs. 4 AktG). The Supervisory Board acknowledges the consolidated financial statements and the Group status report for the fiscal year 2018 without objections and supports the Management Board proposal regarding the profit distribution.

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

Kapfenberg, on 20 March 2019



Stefan Pierer
Chairman of the Supervisory Board



ADDITIVE MANUFACTURING

THROUGHOUT THE METAL ADDITIVE MANUFACTURING PROCESS METALLIC POWDER APPLIED TO THE CONSTRUCTION PLATFORM IS LOCALLY MELTED AND FUSED TOGETHER THROUGH ELECTRON OR LASER BEAMS. THIS LAYERED PROCESS ENABLES THE PRODUCTION OF EXTREMELY COMPLEX COMPONENTS THAT WOULD BE IMPOSSIBLE TO MACHINE OTHERWISE.



GROUP STATUS REPORT

OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2018

1. BUSINESS DEVELOPMENT

1.1. MARKET ENVIRONMENT

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

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

1.2. RACING/HIGH PERFORMANCE SEGMENT

In motorsports, Pankl focuses on the development, design, production and testing of crank assemblies, pistons, piston pins, connecting rods, crankshafts, turbo supercharger applications and complete drivetrain and suspension systems. Pankl supplies international motorsport series such as Formula One, NASCAR (National Association for

Stock Car Auto Racing), MotoGP (highest motorbike world championship racing class), WEC (World Endurance Championship), DTM (German Touring Championship) or WRC (World Rallye Championship). In terms of revenues, Formula One continues to represent the most important racing series for Pankl.

The motorsport market demands extreme flexibility, short planning and product life cycles. Pankl offers its products as single components or complete systems. The customers require state-of-the-art technology and top quality, which results in significantly high barriers for market entry.

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

In the high-performance division, the Pankl Group develops and produces drivetrain and engine components for high-performance luxury cars, engine components for the aftermarket and high-performance aluminium forgings. In 2017, the Company launched production at a new high-performance drivetrain facility, where it produces gearbox components for motorcycles. The last few years saw a trend towards super sports cars, i. e. serial produced cars with similar performance as racing cars, which increases the importance of this market segment for the Pankl Group.

Motorsport knowhow continuously flows into serial production. Pankl’s target group are OEMs (Original Equipment Manufacturers) with small and medium-sized serial vehicle productions (with quantities from a few hundred up to 30,000 units per year) building

high-performance engines (sports cars, sports motorbikes). Sports car customers include Porsche, Mercedes AMG, Ferrari, McLaren, GM, Audi, Bugatti and Lamborghini. Sports motorcycle customers include Honda, Yamaha, KTM and Ducati.

The racing market demand is generally determined by the global economic environment and particularly by the development of the automotive industry. Economic cycles have an influence on motorsport budgets and the number of racing participants. The organisers of racing series aim to improve the attractiveness of their racing series for the various stakeholders through change in regulations. In difficult economic times this may lead to development and testing restrictions to reduce the participation costs.

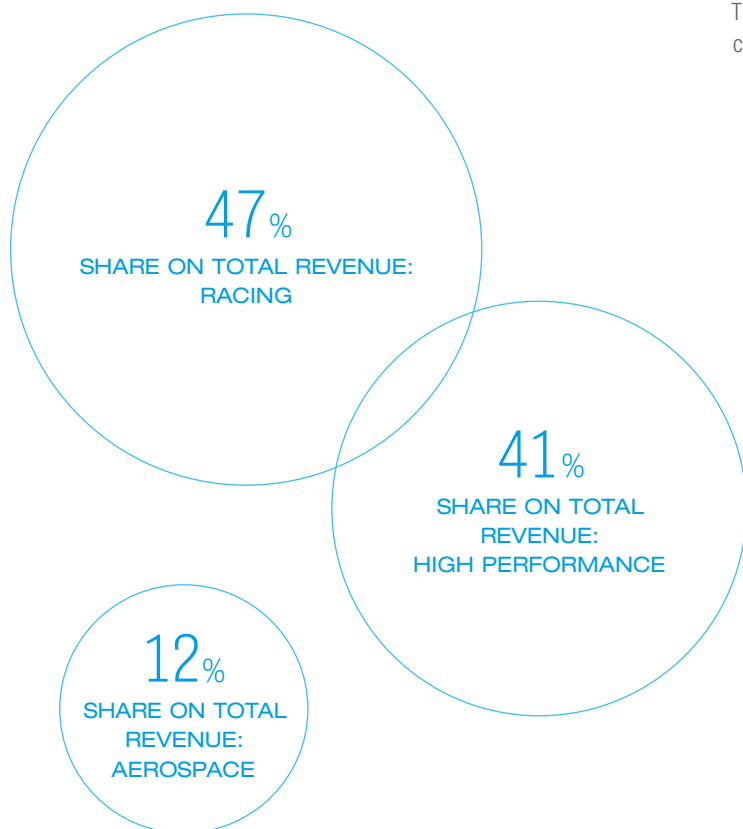
1.3. AEROSPACE SEGMENT

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

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

1.4. OTHER SEGMENT

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



2. DEVELOPMENT OF THE PANKL GROUP

2.1. REVENUES AND EARNINGS

EARNINGS RATIOS

€k	2016	2017	2018
Revenues	185,991	195,388	217,192
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	26,222	25,942	28,277
Earnings before interest and taxes (EBIT)	13,210	11,790	10,250
Earnings before taxes (EBT)	10,842	8,990	7,664
Earnings after taxes	9,985	5,731	7,878
EBITDA margin	14%	13%	13%
EBIT margin	7%	6%	5%

For Pankl Racing Systems AG, the fiscal year 2018 was mainly characterised by the successful scaling up of serial production at our

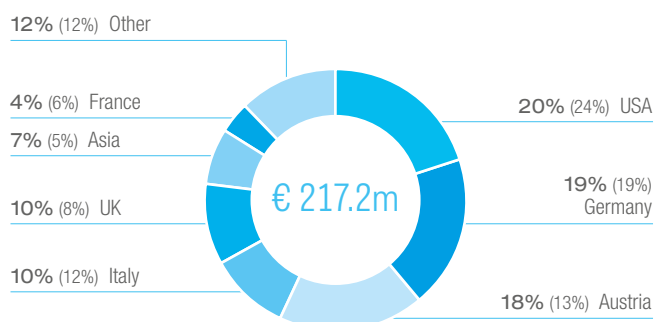
high-performance transmission production facility which commenced operations in the fiscal year 2017.

In the fiscal year 2018, revenues of the Pankl Group increased by 11.2% to a record € 217.2m. In the Racing/High Performance segment, revenues increased in both the racing and the high-performance divisions versus 2017. Also, in the Aerospace segment, revenues grew slightly.

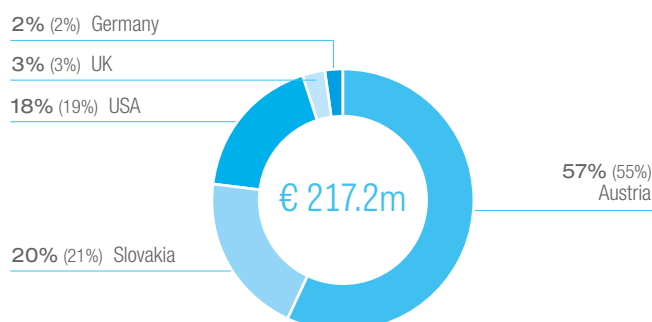
The USA continued to be the largest single geographic market accounting for 20.1% of revenues. The largest European markets were Germany (19.0% of revenues), Austria (18.4% of revenues) and Italy (10.1% of revenues). Operating earnings of the Pankl Group remained at good levels and reached € 10.3m or 4.7% of revenues (2017: € 11.8m or 6.0% of revenues).

Adding back depreciation of € 18.0m resulted in EBITDA of € 28.3m or 13.0% of revenues versus € 25.9m or 13.3% of revenues in the fiscal year 2017.

REVENUES BY REGION 31 DEC 2018



REVENUES BY PRODUCTION SITE 31 DEC 2018



The net financial result amounted to € –2.6m (2017: € –2.8m). Group earnings after taxes amounted to € 7.9m versus € 5.7m in the fiscal year 2017. Consolidated net earnings after taxes and minorities increased from € 6.1m or € 1.93 per share in 2017 to € 7.9m or € 2.52 per share in 2018.

2.2. CAPITAL EXPENDITURE

In the fiscal year 2018, capital expenditure in tangible and intangible assets amounted to € 27.8m and was broken down in fixed assets categories as follows: intangible assets € 1.0m and tangible fixed assets € 26.8m. In 2018, capital expenditure was significantly higher than depreciation due to the investments into the new drivetrain production facility.

2.3. CASH FLOW

CASH FLOW AND CAPITAL EXPENDITURE

€k	2016	2017	2018
Cash flow from operating activities	23,916	13,024	11,729
Operating free cash flow	2,553	(22,206)	(13,698)
Capital expenditure	23,326	34,930	26,742

In the fiscal year 2018, cash flow from results increased significantly and amounted to € 28.9m (2017: € 21.4m). Throughout the course of the year, working capital increased by € 14.1m to € 82.5m (2017: € 68.4m). Taking other non-current assets and liabilities into account, cash flow from operating activities of € 11.7m versus € 13.0m in 2017 has been achieved.

Cash flow from investment activities amounted to € –25.4m adjusted for non-cash investment transactions and was hence significantly lower than in the previous year (2017: € –35.2m). Operating free cash flow amounted to € –13.7m versus € –22.2m in 2017. This was due to lower capital expenditure in 2018.

Cash flow from financing activities amounted to € 10.5m (2017: € 22.4m). As of 31 December 2018, Pankl Group had cash and cash equivalents of € 6.7m (31 Dec 2017: € 9.8m).

2.4. BALANCE SHEET AND FINANCIAL POSITION

BALANCE SHEET RATIOS

€k	2016	2017	2018
Total assets	195,628	220,231	244,911
Net working capital ¹	59,344	68,437	82,530
Capital employed ²	153,616	179,931	206,888
Shareholders' equity	80,228	91,312	97,956
Equity in % of total assets	41%	42%	40%
Net debt ³	73,388	88,619	108,932
Gearing ⁴	91%	97%	111%

As of 31 December 2018, the balance sheet total amounted to € 244.9m and hence increased by € 24.7m versus the previous year (31 Dec 2017: € 220.2m).

Shareholders equity in % of total assets decreased slightly to 40.0% (31 Dec 2017: 41.5% of total assets). Net debt of the Group amounted to € 108.9m versus € 88.6m at the end of the fiscal year 2017.

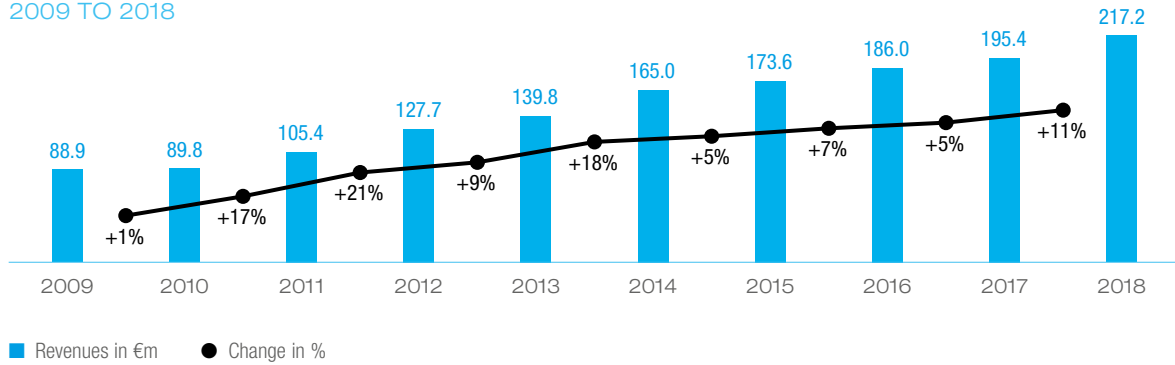
¹ Net working capital = Inventories + accounts receivable, other current receivables – accounts payable, current provisions, other provisions, other current liabilities

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

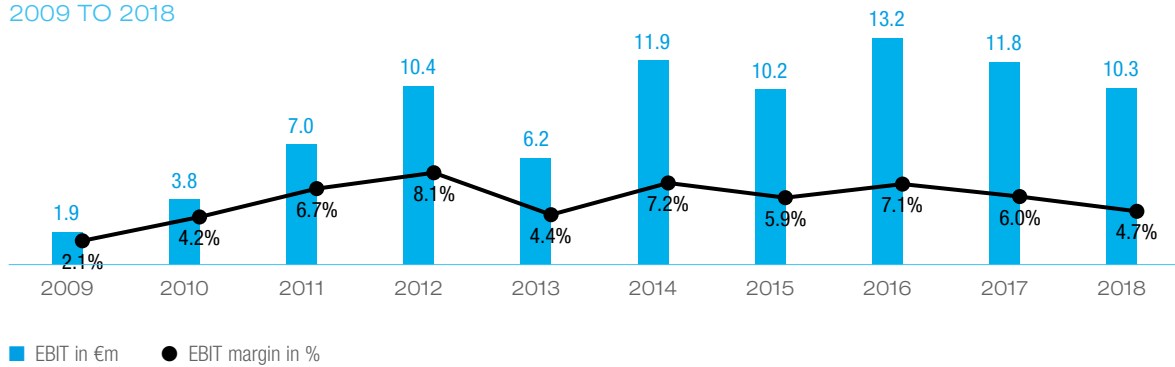
³ Net debt = Financial liabilities (current, non-current) – cash and cash equivalents

⁴ Gearing = Net debt / shareholders' equity including minorities

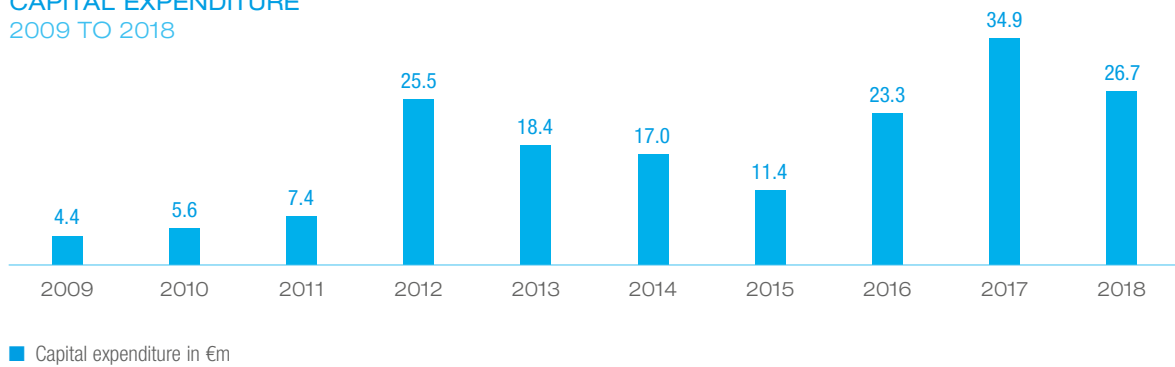
DEVELOPMENT OF REVENUES 2009 TO 2018



DEVELOPMENT OF EBIT AND EBIT MARGIN 2009 TO 2018



CAPITAL EXPENDITURE 2009 TO 2018



2.5. ENVIRONMENT AND SUSTAINABILITY

Environmental responsibility and sustainable business operations are of highest priority to the Pankl Group. In the reporting period, energy expenses amounted to 1.6% of turnover, which was the same level as in the previous year (2017: 1.6%). The Pankl Group did not incur any expenses in connection with the acquisition of CO₂ certificates and is not included in the National Allocation Plan (NAP).

In the fiscal year 2014, the Pankl Group extended its environment management system by the ISO 14001 standard and since then further strengthened it on an ongoing basis.

2.6. MAJOR EVENTS DURING THE FISCAL YEAR

■ On 14 February 2018, Pankl Racing Systems AG applied for its shares (ISIN AT0000800800) to be delisted from the official market segment of the Vienna Stock Exchange in accordance with Chapter 38, Paragraph 6 of the Austrian Stock Exchange Act (§38 Abs. 6 BörseG). On 19 February 2018, the Vienna Stock Exchange passed a resolution for the shares to be delisted after 31 May 2018 and for the last day of trading of the shares to be the 30 May 2018.

■ At the end of November 2018, the Supervisory Board appointed in a circular resolution Mr. Thomas Karazmann as a new member of the Management Board of Pankl Racing Systems AG starting from 1 December 2018. In his position, Mr. Karazmann is responsible for the area of finances.

3. SEGMENT REPORTING

3.1. RACING/HIGH PERFORMANCE SEGMENT

In 2018, the Racing/High Performance segment revenues increased by 13.5% from € 169.0m to € 191.8m. Earnings before interest and taxes (EBIT) increased from € 10.7m or 6.3% of revenues in the fiscal year 2017 to € 10.8m or 5.7% of revenues in 2018.

3.2. AEROSPACE SEGMENT

The aerospace business was difficult due to ongoing weakness in the helicopter market and delays in the jet engine driveshaft market. In 2018, aerospace revenues amounted to € 25.6m and were below the level in the previous year (2017: € 27.5m). Also operating earnings (EBIT) decreased from € 1.2m or 4.4% of revenues in 2017 to € 0.9m or 3.7% of revenues in 2018.

3.3. OTHER SEGMENT

“Other” segment revenues amounted to € 7.0m (2017: € 7.3m), EBIT amounted to € -1.5m (2017: € -95k).

4. RESEARCH AND DEVELOPMENT, INNOVATION AND QUALITY

Technological leadership is one of the major success factors in motorsports and in the high-performance business as well as in aerospace. Hence, research and development are of major importance for the companies of the Pankl Group. In 2018, expenses for intense research and development activities amounted to € 16.7m (2017: € 15.3m).

4.1. RACING/HIGH PERFORMANCE SEGMENT

The application of new or improved materials leading to more efficient operation of components is essential for successful development work and hence for future progress. We applied new innovative lightweight materials in first prototypes for new projects in the high-performance drivetrain systems area. We successfully tested and implemented new heat treatment processes to substitute cast components with forged components. We were able to improve the lifetime of critical dies through the adjustment of the heat treatment strategy and through the application of new materials.

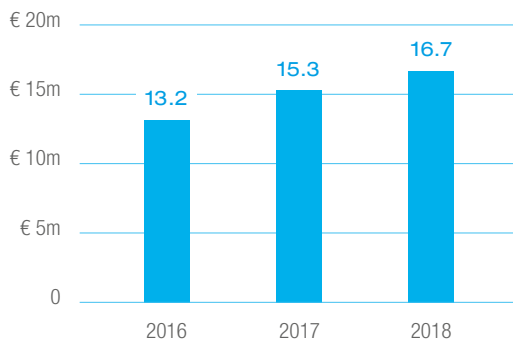
In product development, a strong focus is on additive manufacturing and on its potentials to optimise lightweight designs and improve performance. A major challenge is our significant chassis and drivetrain product portfolio (approximately 100 component types). The utilisation of our drivetrain test station quadrupled compared to the same period last year and first customer projects were executed successfully. For these, various drivetrain components have been applied with inhouse measurement technologies which also enabled us to build a new important pillar in R&D.

Process improvement is a further essential component of our R&D activities. We completed innovations to reduce tooling expenses, designed new systems to heat forging dies and developed processes for new components for various OEM customer projects. We evaluated processes to produce pre-contours for forging components with complex geometries as well as to enable deburring of forged components without the use of any tools and through this we defined corresponding development activities for 2019. We started the first developments of coating concepts for the use of high strength aluminium alloys in drivetrain applications.

Of major importance is our development work in Formula One. Our newly developed steel pistons were positively tested by customers.

Our innovation projects also included the successful validation of a new wheel bearing concept for super sportscars, which is meanwhile applied in serial production projects. Furthermore, we developed and applied new product specific topology optimisation processes to serve as inspiration for the design of complex products such as wish-

R&D EXPENSES
2016–2018



bones and reversing levers. These processes have high potential for innovative, high-performance components with regards to lightweight or rigidity of machined or additive manufactured products. First additive manufacturing components such as wheel carriers, reversing levers or wishbones have been produced, optimised, parameterised and verified in terms of static and with regards to geometric stability.

Throughout the fiscal year 2018, in additive manufacturing the characterisation of our existing material portfolio (steel, aluminium, titan and basic Ni-alloys) in terms of heat-treatment and HIP (hot isostatic pressing) could be completed.

The materials portfolio was extended by a new aluminium alloy, which was developed in the aerospace industry. Pankl successfully completed a qualification process to be authorised to manufacture and distribute components made of this new alloy.

We achieved better pressure parameters with regards to productivity and surface finish, better material properties and customised HIP programmes within our development partnership with EOS, Böhler Edelstahl and Quintus. Further we started with the development of new steel and titanium alloys.

4.2. AEROSPACE SEGMENT

There was also continuous development work done in the Aerospace segment. We successfully implemented the hybrid driveshaft in the Pearl 15 jet engine, which was certified by EASA.

We also achieved major progress in technology insourcing. We passed the NADCAP accreditation for chemical processing and received customer approval for a special magnetic particle inspection (MPI) process.

Pankl is a strategic partner in the development and production of major components for the power gearbox (PGB) of the next jet engine generation.

Within EASA Part 21J Design Organisation Approval (DOA), we were able to receive approval for a complete rear rotor system for the first time.

4.3. QUALITY

The development, production and distribution of high quality products are major constituents of the Pankl Group's mission statement. We secure highest quality standards via comprehensive quality management in terms of product quality and through process monitoring.

Registrations and certifications guarantee customers highest product quality. The certified status is maintained through annual compliance audits. In accordance with the requirements of the automotive and aerospace industries, the Pankl Group is certified according to ISO 9001, ISO 14001, ISO/TS 16949, VDA 6.1 and AS/EN 9100.





FLEXIBLE PRODUCTION

METAL ADDITIVE MANUFACTURING IS MOST SUITABLE FOR LIGHTWEIGHT HIGH-TECH COMPONENTS WHERE SHORT DELIVERY TIMES PLAY A SIGNIFICANT ROLE. THE PRINTING TIME – DEPENDING ON THE COMPONENT SIZE – VARIES BETWEEN A FEW HOURS AND A FEW DAYS. AFTER THE EXCESS POWDER IS CLEANED OFF, THE PRINTED PART CAN BE REMOVED FROM THE MACHINE.

5. HUMAN RESOURCES REPORT

EMPLOYEES ANNUAL AVERAGE

	2016	2017	2018
Number of employees	1,409	1,587	1,776
By segment			
Racing/High Performance	1,197	1,359	1,528
Aerospace	135	145	152
Other	77	83	96
By region			
Austria	761	893	1,038
Slovakia	324	378	430
USA	204	210	229
United Kingdom	65	68	51
Germany	55	37	26
Japan	-	1	2
By employment type			
Blue collar	811	993	1,129
White collar	598	594	647

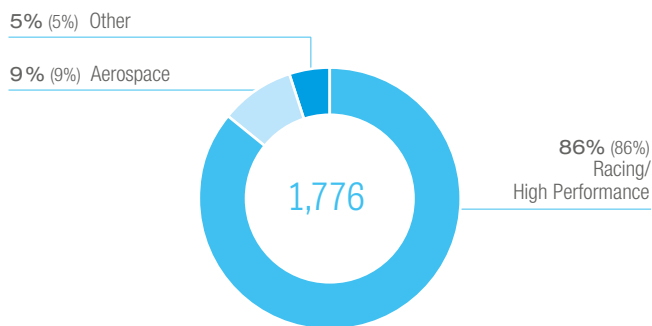
In the fiscal year 2018, the Pankl Group has employed an average of 1,776 persons (2017: 1,587 persons). 1,038 persons (2017: 893 persons) were employed in Austria and 738 persons (2017: 694 persons) were employed in the international group companies.

The number of employees is divided to the individual segments as follows:

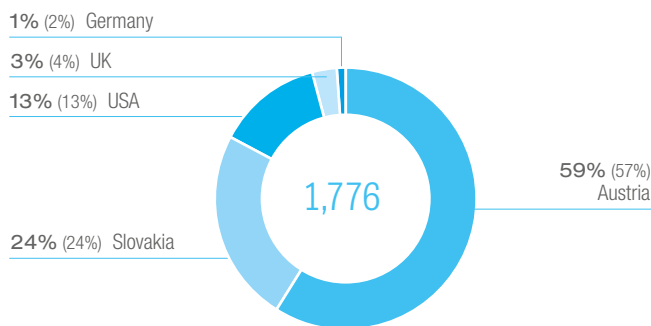
- Racing/High Performance segment: 1,528 persons (2017: 1,359 persons)
- Aerospace segment: 152 persons (2017: 145 persons)
- Other segment: 96 persons (2017: 83 persons)

Its employees are a major, valuable and success defining resources for the Pankl Group. We act in the belief that our diligent employees represent our most valuable potential. They secure the company's growth and success through their knowhow and dedication at eight facilities at international locations. Pankl provides interesting job opportunities in an international group and puts special emphasis

EMPLOYEES BY SEGMENT 2018



EMPLOYEES BY REGION 2018



on the satisfaction of each employee and on individual training models. HR management focuses on the topics health, training, education and work safety.

5.1. WORKPLACE HEALTH AND SAFETY

In 2018, as also in previous years, Pankl put substantial emphasis on the health and safety of its employees. To improve their own health, numerous employees participated on medical check-ups and immunisation programmes offered. Our occupational health professionals carried out workshops about topics such as “active break” and “night shift”. Our safety officer and occupational health professionals carried out presentations for all new apprentices. As part of the Pankl onboarding process, the safety officer carries out presentations about safety at the workplace for all new employees. Fire-prevention and fire-extinguish exercises were carried out in the past fiscal year also. In this respect it needs to be mentioned that Pankl has received the fire brigade friendly employer award in the fiscal year 2018.

Our programme was rounded off by the definition of workplace design and grants for reading glasses or optical safety glasses for relevant employees.

Since the start of the year we have cooperated with various fitness studios to be able to offer our employees lower membership fees. Many employees have taken advantage of this offer.

Through “Pankl protected” we carried out impulse seminars for managers in co-operation with the Austrian Workers’ Compensation (*Allgemeinen Unfallversicherungsanstalt, AUVA*). Topics included the status of workplace safety at Pankl, the legal responsibilities at our premises and corresponding laws and regulations (Child and Adolescent Employment Act, Maternity Protection Act).

At the end of the fiscal year 2018 we carried out an employee survey and an evaluation of psychological stress in accordance with the Employee Protection Act. The survey was compiled by Pankl employees from different departments in co-operation with Medicon and will be used also for the years to come. First measures from the results of the survey are already to be implemented. The results were presented in January 2019.

PANKL IN MOTION

Our health programme “Pankl in motion” attracted the engagement and interest of our employees; the programme focused on relaxation, physical exercise and nutrition. In the first half of the year “acid-base balance” was in focus. There was an interactive exhibition series in all Austrian premises. In autumn, we started a health campaign on “healthy sleep”. Interested employees were able to get personal sleep counselling. The programme was rounded off by heart fitness coachings, health counselling and vitamin D tests.

5.2. TRAINING AND PERSONNEL DEVELOPMENT

We support and promote the continuous development of all groups of employees. In the fiscal year 2018, we provided more than 16,600 training hours at our Austrian premises and invested € 315k in external training courses for our employees. For their own development, managers and employees can choose from a pool of internal and external training courses. The areas covered a range of specific corresponding subjects such as methodical and social competence, personality development, teambuilding and coaching.

In 2018 we put a major emphasis on starting a manager academy, which shall be extended in 2019. The aim of our manager academy is to make partners out of employees by effective leadership. The academy develops managers who have basic understanding of leadership, apply it, think strategically, recognise and teach values and use the team as a central resource.

5.3. PANKL CAREER THROUGH APPRENTICESHIP

Internal apprenticeships are a significant component of our personnel policies as employees contribute substantially to the success of the company.

In the fiscal year 2018, the number of new apprentices starting at Pankl has reached an all-time record. More than 30 young women and men started an apprenticeship at one of the Austrian premises. A total of 84 apprentices have been trained. The distribution of these apprentices is as follows: 66 metal technicians with focus on machining, six office administrators, five IT engineers, two operation logisticians, four material technologists and a coating technician.

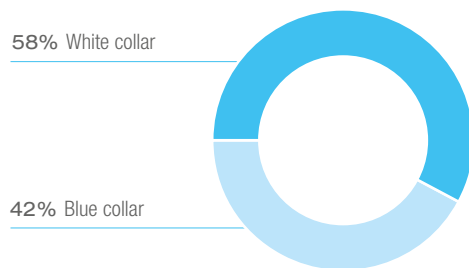
In the fiscal year 2018, Pankl continued its three-way education system in which apprentices attend Pankl Apprentice Colleges in addition to the specific vocational education at Pankl and appropriate schools. This provides comprehensive professional training which supports and strengthens personal and social competencies of each apprentice.

Every apprentice completes five modules during his or her apprenticeship, which are aimed to strengthen teamwork, confidence, communications, conflict resolution, entrepreneurial thinking and presentation skills. This specific type of training is of strategic importance and is meanwhile tradition in the Pankl Group. We are very pleased that Pankl received the state award for apprentice training.

5.4. RECRUITING

In the fiscal year 2018, Pankl experienced a significant increase in the number of employees. We received more than 2,600 job applications – 11% of which were unsolicited – and carried out more than 500 job interviews.

TRAININGS BY EMPLOYMENT RATIO
IN AUSTRIA
2018



In May 2018 it was time for our recruiting to “go digital”. As our homepage is an important recruitment tool, a major step towards a better positioning and an enhanced attractiveness for applicants was the redesign of the Pankl homepage including its career sections. In addition, applicants can now submit their applications to job vacancies directly online.

Starting with 2018, Pankl also focuses on new career platforms to increase the number of applicants.

We continue to co-operate with schools, colleges, universities and organise on-site visits, workshops, sponsoring and take part in career fairs regularly in order to be recognised as an attractive employer.

5.5. SOCIAL MEDIA & SEARCH

In November 2018, we started to extend our online communications. The contents of all existing online page profiles on LinkedIn, Facebook, XING were aligned and the existing Pankl YouTube channel re-designed. In addition, we opened an Instagram channel, which broadcasts a newsfeed and exciting content in the new Instagram stories format. We created the hashtag #wefuelpankl and use it for the whole employer branding communications from December onwards.

We use the online software [swat.io](#) to broadcast on all channels centrally. This allows us to plan and administer our online presence, to be able to respond to user comments promptly and to analyse traffic and other ratios.

Additionally to the online editorial content, we also started to design and place online advertising on Facebook, Instagram, LinkedIn and the Google search network. These platforms provide precise segmentation of target groups allowing us to reach persons, for whom our advertising messages do have relevance, in a precise and

efficient manner. This marketing approach is significantly cheaper than comparable advertising channels due to the market positioning of Facebook and Google.

5.6. WORK AND FAMILY

The combination of work and private life is a central topic. Therefore, Pankl makes efforts to actively support and advise employees before and after childbirth and after parental leave. Flexitime solutions for parents are defined individually through extensive consultation. Working hours can be defined in a flexible manner within the applicable framework. Pankl conducts special interviews with parents to facilitate their return to Pankl after parental leave throughout which possible solutions can be found based upon individual wishes and requirements. Pankl employees in the Austrian facilities receive financial grants for childcare, childbirth and marriage.

5.7. DIVERSITY

The percentage of women working at the Pankl Group is, as is typical for our industry, relatively small. We put a lot of effort to attract young women to technical professions in order to be able to fulfil our future requirements for female technically qualified experts internally.

In the past years, the percentage of female employees increased continuously in particular in the production departments. As an international company, it is very important for Pankl to maintain an open and respectful interaction between employees of different cultures and origins. This shows in the global scale of our company and the many nationalities represented among our staff.

6. RISK AND OPPORTUNITIES MANAGEMENT

6.1. MAJOR RISKS, UNCERTAINTIES AND OPPORTUNITIES

The Pankl Group as a technological company operates in a very dynamic environment. Risk is part of the daily business. In our understanding risk is the possibility of deviations in respect to our corporate targets. Risk contains positive (opportunities) as well as negative (risks) deviations in regards to our planned corporate targets.

6.2. RISK REPORT

The major risks of the Company are outlined in the notes to the consolidated financial statements, Chapter VII "Risk report".

BREXIT

On 23 June 2016, most voters in the United Kingdom voted for Great Britain to leave the European Union ("Brexit"). A withdrawal agreement which was completed by the EU-27 and Great Britain allowing for an orderly United Kingdom exit from the EU was rejected by a majority of the British House of Commons on 15 January 2019. Hence, it is unclear under which conditions Brexit will happen. There is still the risk of a disorderly exit. International companies fear that the movement of goods and services between the EU and the United Kingdom may be restricted. To reduce risks in the Pankl Group we continuously evaluate the situation and execute measures depending on the corresponding Pankl subsidiary.

6.3. INTERNAL CONTROL SYSTEM

The department internal revision, which reports directly to the Management Board, is responsible for the ongoing improvement of the internal control system of the Pankl Group and carries out adequate measures together with the appropriate specialist depart-

ments. Internal control measures to assure reliability and quality of financial reports, which are used internally or distributed to third parties, in addition to the documentation of these controls are continuously reviewed. Particularly, emphasis is placed on compliance with group-wide standards. Internal control measures are executed by decentralised organisational units which are supervised by the internal audit department.

Group-wide accounting and reporting guidelines assure consistency of financial information within the Pankl Group. Dedicated personnel within the appropriate organisational units are responsible for the execution of these standards in a decentralised manner. Compliance with internal guidelines and processes is continuously monitored based on the audit plan which is designed by the internal audit department and approved by the Management Board. Internal audit results are communicated to the Management Board and the managing directors of the appropriate organisational units. In case needed, the organisational units are provided with appropriate knowhow support to carry out improvements. At the request of management, the internal audit department may also carry out adhoc inspections which aim at evaluating current and future risks.

The controlling departments of the subsidiaries produce standardised monthly reports, these outline the current development of the Company and analyze deviations to expectations. The scope of these reports is defined group-wide and contains detailed financial data and non-financial performance indicators. The production of these reports is supported by a group-wide management information system, which assures that management is informed in a timely manner. The preparation of the consolidated financial statements is the responsibility of the Group controlling department. External and internal reporting is based on the same sources of information. Continuous reconciliation and checks between the local accounting departments, the controlling departments and the Group controlling department assure reliability of the reported data.

7. SUPPLEMENTARY REPORT AND FORECAST

7.1. FUTURE DEVELOPMENT AND OUTLOOK

During the fiscal year 2018, we improved operating results in the Racing/High Performance segment despite ongoing start-up expenses in the new high-performance drivetrain facility. In the Aerospace segment productivity was subdued due to the qualification of jet engine driveshafts. In the fiscal year 2019, we expect a significant improvement of productivity and earnings in both segments. We expect revenues to grow by 5% to 10%.

Kapfenberg, on 20 February 2019

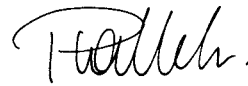
The Management Board of Pankl Racing Systems AG



Wolfgang Plasser
CEO



Thomas Karazmann
CFO



Christoph Prattes
COO

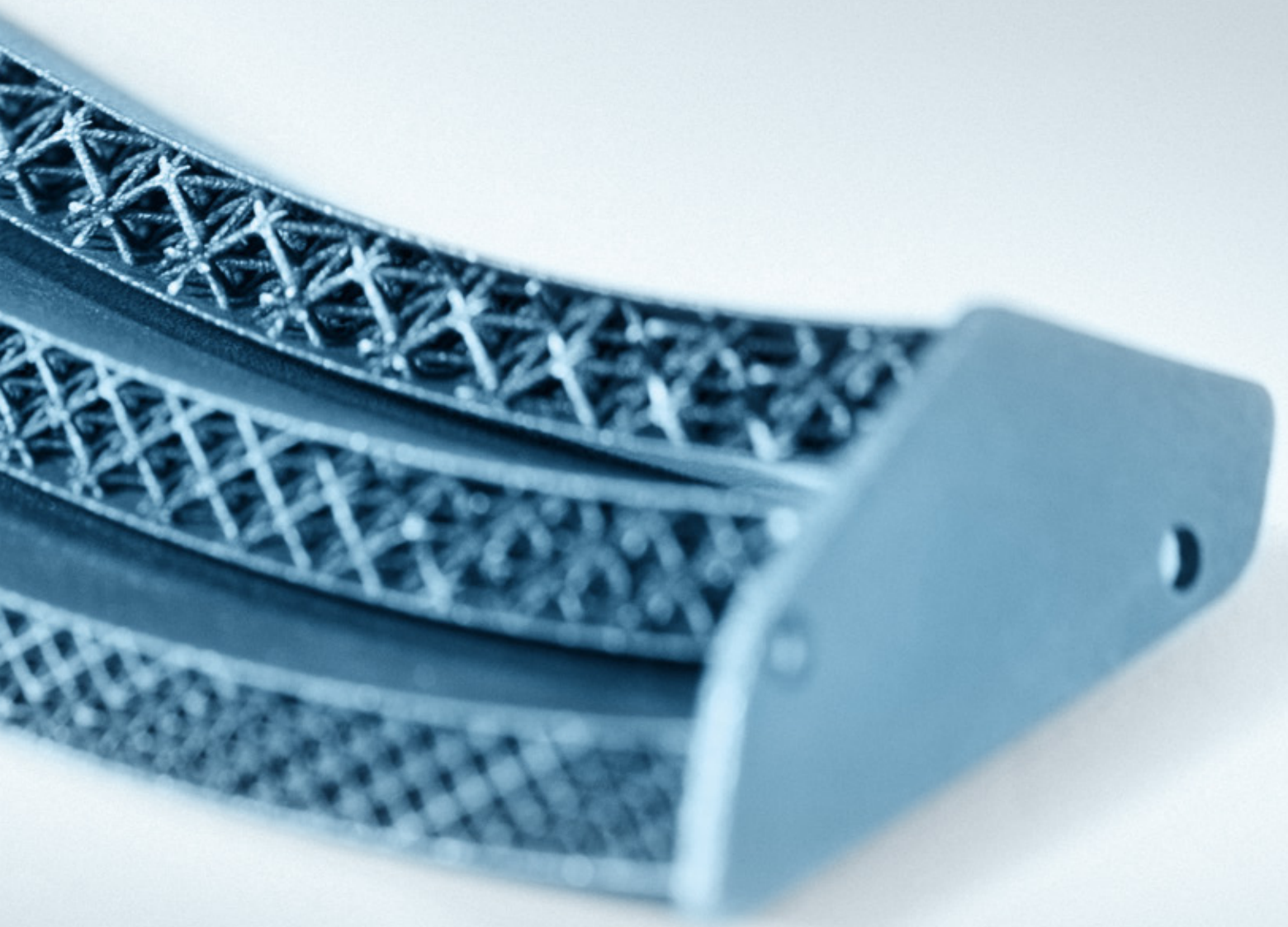


Stefan Seidel
CTO



OVER THE LIMIT

THE PRODUCT DEVELOPMENT USES
NEW SIMULATION TOOLS TO OPTIMIZE
THE SUPPORT STRUCTURES AND
THE PRINTING PROCESS. PART DESIGNS –
ESPECIALLY IN THE FIELD OF AERO-
DYNAMICS – TAKE ADVANTAGE OF THE
FASCINATING AND ENDLESS POSSIBILITIES
OF ADDITIVE MANUFACTURING.



34 **CONSOLIDATED**
FINANCIAL STATEMENTS 2018
OF PANKL RACING SYSTEMS AG ACC. TO IFRS

35 CONSOLIDATED PROFIT AND LOSS ACCOUNT

36 CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME

37 CONSOLIDATED BALANCE SHEET

38 CONSOLIDATED CASH FLOW STATEMENT

40 SCHEDULE OF CONSOLIDATED
SHAREHOLDERS' EQUITY

42 NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

42 General notes

48 Scope of consolidation

48 Segment reporting

51 Notes to the consolidated profit and loss account

56 Notes to the consolidated balance sheet

69 Notes to the consolidated cash flow statement

70 Risk report

76 Financial instruments and capital management

81 Leasing relationships

82 Notes to related parties and legal representatives

84 Events after the balance sheet date

84 Group companies (list of equity holdings)

85 AUDITOR'S REPORT

CONSOLIDATED PROFIT AND LOSS ACCOUNT

OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2018

	Notes	1 Jan 2018– 31 Dec 2018		1 Jan 2017– 31 Dec 2017	
		€k	%	€k	%
REVENUES	7	217,192	100.0	195,388	100.0
Cost of goods sold	8	(168,679)	(77.7)	(148,772)	(76.1)
Gross profit		48,513	22.3	46,616	23.9
Distribution expenses	9	(13,793)	(6.4)	(12,373)	(6.3)
Administration expenses	11	(30,151)	(13.9)	(26,474)	(13.5)
Other (operating) income	13	6,455	3.0	4,363	2.2
Other (operating) expenses	12	(774)	(0.4)	(342)	(0.2)
Earnings before interest and taxes (EBIT)		10,250	4.7	11,790	6.0
Financial income		70	0.0	219	0.1
Financial expenses		(2,656)	(1.2)	(3,019)	(1.5)
Financial result	14	(2,586)	(1.2)	(2,800)	(1.4)
Earnings before income taxes (EBT)		7,664	3.5	8,990	4.6
Income taxes	15	214	0.1	(3,259)	(1.7)
EARNINGS AFTER TAXES		7,878	3.6	5,731	2.9
<i>Attributable to shareholders of parent company</i>		<i>7,926</i>	<i>3.6</i>	<i>6,067</i>	<i>3.1</i>
<i>Attributable to minorities</i>		<i>(48)</i>	<i>0.0</i>	<i>(336)</i>	<i>(0.2)</i>
EARNINGS PER SHARE					
Undiluted = fully diluted earnings per share	16	€ 2.52		€ 1.93	

36 **CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**
OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2018

	Notes	1 Jan 2018– 31 Dec 2018 €k	1 Jan 2017– 31 Dec 2017 €k
Earnings after income taxes		7,878	5,731
Items which are not shown in the profit and loss account:			
Actuarial profits/losses from pension plans and similar schemes	34	(102)	2
Deferred taxes from actuarial profits/losses from pension plans and similar schemes	18	25	(1)
Entry of IFRS 9 and IFRS 15 opening balances	3	260	0
Items which were or may be shown in the profit and loss account:			
Foreign exchange differences from net investments in foreign businesses		803	(371)
Foreign exchange differences from foreign subsidiaries		170	(2,387)
Other results of the period		1,156	(2,757)
TOTAL COMPREHENSIVE INCOME		9,034	2,974
<i>Attributable to shareholders of parent company</i>		<i>9,078</i>	<i>3,310</i>
<i>Attributable to minorities</i>		<i>(44)</i>	<i>(336)</i>

CONSOLIDATED BALANCE SHEET

OF PANKL RACING SYSTEMS AG AS OF 31 DECEMBER 2018

ASSETS	Notes	31 Dec 2018		31 Dec 2017	
		€k	%	€k	%
NON-CURRENT ASSETS					
Goodwill	21	12,229	5.0	12,081	5.5
Other intangible assets	20	2,070	0.8	1,810	0.8
Tangible fixed assets	19	107,223	43.8	98,536	44.7
Financial fixed assets	23	1,541	0.6	1,606	0.7
Deferred tax assets	22	3,656	1.5	2,572	1.2
Total non-current assets		126,719	51.7	116,605	52.9
CURRENT ASSETS					
Inventories	24	74,310	30.3	61,818	28.1
Trade accounts receivable	25	25,775	10.5	26,255	11.9
Other current receivables and assets	26	10,115	4.1	5,427	2.5
Current tax assets		1,336	0.5	354	0.2
Cash and cash equivalents	27	6,656	2.7	9,772	4.4
Total current assets		118,192	48.3	103,626	47.1
TOTAL ASSETS		244,911	100.0	220,231	100.0
LIABILITIES					
SHAREHOLDERS' EQUITY					
Share capital	28	3,150	1.3	3,150	1.4
Capital reserves	28	37,784	15.4	37,784	17.2
Perpetual bond	28	10,000	4.1	10,000	4.5
Retained earnings	28	46,405	18.9	39,717	18.0
Equity of parent's shareholders		97,339	39.7	90,651	41.2
Minorities	28	617	0.3	661	0.3
Total shareholders' equity		97,956	40.0	91,312	41.5
NON-CURRENT LIABILITIES					
Non-current loans	29	94,483	38.6	81,851	37.2
Non-current finance lease liabilities	29	1,609	0.7	0	0.0
Personnel related provisions	30	1,983	0.8	1,809	0.8
Non-current provisions	32	225	0.1	25	0.0
Other non-current liabilities	31	81	0.0	3,210	1.5
Deferred tax liabilities	26	72	0.0	67	0.0
Total non-current liabilities		98,453	40.2	86,962	39.5
CURRENT LIABILITIES					
Current loans and current portion of non-current loans	29	19,044	7.8	16,479	7.5
Current finance lease liabilities	29	452	0.2	61	0.0
Other current liabilities	31	15,192	6.2	13,727	6.2
Trade accounts payable		13,594	5.6	11,470	5.2
Other provisions	32	220	0.1	220	0.1
Total current liabilities		48,502	19.8	41,957	19.1
Total liabilities		146,955	60.0	128,919	58.5
TOTAL LIABILITIES		244,911	100.0	220,231	100.0

CONSOLIDATED CASH FLOW STATEMENT

OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2018

Notes	1 Jan 2018 – 31 Dec 2018 €k	1 Jan 2017 – 31 Dec 2017 €k
EARNINGS AFTER INCOME TAXES	7,878	5,731
Cash flow from operating activities derived from earnings after income taxes		
Depreciation and amortisation	18,027	14,152
Profit/loss from the sale of fixed assets	632	57
Other non-cash expenses/income	3,864	3,688
Income taxes paid	(1,881)	(2,188)
Change of non-current provisions	32 375	(46)
CASH FLOW FROM EARNINGS	28,895	21,394
Change of trade accounts receivable	481	354
Change of other current receivables and assets	(5,670)	(1,683)
Change of inventories	24 (12,492)	(6,581)
Change of current assets	(17,681)	(7,910)
Change of trade accounts payable	2,681	2,054
Change of current provisions	0	(225)
Change of income tax and other current liabilities	1,412	(1,532)
Change of current liabilities	4,093	297
Change of deferred taxes	22 (1,080)	1,603
Change of foreign exchange differences and other non-cash expenses	631	(1,918)
Change of other non-current assets/liabilities	(3,129)	(442)
Change of non-current assets/liabilities	(3,578)	(757)
CASH FLOW FROM OPERATING ACTIVITIES	11,729	13,024
Capital expenditure in tangible fixed assets	19 (25,036)	(36,390)
Proceeds from the sale of fixed assets	593	1,813
Capital expenditure in intangible assets	20 (994)	(755)
Capital expenditure in financial assets	23 (60)	(65)
Interest received	70	72
Capital expenditure for acquisition of subsidiaries	0	95
CASH FLOW FROM INVESTING ACTIVITIES	(25,427)	(35,230)

	Notes	1 Jan 2018– 31 Dec 2018 €k	1 Jan 2017– 31 Dec 2017 €k
Loan increases	VI	27,084	36,369
Loan repayments	VI	(11,541)	(21,416)
Change of current bank account balances	VI	(604)	1,489
Dividend payments		(2,390)	(1,890)
Interest paid		(1,710)	(2,026)
Issue of perpetual bond		0	10,000
Repayment of leasing liabilities		(293)	(289)
Other financing activities		(33)	160
CASH FLOW FROM FINANCING ACTIVITIES		10,513	22,397
CHANGE OF CASH AND CASH EQUIVALENTS		(3,185)	191
Cash and cash equivalents as of 1 Jan	27	9,771	9,106
Cash impact of foreign exchange differences		70	475
Change of cash and cash equivalents		(3,185)	191
CASH AND CASH EQUIVALENTS AS OF 31 DEC		6,656	9,772

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

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

40 SCHEDULE OF CONSOLIDATED SHAREHOLDERS' EQUITY

€k	Notes	Share capital	Capital reserves	Perpetual bond
Balance as of 31 Dec 2017 (= 1 Jan 2018)		3,150	37,784	10,000
Adjustments ¹		0	0	0
Balance as of 1 Jan 2018 after adjustments		3,150	37,784	10,000
Total results				
Earnings after taxes		0	0	0
Results directly accounted for in equity		0	0	0
Total results		0	0	0
Transactions with equity holders				
Dividend payments	19	0	0	0
BALANCE AS OF 31 DEC 2018		3,150	37,784	10,000
Balance as of 31 Dec 2016 (= 1 Jan 2017)		3,150	37,784	0
Total results				
Earnings after taxes		0	0	0
Results directly accounted for in equity		0	0	0
Total results		0	0	0
Transactions with equity holders				
Perpetual bond	32	0	0	10,000
Dividend payments	19	0	0	0
BALANCE AS OF 31 DEC 2017		3,150	37,784	10,000

¹ The opening balance is adjusted due to the first-time application of IFRS 9 and IFRS 15. Please see note 4.1 for further details.

Retained earnings			Equity attributable to shareholders of parent company	Share of minorities	Total
Reserves for foreign exchange differences	IAS 19 reserve for actuarial losses	Other retained earnings			
(5,940)	(251)	45,908	90,651	661	91,312
0	0	256	256	4	260
(5,940)	(251)	46,164	90,907	665	91,572
0	0	7,926	7,926	(48)	7,878
973	(77)	0	896	0	896
973	(77)	7,926	8,822	(48)	8,774
0	0	(2,390)	(2,390)	0	(2,390)
(4,967)	(328)	51,700	97,339	617	97,956
(3,182)	(252)	41,731	79,231	997	80,228
0	0	6,067	6,067	(336)	5,731
(2,758)	1	0	(2,757)	0	(2,757)
(2,758)	1	6,067	3,310	(336)	2,974
0	0	0	10,000	0	10,000
0	0	(1,890)	(1,890)	0	(1,890)
(5,940)	(251)	45,908	90,651	661	91,312

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2018

I. GENERAL NOTES

1. THE COMPANY

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

The consolidated financial statements of Pankl SHW Industries AG in Kapfenberg, Austria, are filed with the commercial register of the Leoben district court under the number FN 395143v and represent the financial statements with the smallest consolidation scope within this group of companies, of which the group financial statements of Pankl Racing Systems AG are part of.

2. REPORTING RULES

The consolidated financial statements for the period from 1 January until 31 December 2018 were prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in accordance with interpretations of the International Reporting Interpretations Committee (IFRIC) to the extent used in the EU. The consolidated financial statements as of 31 December 2018 also fulfil the additional requirements of Chapter 245a, Paragraph 1 of the Austrian Companies Act (§245a Abs. 1 UGB).

The financial statements of the companies which are included in the consolidated financial statements are based on the same reporting rules. All companies that are a part of the consolidated financial statements applied these rules. Except for Pankl Japan, Inc. all companies which are included in the consolidated financial statements have their balance sheet date on 31 December.

The consolidated financial statements are prepared using the Euro as functional currency. All amounts are rounded to Euro thousands (€k) except if indicated otherwise. Differences may occur due to rounding.

Due to the IASB disclosure initiative for the notes, some items in the consolidated financial statements are broken down differently, the sequence of the notes is partly new and the descriptions in the notes are adjusted and supplemented. These changes were applied for the fiscal years 2018 and 2017.

3. NEW STANDARDS AND INTERPRETATIONS TO BE APPLIED

IASB issued the following amendments for existing IFRS as well as various new IFRS and IFRIC, which were adopted by the EU commission and are hence to be applied from 1 January 2018:

- IFRS 15: Revenues from contracts with customers
- IFRS 9: Financial instruments

- Amendments to IFRS 2: Share-based payment
- Amendments to IFRS 4: Financial instruments (IFRS 9) for insurance contracts (IFRS 4)
- Amendments to IFRS 15: Clarifications for IFRS 15
- Amendments to IAS 40: Transfers of investment property to clarify transfer of property to or from investment property
- IFRIC 22: Foreign currency transactions and advance considerations
- Improvements to IFRS 2014–2016: Amendments of IFRS 1 and IAS 28

3.1. IFRS 15 REVENUES FROM CONTRACTS WITH CUSTOMERS

IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. The standard provides for one single, principles-based, five-step model which shall be applied for all customer contracts. It replaces existing guidelines to recognize revenues, such as IAS 18 (Revenue), IAS 11 (Construction contracts) and IFRIC 13 (Customer loyalty programs).

In the Group, we analysed contracts of all major product groups to identify possible adjustment requirements from the application of IFRS 15. Variable considerations such as cash, sales or other discounts were identified. Such discounts were already shown as proceeds reductions in the sales revenues of previous years. Warranty services are not sold separately but are an assurance that sold products conform with agreed specifications. Such warranties do not exceed legal or customary guarantee obligations which are typical for the industry. Hence, such services do not represent a separate obligation to provide a service and are referred to as an assurance-type warranty. Such warranty services are recognised in accordance with IAS 37 which is consistent with our current accounting practice.

IFRS 15 requires revenues to be recognised as soon as the customer can dispose of the goods. In some contracts regarding made-to-order production, the customer can manage all processes during manufacturing. Revenues from such contracts shall be recognised when production is finalised. This leads to some revenues and expenses from such contracts to be recorded over a period before delivery of the goods to the customer. For the adaptation of IFRS 15, the Pankl Group applied the modified retrospective method, which requires adjustments to be recorded on 1 January 2018 in a cumulative manner. Hence, there is no need for adjustments in previous periods.

3.2. IFRS 9 FINANCIAL INSTRUMENTS

We apply IFRS 9 starting from 1 January 2018 retroactively. For impairments IFRS 9 replaces the “Incurred loss model” which was used up to now with the “Expected credit loss model”. IFRS 9 defines different steps to assess the amount of any loss to be recognised and any interest to be realised. Trade accounts receivables do not contain any financing components. Hence, we use the simplified procedure to establish the expected credit loss, which requires a provision to be formed for all financial instruments irrespective of their credit quality in the amount of the expected loss over the remaining term. Trade accounts receivables have a remaining term of less than twelve-months, hence the expected twelve months loss must be shown. Actual historic credit defaults shall be used as a primary indication for the calculation of expected credit loss. In the case of the Pankl Group, such historical data is of no statistical significance as there were only very few credit defaults in the past. Hence, we defined default risks based on external ratings of major Pankl customers under consideration of geographical factors. The ratings of major customers were weighted by revenues and then used as the default probability for the whole segment.

Cash and cash equivalents consist of cash amounts and credit balances at financial institutions, whose credit standing is rated highly by external rating agencies. Hence, we consider credit risk to be low. There are no major impairment expenses according to the twelve-months expected credit loss model.

3.3. IMPACTS OF IFRS 9 AND IFRS 15 ON THE OPENING BALANCE SHEET

As of 1 January 2018, the first application of IFRS 9 and IFRS 15 resulted in the following changes in the balance sheet:

€k	Balance sheet as of 31 Dec 2017	Application of IFRS 9	Application of IFRS 15	Adjusted opening balance sheet as of 1 Jan 2018
Trade accounts receivable	26,255	(148)	0	26,107
Other current receivables and assets	0	(10)	1,257	1,247
Inventories	61,818	0	(754)	61,064
Current assets		8158)	503	
Deferred tax assets	2,572	40	(121)	2,487
Non-current assets		40	(121)	

In accordance with IFRS 9, trade accounts receivable had to be reduced by € 148k due to additional impairment charges. In accordance with IFRS 15, other current receivables and assets had to be increased by € 1,257k because of the capitalisation of contract assets and an impairment of € 10k was applied.

There were changes in deferred tax assets as the respective local tax rate was applied to the book value difference between the balance sheet prepared for taxation purposes and the IFRS balance sheet with the first-time application of IFRS 9 and IFRS 15.

€k	Balance sheet as of 31 Dec 2017	Application of IFRS 9	Application of IFRS 15	Adjusted opening balance sheet as of 1 Jan 2018
Capital reserves	37,784	0	0	37,784
Retained earnings	39,717	(122)	378	39,973
Minorities	661	4	0	665
Shareholders' equity		(118)	378	
Deferred tax liabilities	67	0	4	71
Non-current liabilities		0	4	

In addition, contract liabilities in the amount of € 335k were recorded and reclassified within the other current liabilities.

There were no major impacts from the first-time application of the other new standards and interpretations.

4. NEW STANDARDS AND INTERPRETATIONS TO BE APPLIED IN THE FUTURE

4.1. APPLICATION OF NEW STANDARDS AND INTERPRETATIONS FROM 2019

The following table shows standards and interpretations which have been adopted by the EU commission but did not have to be applied at the balance sheet date and were not applied early:

Standard / Amendment	To be applied from by IASB	Endorsement by EU	To be applied from in EU
New standards and interpretations			
IFRS 16: Leasing relationships	1 Jan 2019	Yes	1 Jan 2019
IFRIC 23: Uncertainty over income tax treatments	1 Jan 2019	Yes	1 Jan 2019
Amendments to IFRS 9: Prepayment features with negative compensation	1 Jan 2019	Yes	1 Jan 2019

IASB and IFRIC issued further standards and interpretations, which did not have to be applied in the fiscal year 2018 or which have not yet been adopted by the EU commission. These are the following standards and interpretations:

Standard / Amendment	To be applied from by IASB	Endorsement by EU	To be applied from in EU
IFRS 14: Regulatory deferral accounts	1 Jan 2016	Not anticipated	
IFRS 17: Insurance contracts	1 Jan 2021	No	Undetermined
Amendments to IFRS 3: Definition of a business	1 Jan 2020	No	Undetermined
Amendments to IAS 1 and 8: Definition of material	1 Jan 2020	No	Undetermined
Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture		Delayed for indefinite time	
Amendments to IAS 28: Long-term interests in associates and joint ventures	1 Jan 2019	No	Undetermined
Amendments to IAS 19: Plan amendment, curtailment or settlement	1 Jan 2019	No	Undetermined
Framework: Standards/amendments to framework concept referencing	1 Jan 2020	No	Undetermined
Improvements to IFRS 2015–2017: Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	1 Jan 2019	No	Undetermined

We do not expect any major impacts on the consolidated financial statements from the future changes except for IFRS 16. We do not expect to apply any of the new standards and interpretations early.

4.2. EXPECTED IMPACTS FROM APPLICATION OF NEW STANDARDS FROM 2019

IFRS 16 must be applied from the first reporting period starting on 1 January 2019 or thereafter. An early application is possible, but the Group has not applied the new or amended standard early for the preparation of the consolidated financial statements.

The application of the following standards and interpretations will impact the consolidated financial statements in a material manner:

Expected impact from the application of IFRS 16

The Group is required to apply IFRS 16 (Leasing relationships) from 1 January 2019. The Group has assessed the expected impact from the first application of IFRS 16 on the consolidated financial statements. The expected impact on individual balance sheet positions as of 1 January 2019 are based on our current assessment and are summarised as follows:

The actual impact from the first application of these standards as of 1 January 2019 may deviate from these assumptions as:

- the Group has not yet completed tests and control assessments of its new IT systems;
- the new rules may be changed during the period between the first date of application and the publication of the first consolidated financial statements thereafter.

The core concept of IFRS 16 requires operating lease relationships not to be considered as a renting arrangement anymore. The accounting treatment now must be based on the right-of-use concept. This right-of-use must be recognised as an asset in the amount of the present value of the expected future lease payments and as a liability in the amount of the payment obligation arising from the future lease payments.

Within the Pankl Group, the standard was applied for the first time using the modified retrospective method as of 1 January 2019. We calculate the present value of the remaining lease payments as of 1 January 2019 and capitalize it in the balance sheet. This amount of the capitalised right-of-use assets corresponds to the additional lease payment obligation which is shown in the balance sheet as a liability. Leasing relationships which end within twelve months from the first application of the accounting standard may be recorded as short-term leasing relationships. Expenses from such short-term leasing relationships may be accounted for as lease expenses. Pankl has chosen to use this accounting treatment for short-term leasing relationships. The first valuation of the right-of-use assets does not include any initial direct expenses and is derived at using Pankl's incremental borrowing rate except the lease contract requires the use of another interest rate.

We expect the following impact on balance sheet positions based on our preliminary calculations:

€k	Balance sheet as of 31 Dec 2018	Expected change by application of IFRS 16	Expected adjusted opening balance sheet as of 1 Jan 2019
Fixed assets	107,223	17,035	124,258
Non-current finance lease liabilities	1,609	17,035	18,644

The capitalisation of the right-of-use assets increases fixed assets by € 17,035k. Lease liabilities increase by the same amount due to the payment obligation. Hence, the first application of IFRS 16 results in a balance sheet extension.

The rights-of-use assets which are expected to be capitalised refer mainly to land and buildings (€ 14.6m), machinery (€ 1.6m) and cars and other business equipment (€ 0.8m).

5. ESTIMATES AND UNCERTAINTIES IN DISCRETIONARY DECISIONS AND ASSUMPTIONS

In setting up the consolidated financial statements, estimates and assumptions are necessary to a certain degree, which influence assets and liabilities and other obligations shown at the balance sheet date as well as expenses and income during the fiscal year. Empirical values are used, which the Management Board considers to be reasonable. Actual future amounts may deviate from these estimates if assumed parameters do not develop as expected. Such parameters are adjusted as soon as new developments are observed.

- Assumptions are used to value goodwill and intangible assets without defined useful life. At the balance sheet date, goodwill amounted to € 12,229k (2017: € 12,081k). Note 21 "Goodwill" contains further information on impairment tests.
- Deferred tax assets are stated to the extent to which it is likely that they will be used. The assessment of such future usability is based on factors like past profitability, operating plans, expiry period of tax losses carried forward and tax planning strategies. If actual results come in below estimates, write-offs of deferred tax assets may be required affecting the profit and loss account. As of 31 December 2018, deferred tax assets from tax loss carry-forwards amounted to € 3,115k (2017: € 1,902k). Note 22 "Deferred tax assets" contains further details on deferred tax assets.
- Valuation of inventories is influenced by estimates regarding future sales potential and probability that available stock can be used in production processes. As of 31 December 2018, inventories amounted to € 74,310k (2017: € 61,818k).
- There are uncertainties regarding estimates for the valuation of personnel-related obligations. Assumptions are used for the following factors: demographics such as pension age and employee fluctuation, financial estimates such as actuarial interest rate and future development of wages and salaries. At the balance sheet date, personnel-related obligations amounted to € 1,983k (€ 1,809k). Note 30 "Liabilities for employee benefits" contains further information.
- For accounts receivable there are uncertainties regarding estimates for impairments according to IFRS 9 as well as for the fair value to be used. As of 31 December 2018, trade accounts receivable amounted to € 25,775k (2017: € 26,255k), € 582k of which were valued at fair value (2017: € 0k).

II. SCOPE OF CONSOLIDATION

6. CONSOLIDATION PRINCIPLES AND METHODS

In the consolidated financial statements of the Pankl Racing Systems AG all its subsidiaries are included via **full consolidation**. Subsidiaries are companies which are controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the point in time when control starts until the point in time when it ends.

In accordance with IFRS 3, first consolidation is carried out using the acquisition method. Under this method at the time of obtaining control, the newly valued identifiable assets and liabilities of the acquired operation are compared with the purchase price and, if applicable, the amount paid for a minority stake and the time value of a stake already held at the time of the acquisition. A remaining positive value is capitalised as goodwill, a remaining negative value is shown as income in the profit and loss account under the item "Acquisition at prices below market value". Any acquisition costs are accounted for as expenses. The amount for minorities is, if not stated otherwise, shown as the pro-rata share of net assets of the company without goodwill.

The **reporting currency** of the Pankl Group is the Euro. Subsidiaries and at-equity consolidated participations prepare their financial statements in their functional currencies. Assets and liabilities which are included in the consolidated financial statements are translated into Euros using the mid exchange rate at the balance sheet date. Items of the profit and loss account are translated into Euros using the average exchange rate for the fiscal year. Resulting foreign exchange profits and losses are shown in the other results. Foreign exchange differences from non-current financial receivables which represent net investments in foreign businesses are shown in the other results. The following foreign exchange rates for currencies which are substantial for the Pankl Group were used for the currency translation into Euros.

€	Year-end rate		Average rate	
	31 Dec 2018	31 Dec 2017	1 Jan 2018 – 31 Dec 2018	1 Jan 2017 – 31 Dec 2017
US Dollar	1.1450	1.1993	1.1793	1.1293
Pound Sterling	0.8945	0.8872	0.8860	0.8761
Japanese Yen	125.8500	135.0100	130.0058	126.6546

In the fiscal year 2018, there were no changes to the scope of consolidation.

III. SEGMENT REPORTING

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

Racing/High Performance

In the Racing/High Performance segment, Pankl focuses on the development, design, production and testing of engine and drivetrain systems for motorsport and the high performance automotive market. Production facilities are in Austria, Germany, Slovakia, the United Kingdom and the USA. The major geographic markets are Germany, the USA, Austria, Italy and the United Kingdom.

Aerospace

In the Aerospace segment, Pankl serves the markets for helicopters and fixed wing aircrafts with the development, design, production and testing of drivetrain components, jet engine driveshafts, inflight refuelling pipes and suspension components. The production facilities of the segment are in Austria and the USA.

Sonstige

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

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

Segment expenses and earnings refer either directly to the relevant segment or can reliably be allocated using an appropriate formula. Segment expenses and income derive either from external sources or from appropriate other segments. In principle, services rendered between segments are invoiced at market prices. Amounts, which are not directly related to a segment, mainly refer to administration, research and development costs as well as other expenses.

Segment assets refer either directly to the segment or are allocated using an appropriate formula. Write-offs are directly deducted from the appropriate assets.

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

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

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

Revenues within a segment are consolidated.

In the fiscal year 2018, segment information for the described segments was as follows:

€k	Racing/ High Performance	Aerospace	Other	Total	Recon- ciliation	Group
1 Jan 2018–31 Dec 2018						
Segment revenues	191,821	25,634	6,966	224,421	(7,229)	217,192
<i>thereof intra-group sales</i>	272	37	6,921			
<i>thereof external revenues</i>	191,549	25,597	45			
Operating earnings (EBIT)	10,842	945	(1,537)	10,250	0	10,250
EBIT in %						
of segment revenues	5.7%	3.7%	(22.1%)	4.6%		4.7%
Interest expenses	(1,988)	(430)	(1,595)	(4,013)	2,222	(1,791)
Interest income	5	2	2,285	2,292	(2,222)	70
Segment assets	189,192	30,821	13,556	233,569	11,342	244,911
Segment liabilities	20,797	5,188	6,661	32,646	114,309	146,955
Segment capital expenditure	21,124	3,794	2,908	27,827	0	27,827
Segment depreciation	(14,728)	(1,633)	(1,666)	(18,027)	0	(18,027)
<i>thereof impairments</i>	0	0	0	0	0	0
1 Jan 2017–31 Dec 2017						
Segment revenues	169,013	27,499	7,255	203,767	(8,379)	195,388
<i>thereof intra-group sales</i>	582	801	6,996			
<i>thereof external revenues</i>	168,431	26,698	259			
Operating earnings (EBIT)	10,674	1,211	(95)	11,790	0	11,790
EBIT in %						
of segment revenues	6.3%	4.4%	(1.3%)	5.8%		6.0%
Interest expenses	(1,424)	(349)	(2,052)	(3,825)	1,884	(1,941)
Interest income	3	2	1,951	1,956	(1,884)	72
Segment assets	172,468	25,097	11,652	209,217	11,014	220,231
Segment liabilities	19,664	3,021	7,837	30,522	98,397	128,919
Segment capital expenditure	32,361	1,605	1,784	35,750	0	35,750
Segment depreciation	(11,345)	(1,595)	(1,212)	(14,152)	0	(14,152)
<i>thereof impairments</i>	0	0	0	0	0	0

IV. NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the consolidated profit and loss account the cost of sales method was used. Revenues in connection with the sale of goods are recognised in accordance with IFRS 15 as soon as the customer can dispose the goods. With regards to services which are provided in more than one reporting period based on a single agreement, revenue is realised depending on the degree of completion.

7. REVENUES

The geographic breakdown of external revenues is based on customer domicile and was as follows:

€k	1 Jan 2018 – 31 Dec 2018		1 Jan 2017 – 31 Dec 2017	
	Revenues	Share	Revenues	Share
USA	43,743	20.1%	47,494	24.3%
United Kingdom	20,878	9.6%	16,086	8.2%
Germany	41,239	19.0%	37,084	19.0%
Austria	39,907	18.4%	25,851	13.2%
France	8,612	4.0%	10,802	5.5%
Italy	21,898	10.1%	23,967	12.3%
Asia	14,482	6.7%	10,106	5.2%
Other	26,433	12.1%	23,998	12.3%
Total	217,192	100.0%	195,388	100.0%

Expected revenues from customer contracts, which were concluded as an obligation in 2018 or earlier periods and which were not or only partly completed amounted to € 5,981k for the fiscal year 2019. Pankl Group applies the exception of IFRS 15.121 which allows not to show expected revenues from customer contracts if these contracts have a maturity of up to one year.

In the fiscal year 2018, additional revenues were recognised in the amount of € 1,620k because of the first-time application of IFRS 15.

8. COST OF GOODS SOLD

€k	1 Jan 2018 – 31 Dec 2018	1 Jan 2017 – 31 Dec 2017
Material expenses and expenses for external services	74,684	67,512
Personnel expenses	64,157	56,579
Depreciation of intangible assets and tangible fixed assets	14,175	11,163
Other operating expenses	15,663	13,518
Total	168,679	148,772

9. DISTRIBUTION EXPENSES

€k	1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
Personnel expenses	8,341	7,431
Depreciation of intangible assets and tangible fixed assets	435	319
Other operating expenses	5,017	4,623
Total	13,793	12,373

10. RESEARCH AND DEVELOPMENT EXPENSES

In 2018, the research and development expenses shown in the profit and loss account amounted to € 16,737k (2017: € 15,325k).

11. ADMINISTRATION EXPENSES

€k	1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
Personnel expenses	16.553	14.782
Depreciation of intangible assets and tangible fixed assets	3.417	2.670
Other operating expenses	10.181	9.022
Total	30.151	26.474

12. OTHER OPERATING EXPENSES

Other operating expenses amounted to € 774k (2017: € 342k) and contained primarily losses from the disposal of fixed assets of € 631k (2017: expenses from receivables write-offs € 55k and operating foreign exchange losses € 156k).

13. OTHER OPERATING INCOME

Other operating income amounted to € 6,455k (2017: € 4,363k) and contained primarily subsidies and other contributions amounting to € 3,121k (2017: subsidies and other contributions € 2,355k).

14. NET FINANCIAL RESULT AND INCOME FROM EQUITY INVESTMENTS

The net financial result and income from equity investments amounted to as follows:

€k	1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
Interest and similar income	70	72
Other financial income	0	147
Financial income	70	219
Interest and similar expenses	(1,791)	(1,941)
Foreign exchange differences	(120)	(341)
Other financial expenses	(745)	(737)
Financial expenses	(2,656)	(3,019)
Financial result	(2,586)	(2,800)

The other financial expenses contained primarily bank charges and expenses from adding on interest to personnel provisions.

15. INCOME TAXES

Income tax expenses are broken down in current and deferred taxes as follows:

€k	1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
Current tax expenses	(846)	(2,004)
Deferred taxes	1,060	(1,255)
Income taxes	214	(3,259)

The companies of Pankl Group were included in the Pierer Konzerngesellschaft mbH Group from the 2014 tax assessment onwards. The appropriate tax rate according to Austrian law is 25% (2017: 25%). The corporation tax rates of foreign subsidiaries range from 19% to 30%.

The reconciliation between the expected income tax expense using the Austrian corporation tax rate of 25% on earnings before tax and the actual income tax expense as shown in the consolidated financial statements is as follows:

€k	1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
Earnings before income taxes	7,664	8,990
<i>thereof implied 25% income taxes</i>	<i>1,916</i>	<i>2,248</i>
Impact of foreign tax rates	(96)	(291)
Permanent differences and adjustments from the tax calculation	(650)	(386)
Taxes from previous years	118	90
Change of capitalised tax loss carry-forwards	(181)	1,073
Not capitalised tax loss carry-forwards of foreign subsidiaries	43	307
Impact of investment incentives	(1,306)	0
Other impacts	(58)	218
Effective tax expenses	(214)	3,259

16. EARNINGS PER SHARE AND DIVIDEND PROPOSAL

As of 31 December 2018, the company did not hold any own shares. In the fiscal year 2018, earnings per share amounted to € 2.52.

		1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
Earnings after taxes	€k	7,878	5,731
Earnings after taxes attributable to the shareholders of the parent	€k	7,926	6,067
Average number of shares in issue	Shares	3,150,000	3,150,000
Undiluted = fully diluted earnings per share	€ per share	2.52	1.93

Austrian public companies law requires the unconsolidated financial statements of Pankl Racing Systems AG as of 31 December 2018 prepared in accordance with the Austrian accounting regulations to be the basis of the dividend distribution.

It is proposed for the fiscal year 2018, that Pankl Racing Systems AG pays out of a balance sheet profit of € 36,858k a dividend of € 0.60 per share (amounts to € 1,890k in total) and to carry the remainder forward for new account. The company paid a dividend of € 0.60 per share from the balance sheet profit 2017.

17. AUDIT EXPENSES

In the reporting period, the following expenses were incurred by the auditor, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft:

€k	1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
Audit of financial statements of all Group companies	90	93
Audit of the consolidated financial statements	97	87
Other services	23	33
Total	210	213

18. EMPLOYEES

The average number of employees developed in the year as follows:

Average for the year, headcount	1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
Employees by segment		
Racing/High Performance	1,528	1,359
Aerospace	152	145
Other	96	83
Employees by geographic region		
Austria	1,038	893
Slovakia	430	378
USA	229	210
United Kingdom	51	68
Germany	26	37
Japan	2	1
Employees by type of employment		
Blue-collar workers	1,129	993
White-collar employees	647	594
Total	1,776	1,587

In the fiscal year 2018, personnel expenses amounted to € 89,051k (2017: € 78,792k)

V. NOTES TO THE CONSOLIDATED BALANCE SHEET

19. FIXED ASSETS

Fixed assets are valued at historic or production cost minus depreciation. Scheduled depreciation is calculated using the straight-line method based on following useful life cycles:

Depreciation	Useful life
Buildings	10–50 years
Plants and machinery	2–10 years
Forging press	5–25 years
Other fixed assets	3–5 years

Fixed assets, which are financed by leasing contracts, which imply a transfer of the major chances and risks to the lessee, are classified as finance lease contracts. Leased assets are accounted for using their time value or the lower net present value of future minimum leasing payments. These assets are amortised evenly over their economic life or, if shorter, over the term of the leasing contract. Leasing payments are broken down in an interest and a repayment component. Leased assets are shown under fixed assets, the appropriate payment obligations under financial liabilities. The interest component of the leasing payment is shown directly in the consolidated profit and loss account.

The breakdown of fixed assets and their development for the fiscal years 2018 and 2017 is shown in the tables below:

€k	Land and buildings	Plants and machinery	Other fixed assets and prepayments	Total
1 Jan 2018–31 Dec 2018				
Historic cost as of 1 Jan	52,819	140,347	26,333	219,499
Foreign exchange differences	54	730	220	1,004
Additions	1,132	11,214	14,396	26,742
Deductions	(476)	(9,674)	(1,458)	(11,608)
Reclassifications	1,195	9,017	(10,231)	(19)
Historic cost as of 31 Dec	54,724	151,634	29,260	235,618
Cumulated depreciation as of 1 Jan	(20,281)	(85,969)	(14,713)	(120,963)
Foreign exchange differences	(35)	(604)	(158)	(797)
Additions	(2,251)	(12,453)	(2,516)	(17,220)
Deductions	427	8,804	1,354	10,585
Reclassifications	5	0	(5)	0
Cumulated depreciation as of 31 Dec	(22,135)	(90,222)	(16,038)	(128,395)
Book value as of 31 Dec	32,589	61,412	13,222	107,223

€k	Land and buildings	Plants and machinery	Other fixed assets and prepayments	Total
1 Jan 2017–31 Dec 2017				
Historic cost as of 1 Jan	45,419	116,836	29,635	191,890
Foreign exchange differences	(157)	(2,129)	(492)	(2,778)
Change of scope of consolidation	0	9	0	9
Additions	3,890	8,276	22,764	34,930
Deductions	(38)	(2,359)	(2,149)	(4,546)
Reclassifications	3,705	19,714	(23,425)	(6)
Historic cost as of 31 Dec	52,819	140,347	26,333	219,499
Cumulated depreciation as of 1 Jan	(18,521)	(80,668)	(13,559)	(112,748)
Foreign exchange differences	118	1,800	414	2,332
Change of scope of consolidation	0	(7)	0	(7)
Additions	(1,902)	(9,337)	(2,147)	(13,386)
Deductions	24	2,243	579	2,846
Cumulated depreciation as of 31 Dec	(20,281)	(85,969)	(14,713)	(120,963)
Book value as of 31 Dec	32,538	54,378	11,620	98,536

Additions to plant and machinery include capital expenditure of € 2,293k (2017: € 0k) which represent additions of finance lease arrangements with no cash impact on the balance sheet date. Note 42 "Finance lease relationships" contains further details.

Additions to other fixed assets and prepayments include capital expenditure of € 230k (2017: € 819k) with no cash impact on the balance sheet date. In the consolidated cash flow statement 2017, there is a negative impact of € –58k in the cash flow from investment activities because of payment of capital expenditure with no cash impact at the balance sheet date.

At the balance sheet date, fixed assets amounting to € 12,061k (2017: € 10,720k) are recorded in land registries or are used as collateral or for deposited pledge certificates primarily for liabilities against banks and leasing companies.

There are future payment obligations amounting to € 9,812k (2017: € 9,160k) for the purchase of fixed assets.

20. INTANGIBLE ASSETS

Intangible assets are valued at historic or production cost minus depreciation in the same way as fixed tangible assets. Scheduled depreciation is calculated using the straight-line method based on the following useful life cycles:

Depreciation	Useful life
Intangible assets	2–4 years

As of 31 December 2018, impairment tests were calculated using the current five-year plan (2017: four-year plan) and a discount rate (asset specific cost of capital) of 10.2% (2017: 10.4%).

The breakdown of intangible assets and their development for the fiscal years 2018 and 2017 is shown in the tables below:

€k	Goodwill	Customer base	Other intangible assets	Total
1 Jan 2018–31 Dec 2018				
Historic cost as of 1 Jan	15,162	2,044	6,470	23,676
Foreign exchange differences	143	(3)	76	216
Additions	0	0	1,025	1,025
Deductions	0	0	(900)	(900)
Reclassifications	0	0	18	18
Historic cost as of 31 Dec	15,305	2,041	6,689	24,035
Cumulated depreciation as of 1 Jan	(3,081)	(2,044)	(4,660)	(9,785)
Foreign exchange differences	6	3	(53)	(44)
Additions	0	0	(807)	(807)
Deductions	0	0	900	900
Cumulated depreciation as of 31 Dec	(3,075)	(2,041)	(4,620)	(9,736)
Book value as of 31 Dec	12,230	0	2,069	14,299
1 Jan 2017–31 Dec 2017				
Historic cost as of 1 Jan	15,728	2,058	6,167	23,953
Foreign exchange differences	(566)	(14)	(228)	(808)
Change of scope of consolidation	0	0	1	1
Additions	0	0	755	755
Deductions	0	0	(231)	(231)
Reclassifications	0	0	6	6
Historic cost as of 31 Dec	15,162	2,044	6,470	23,676
Cumulated depreciation as of 1 Jan	(3,064)	(1,937)	(4,390)	(9,391)
Foreign exchange differences	(17)	14	144	141
Additions	0	(121)	(645)	(766)
Deductions	0	0	231	231
Cumulated depreciation as of 31 Dec	(3,081)	(2,044)	(4,660)	(9,785)
Book value as of 31 Dec	12,081	0	1,810	13,891

Additions to intangible assets include capital expenditure of € 31k (2017: € 0k) with no cash impact on the balance sheet date.

21. GOODWILL

Goodwill is not amortised on a straight-line basis but is subject to an impairment test every year. If required, impairments are recorded in the profit and loss account. Goodwill is allocated to cash generating units (CGUs) to carry out impairment tests. Impairment charges are defined by the difference between the book value carried forward (including the allocated goodwill) and the utilisation value, which is the present value of future estimated cash flows before tax. If this utilisation value is lower than the book value carried forward, an impairment charge for the difference shall be applied. Any further amortisations shall be allocated to the other assets of the CGU proportional to the book values.

Cash flows used for impairment tests are based on the current five-year plan (2017: four-year plan). After the detailed planning period, the cash flow planned for the last year of the planning period is used as the basis for the calculation of a perpetuity. For this terminal value calculation, we assume no growth rate. The discount rate is derived from external capital markets data and represents the weighted average cost of capital (WACC). The mid-term plan is based on internal assumptions regarding future revenues, prices and expenses, future access to new markets and product mix. Such assumptions are based on long-term experience and management expectations.

The discount rate before taxes amounted to 10.2% (2017: 10.4%).

In the fiscal years 2018 and 2017, there were no impairments on goodwill.

The capital cost rate and the future planned free cash flows are used to analyse the sensitivity of the planning parameters. The following increases of WACC before tax or the following decreases of future planned free cash flows are necessary that the result for the cash flow generating unit equals its book value:

Cash flow generating unit	2018		2017	
	WACC	Free cash flow	WACC	Free cash flow
Racing – Drivetain	5.8%	(44.3%)	6.3%	(48.5%)
Racing – Engine Europa	5.5%	(67.3%)	19.8%	(58.5%)
Racing – Engine USA	7.9%	(49.4%)	6.8%	(52.8%)
High Performance	2.7%	(26.3%)	0.4%	(4.5%)
Aerospace	2.2%	(22.8%)	5.3%	(45.1%)

Goodwill, its development and its breakdown in CGUs was as follows:

€k	31 Dec 2018	31 Dec 2017
Racing – Engine Europa	4,421	4,436
Racing – Engine USA	4,322	4,159
High Performance	1,463	1,463
Aerospace	2,023	2,023
Total	12,229	12,081

22. DEFERRED TAX ASSETS

For business transactions which are already recorded in the consolidated financial statements or in the financial statements drawn up for taxation purposes, deferrals and accruals for deferred taxes shall be formed regarding expected future tax impacts (temporary differences). Deferred taxes for tax loss carry-forwards shall be formed depending on timely realizability. Deferred tax assets and liabilities within one tax regime shall be netted. Differences referring to valuations of subsidiaries and at-equity consolidated participations versus group equity are only accounted for if their reversal is probable during a defined time. The calculation is based on the common corporation tax rate in the respective country at the time of the expected reversal of the value.

Deferred tax assets and liabilities are shown for the following balance sheet positions:

€k	31 Dec 2018	31 Dec 2017
Deferred tax assets		
Current assets	669	132
Non-current assets		
Plants and machinery	823	778
Tax loss carry-forwards	3,115	1,902
Current liabilities	39	62
Non-current liabilities	259	225
Total	4,905	3,099
Netting due to same tax regime	(1,249)	(527)
Deferred tax according to balance sheet	3,656	2,572
Deferred tax liabilities		
Current assets	(1,185)	(460)
Non-current assets		
Plants and machinery	(126)	(134)
Current liabilities	(10)	0
Total	(1,321)	(594)
Netting due to same tax regime	1,249	527
Deferred tax according to balance sheet	(72)	(67)

As of 31 December 2018, there was a deferred tax liability of € 2,008k (2017: € 1,201k) in connection with shares held in subsidiaries. This liability was not recognised because the Group is able to define dividend policies of subsidiaries. The Group hence controls when such temporary differences are reversed. The Management Board does not expect any reversals in the foreseeable future.

In the fiscal year 2018, deferred taxes developed as follows:

€k	1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
Net deferred taxes as of 1 Jan	2,505	4,107
Deferred taxes recorded in profit and loss account	1,059	(1,255)
Deferred taxes not recorded in profit and loss account	20	(347)
<i>thereof from foreign exchange differences</i>	78	(346)
Net deferred taxes as of 31 Dec	3,584	2,505

In the fiscal year 2018, Pankl Group had the following capitalised tax loss carry-forwards:

€k	31 Dec 2018			31 Dec 2017		
	Tax loss carry- forward	Potential deferred tax assets	Recorded deferred tax assets	Tax loss carry- forward	Potential deferred tax assets	Recorded deferred tax assets
Tax group Austria	976	244	244	0	0	0
Tax group USA	6,576	1,565	1,565	7,720	1,902	1,902
Total	7,552	1,809	1,809	7,720	1,902	1,902

Deferred tax assets were recognised where utilisation is expected within the current planning period from 2019 until 2023 for all the Austrian tax loss carry-forwards and for part of the US tax loss carry-forwards.

In the fiscal year 2018, the Slovakian investment subsidy developed as follows:

€k	31 Dec 2018			31 Dec 2017		
	Tax subsidy	Potential deferred tax assets	Recorded deferred tax assets	Tax subsidy	Potential deferred tax assets	Recorded deferred tax assets
Slovakia	6,221	1,306	1,306	0	0	0

23. OTHER NON-CURRENT ASSETS (FINANCIAL FIXED ASSETS)

The other non-current assets developed as follows:

€k		Granted loans	Total
1 Jan 2018–31 Dec 2018			
Historic cost as of 1 Jan		1,606	1,606
Foreign exchange differences		76	76
Additions		60	60
Deductions		(201)	(201)
Historic cost as of 31 Dec		1,541	1,541
Book value as of 31 Dec		1,541	1,541

€k	Stakes in affiliated companies	Granted loans	Total
1 Jan 2017–31 Dec 2017			
Historic cost as of 1 Jan	23	1,970	1,993
Foreign exchange differences	0	(238)	(238)
Change of scope of consolidation	(23)	4	(19)
Additions	0	65	65
Deductions	0	(195)	(195)
Historic cost as of 31 Dec	0	1,606	1,606
Book value as of 31 Dec	0	1,606	1,606

24. INVENTORIES

On the balance sheet date, inventories are valued at the lower of historic or production cost or net selling price (lower of cost or net realizable value). Net selling price is the expected selling price minus expected distribution expenses. Inventories are valued using the weighted average pricing procedure, which uses a days-of-inventory analysis where impairments are carried out for restricted usability, and the identity price method. On a case-by-case basis, inventories are also analysed regarding their economic usefulness and additional impairments are applied for long storage periods or limited sales prospects.

Historic costs include all expenses, which are necessary to put the good in the required order and location to be used. Historic and production costs include direct material and production expenses based on normal capacity utilisation as well as appropriate fixed and variable indirect material and production overheads. Indirect administration and distribution expenses are not part of the historic production expenses. Cost for debt capital is not capitalised because the inventories do not contain any qualified assets in accordance with IAS 23.

Inventories developed as follows:

€k	31 Dec 2018	31 Dec 2017	Change
Raw and process materials	36,486	29,467	23.8%
Semi-finished products	22,956	19,566	17.3%
Finished products	14,868	12,785	16.3%
Total	74,310	61,818	20.2%

In the fiscal year 2018, inventory write-offs of € 4,402k (2017: € 4,787k) were recorded for products where the net selling value is lower than historic or production cost. As of 31 December 2018, the book value of inventories valued at net selling price amounted to € 2,946k (2017: 2,912k).

At the balance sheet date, inventories in the amount of € 666k (2017: € 1,543k) were pledged or restricted in their availability.

25. TRADE ACCOUNTS RECEIVABLE

As of 31 December 2018, trade accounts receivable amounted to as follows:

€k	31 Dec 2018	31 Dec 2017
Trade accounts receivable	25,775	26,255
<i>thereof against associated companies</i>	<i>0</i>	<i>0</i>
Total	25,775	26,255

General value adjustments to receivables developed as follows:

€k	Trade accounts receivable including contract assets
Balance as of 1 Jan 2017	688
Foreign exchange differences	(33)
Additions	55
Deductions	0
Reversals	(169)
Balance as of 31 Dec 2017	541
IFRS 9 impact	159
Balance as of 1 Jan 2018	700
Foreign exchange differences	30
Additions	132
Deductions	(19)
Reversals	(209)
Balance as of 31 Dec 2018	634

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

The impact of the first-time application of IFRS 9 contained additional value adjustments for trade accounts receivable of € 149k and for contract assets of € 10k.

As of 31 December 2018, there were specific value adjustments for trade accounts receivable of € 382k (31 Dec 2017: € 265k).

In the fiscal year 2016, a reverse factoring program (supplier finance agreement) was started in co-operation with KTM AG (a related company) and a domestic credit institution. As all risks and rewards from the trade accounts receivable are transferred to the domestic credit institution and no risks and rewards remain with Pankl Group, we book out all trade accounts receivable in accordance with IFRS 9 as soon as the credit institution transfers the due amount from the trade accounts receivable to us.

26. CURRENT RECEIVABLES AND OTHER ASSETS

Current receivables and other assets developed as follows:

€k	31 Dec 2018	31 Dec 2017
Other receivables and assets	5,959	4,538
Deferred assets	1,291	889
Contract assets	2,865	0
Total	10,115	5,427

Contract assets can be reconciled as follows:

€k	Contract assets
Balance as of 1 Jan 2018	1,247
Reclassification from customer receivables	(1,258)
Addition of new contract assets	2,878
Change of write-offs	(2)
Balance as of 31 Dec 2018	2,865

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at hand, cash in banks, cheques and are valued at fair value at the balance sheet date. They have a maturity of not more than three months.

Chapter VI "Notes to the consolidated cash flow statement" contains further details regarding the development of cash and cash equivalents.

28. CONSOLIDATED SHAREHOLDERS' EQUITY

- The development of consolidated shareholders' equity is shown in detail on page 40.

- As of 31 December 2018, the **share capital** of the Company amounted to € 3,150k and was represented by 3,150,000 shares without nominal value. All shares are fully paid in. The share capital shown in the consolidated financial statements corresponds to the share capital in the non-consolidated financial statements of Pankl Racing Systems AG.

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

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

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

- **Reserves from foreign exchange differences** are all exchange differences which result from the translation of the financial statements of foreign subsidiaries from the foreign currency to the Euro. Net investments in foreign subsidiaries contain besides the equity holding the following non-current loans:

Company	Loan amount		Currency
	31 Dec 2018	31 Dec 2017	
Pankl Racing Systems UK Ltd.	1,614,923	1,614,923	GBP
CP-CARRILLO, Inc.	1,000,000	1,000,000	USD
Pankl Holdings, Inc.	29,140,000	29,140,000	USD

- The **IAS 19 reserve** contains actuarial losses from provisions for severance payments. As of 31 December 2018, the IAS 19 reserve amounted to € -327k (2017: € -251k) including the share of minorities.

- **Minorities** contain the shares of third parties in the equity of consolidated subsidiaries.

29. FINANCIAL LIABILITIES

€k	31 Dec 2018	31 Dec 2017
Non-current loans	94,483	81,851
Non-current finance lease liabilities	1,609	0
Current loans and current portion of non-current loans	19,044	16,479
Current finance lease liabilities	452	61
Financial liabilities	115,588	98,391

Non-current loans as well as current loans and current portion of non-current loans are against financial institutions and the Austrian research promotion agency.

30. LIABILITIES FOR EMPLOYEE BENEFITS

The valuation of employee benefits with regards to severance payments is carried out in accordance with IAS 19 (Employee benefits) using the projected unit credit method based on an actuarial procedure. This present value calculation considers the known entitlements at the balance sheet date and future expected salary increases. The net present value of the benefit entitlement (Defined Benefit Obligation or DBO) is calculated and compared with the fair value of the plan assets at the balance sheet date.

Austrian law requires companies to pay employees that started employment before 1 January 2003 a one-off severance payment in the case of redundancy or retirement. The amount of such payment depends on the number of years served in the company and the appropriate salary. For all employees who have started after 31 December 2002, the company pays a monthly amount of 1.53% of the salary into a retirement fund. These amounts are invested in an account belonging to the respective employee. When the employment ends the amount is paid to the employee or the entitlement is passed on. The company is only required to pay the monthly amounts which are shown as expenses in the profit and loss account in the year to which the payments refer (Defined Contribution Obligation). For employees of the Austrian Group companies, who started service from 1 January 2003 defined contributions amounting to 1.53% of wages and salaries were paid into the state approved employee pension fund. In the fiscal year 2018 an amount of € 642k (2017: € 484k) was paid.

Year-end differences (actuarial profits or losses) between the fair value of severance pay obligations and the actual net present values of the entitlements are shown directly in the other results.

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

€k	1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
Net present value of obligation (DBO) = provision for severance payments	1,809	1,815
+ Current service cost	102	55
+ Interest expense	36	27
– Actual severance payments in the fiscal year	(47)	(64)
– Profit/loss DBO for past service cost	(19)	(22)
± Actuarial profits/losses	102	(2)
= Provision for severance payments as of 31 Dec	1,983	1,809

As of 31 December 2018, duration amounted to 16.96 years (2017: 14.44 years).

Actuarial profits/losses consisted of the following:

€k	31 Dec 2018	31 Dec 2017
Change of expected values	42	76
+ Change of demographic assumptions	(18)	(10)
± Change of financial assumptions	78	(68)
= Actuarial profits/losses	102	(2)

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

	31 Dec 2018	31 Dec 2017
Actuarial interest rate	2.00%	2.00%
Increases of wages/salaries	2.75%	2.50%
Pension age for women/men	56.5–65 years	56.5–65 years

The actuarial interest rate is defined based on the very long average maturities and the high average remaining life expectancy. The discount rate represents market yields of prime-rated corporate bonds with fixed coupons at the balance sheet date.

Employee fluctuation is calculated in a company specific manner and considers employee age and number of service years. Actuarial valuations are based on country-specific mortality tables. Pension age is defined by the legal pension ages of the respective countries.

A change (± 0.5 percentage points) of the actuarial interest rate and the wages/salaries increases have the following impacts on the net present value of the future payments:

Parameter	Net present value of obligation	
	-0,5 percentage points	0,5 percentage points
Actuarial interest rate	8.8%	(7.9%)
Expected wages/salaries increases	(7.9%)	8.7%

31. OTHER CURRENT AND NON-CURRENT LIABILITIES

In the fiscal year 2017, the other non-current liabilities included purchase price payment obligations for acquired stakes in subsidiaries (2018: € 81k; 2017: € 3,210k)

The other current liabilities consisted of the following:

€k	31 Dec 2018	31 Dec 2017
Liabilities from unconsumed holiday entitlements	2,666	2,504
Liabilities from the accrual of outstanding invoices	2,557	2,582
Liabilities for payments to employees	1,905	1,764
Liabilities from income taxes	136	0
Contract liabilities	710	0
Other	7,218	6,877
Total	15,192	13,727

Remaining other liabilities were mainly purchase price payment obligations for acquired stakes in subsidiaries (€ 3,456k), liabilities from personnel related taxes and social insurance contributions (€ 1,635k), VAT which was not yet due and provisions for audit and legal expenses.

Contract liabilities contain mainly prepayments from customers and provisions for customer bonuses and can be reconciled as follows:

€k	Contract liabilities
Balance as of 1 Jan 2018	335
Realised revenues, which were included in the balance of contract liabilities at the start of the period	(105)
Deductions through payment of customer bonuses	(129)
Additions through received customer prepayments	415
Additions through providing for expected future customer bonus payments	245
Other impacts	(51)
Balance as of 31 Dec 2018	710

32. PROVISIONS

The Group forms provisions for warranties and guarantees with regards to known or expected individual cases.

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

Estimates for future expenses are inevitably subject to several uncertainties, which may lead to an adjustment of a formed provision. Actual expenses for such measures may exceed the amount provided for in an unexpected manner.

In the fiscal year 2018, provisions developed as follows:

€k	31 Dec 2017	Additions	Reversals/ utilisation	Currency translation	31 Dec 2018
Warranties and guarantees	220	37	(39)	2	220
Obligations for remedial actions	25	0	0	0	25
Other non-current provisions	0	200	0	0	200
Total	245	237	(39)	2	445

€k	31 Dec 2016	Additions	Reversals/ utilisation	Currency translation	31 Dec 2017
Warranties and guarantees	483	46	(301)	(8)	220
Obligations for remedial actions	26	0	0	(1)	25
Total	509	46	(301)	(9)	245

VI. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Changes of balance sheet items which are shown in the cash flow statement cannot be directly derived from the balance sheet because non-cash impacts are neutralised. The other non-cash expenses (income) contain primarily valuations of foreign exchange receivables and liabilities.

The change of financial liabilities as shown in the balance sheet can be reconciled with the values in the cash flow statement as follows:

€k	Loans			Lease
	Non-current	Current	Total	
Balance as of 1 Jan 2018	81,851	16,479	98,330	61
Changes with cash impact				
+ Increase	27,084	0	27,084	0
– Repayment	0	(11,541)	(11,541)	(293)
± Reclassification	(14,710)	14,710	0	0
± Change of current account balance	0	(604)	(604)	0
± Other	(33)	0	(33)	0
Changes without cash impact				
+ Increase	0	0	0	2,293
± Valuation	291	0	291	0
Balance as of 31 Dec 2018	94,483	19,044	113,527	2,061

VII. RISK REPORT

33. RISK MANAGEMENT

Pankl Group acts globally and is hence confronted with several potential risks. Management Board and Supervisory Board are regularly informed about risks which may have a material impact on business development. Management takes timely measures to avoid and minimize risks and to protect from risks.

Accounting processes contain an internal control system specific for the company which include basic principles such as separation of functions and the four-eyes principle. Internal and external audits make sure that processes are continuously improved and optimised.

Ongoing company growth depends on factors such as demand behaviour, product development, foreign exchange developments, economic environment in individual sales markets, purchase prices of supplied parts or employee development.

34. MARKET RISKS

34.1. ECONOMIC RISKS

Pankl Group is significantly affected by rule changes in the motorsport market in the respective racing series. These ongoing rule changes mean that there are intense research and development activities through racing teams. There is the risk that Pankl may not meet the resulting challenges in a sufficient manner, but there is also the chance that Pankl may further increase market shares or strengthen a leading market position through innovations. Seasonal revenue patterns may be influenced in the various racing series by the rescheduling of test dates or season starts.

Pankl Group faces both risks and chances around the current hype of electric mobility. The requirement for extended ranges of electric cars means more demand for lightweight components primarily in the chassis area opening new addressable markets for Pankl. However, the trend towards electrification also leads to lower demand for internal combustion engines and hence also for our core engine products. Pankl aims to address these issues by further development and optimisation of engine components to secure market shares primarily in the areas of innovative engine concepts and the sports car segment.

In the Aerospace segment, Pankl is subject to the fluctuations of the aerospace industry. In civil aerospace, growth for helicopters stagnates due to the oil price declines. There are, however, opportunities in the airplanes jet engines area. Reductions in military budgets cause a negative development in the military aerospace segment.

34.2. COMPETITION AND PRICE PRESSURES

Pankl has the advantage to have a broad customer portfolio. The general trend for OEMs to develop hyper cars is very positive as Pankl can benefit from its motorsports experience in this niche market. There is high demand for development projects which utilize motor racing technology.

35. SECTOR-SPECIFIC RISKS

35.1. CHANGES IN THE SUPPLY MARKET

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

35.2. RESEARCH AND DEVELOPMENT

At Pankl Group, research and development activities always carry the risk that they may not bring the desired results or that customers may not honour the effort with appropriate orders. Pankl Group aims to minimize these risks through ongoing market observation and close cooperation with customers.

36. IT RISKS

The Pankl Group operates an IT security and risk management system with the aim to identify and manage company-relevant risks in information security. The company delivers evidence and documents it for both customers and management (Management Board and managing directors of respective subsidiaries) that duty of care is provided and maintained with regards to the use of information and the operation of data processing equipment.

The Pankl Group addresses the ever-rising IT and cyber risks through continuous development of IT security measures and the use of up-to-date IT security technologies. The Group uses a multistage technical concept using up-to-date security features such as intrusion prevention systems both externally and internally to respond to cyber-attacks. In addition, behaviouristic security systems are used to identify security breaches. Any events are identified and treated with a malware incident response process. In parallel, external and internal vulnerability assessments are performed and weaknesses are addressed by an established patch and update process. Regular internal and external security audits are performed, and all risk management measures documented, evaluated, prioritised and executed.

Regular global IT security awareness campaigns are carried out to make sure that all users of IT systems have the required knowledge and appreciation for the safe operation of their systems.

For the areas data security and protection, we apply the same high-quality standards as for our products.

37. FINANCIAL RISKS

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

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

37.1. CURRENCY RISKS

The Group faces currency risks if financial assets and debt are denominated in other currencies than the local currency of the respective company. Group companies invoice primarily in their local currency and provide for funding in their local currency (EUR, USD, GBP, JPY). Foreign exchange fluctuations may lead to foreign exchange losses in the consolidated financial statements.

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

Based on the assumptions mentioned above, an increase (decrease) in the value of the Euro by 10% compared to all other currencies would have resulted in a decrease (increase) in net income (after taxes) and equity in the amount of € -9k or € +9k respectively (2017: € -353k or € +353k respectively). In this analysis, the sensitivity of equity was only influenced by the sensitivity of the net income (after taxes).

37.2. INTEREST RATE RISKS

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

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

Based on the assumptions mentioned above, an increase (decrease) in market interest rates by 50 basis points at the balance sheet date would have resulted in a decrease (increase) of the net income (after taxes) and equity by € -70k or € +70k respectively (2017: € -43k or € +43k respectively). The sensitivity of equity was only influenced by the sensitivity of the net income (after taxes).

37.3. CREDIT RISKS

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

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

For the required value adjustment in accordance with IFRS 9, Pankl Group collected external ratings complemented by geographical criteria for its major customers in the Racing/High Performance and Aerospace segments. The resulting credit loss probability, which was applied for the total accounts receivable balance of the respective segment developed as follows:

Segment	31 Dec 2018	1 Jan 2018
Racing/High Performance	0.35%	0.39%
Aerospace	2.90%	4.33%

Applying these parameters for trade accounts receivable and contract assets resulted in the following general value adjustments for the fiscal year 2018:

€k	Racing/ High Performance	Aerospace	Total
Balance as of 1 Jan 2018	84	253	337
Recognition through profit and loss account	(5)	(80)	(85)
Balance as of 31 Dec 2018	79	173	252

37.4. LIQUIDITY RISKS

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

The maturities of financial liabilities were as follows:

€k	Valuation category according to IFRS 9	Book value	Maturities		
			Up to 1 year	From 1 to 5 years	More than 5 years
31 Dec 2018					
Current loans and current portion of non-current loans	Financial liabilities at amortised cost	19,044	19,044	0	0
Trade accounts payable	Financial liabilities at amortised cost	13,594	13,594	0	0
Other current financial liabilities – finance lease liabilities	Not applicable	452	452	0	0
Other financial current liabilities	Financial liabilities at amortised cost	4,718	4,718	0	0
Non-current finance lease liabilities	Not applicable	1,609	0	1,609	0
Non-current loans	Financial liabilities at amortised cost	94,483	0	77,528	16,955
Total		133,900	37,808	79,137	16,955
31 Dec 2017					
Current loans and current portion of non-current loans	Financial liabilities at amortised cost	16,479	16,479	0	0
Trade accounts payable	Financial liabilities at amortised cost	11,470	11,470	0	0
Other current financial liabilities – finance lease liabilities	Not applicable	61	61	0	0
Other financial current liabilities	Financial liabilities at amortised cost	4,624	4,624	0	0
Non-current loans	Financial liabilities at amortised cost	81,851	0	67,495	14,356
Total		114,485	32,634	67,495	14,356

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

€k	Book value	Cash flows 2019			Cash flows 2020–2023			Cash flows from 2024		
		Interest fixed	Interest variable	Repayment	Interest fixed	Interest variable	Repayment	Interest fixed	Interest variable	Repayment
31 Dec 2018										
Loan	113,527	(1,346)	(256)	(19,044)	(2,748)	(676)	(77,528)	(49)	(464)	(16,955)
Trade accounts payable	13,594	0	0	(13,594)	0	0	0	0	0	0
Current										
finance lease liabilities	452	0	(4)	(452)	0	0	0	0	0	0
Non-current										
finance lease liabilities	1,609	0	(14)	0	0	(27)	(1,609)	0	0	0
Other current										
financial liabilities	4,718	0	0	(4,718)	0	0	0	0	0	0
Total	133,900	(1,346)	(274)	(37,808)	(2,748)	(703)	(79,137)	(49)	(464)	(16,955)

€k	Book value	Cash flows 2018			Cash flows 2019–2022			Cash flows from 2023		
		Interest fixed	Interest variable	Repayment	Interest fixed	Interest variable	Repayment	Interest fixed	Interest variable	Repayment
31 Dec 2017										
Loans	98,330	(1,330)	(143)	(16,479)	(4,119)	(163)	(67,495)	(206)	(188)	(14,356)
Trade accounts payable	11,470	0	0	(11,470)	0	0	0	0	0	0
Finance lease liabilities	61	0	0	(61)	0	0	0	0	0	0
Other current										
financial liabilities	4,624	0	0	(4,624)	0	0	0	0	0	0
Total	114,485	(1,330)	(143)	(32,634)	(4,119)	(163)	(67,495)	(206)	(188)	(14,356)

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

38. OTHER RISKS

38.1. RISKS DUE TO LEGAL ENVIRONMENTS

The Pankl Group distributes its products in various countries and is hence exposed to risks regarding changes of national rules, license regulations, taxes, trade restrictions, prices, income and foreign exchange restrictions. In addition, the Group is exposed to risks with regards to political, social and economic instabilities, inflation and interest rate changes. To manage these risks, the Pankl Group reviews respective national rules ahead of any market entry and monitors them continuously to be able to react to changes in a timely manner.

38.2. OPERATIONS AND ENVIRONMENTAL RISKS

As it is not possible to eliminate all risks deriving from the force of nature, Pankl Group companies aim to minimise such risks via emergency planning and insurance cover to avoid adverse impacts on production processes.

38.3. PERSONNEL RISKS

Especially with regards to Pankl's growth strategy there are risks regarding the loss of key employees. Efficient personnel management and continuous personnel development programmes aim to reduce the risk to lose key employees.

The Group aims to minimise the risks from the lack of qualified personnel by running a comprehensive apprentice training programme in own training workshops. The aim is to recruit employees from the region and to secure their long-term commitment to the company.

VIII. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

39. BASIC PRINCIPLES

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

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

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

40. CLASSIFICATION AND FAIR VALUES

The table below shows book values and fair values of financial assets (financial instruments booked as assets in the balance sheet) broken down in categories respectively business cases in accordance with IFRS 9. If the book value is a reasonable approximation of the fair value or for equity capital instruments valued at fair value, the table does not show information on the fair value or the valuation step for financial assets which are not valued at fair value.

Trade accounts receivable valued at fair value through profit and loss contain primarily receivables which were sold to financial institutions via reverse factoring agreements.

Trade accounts receivable are generally recorded in accordance with IFRS 9 5.5.15 without application of valuation steps. Write-offs are recorded in the amount of the expected losses over the term of the receivable.

€k	Valuation category according to IFRS 9	Book value	Fair value	Valuation according to IFRS 9			
				Amortised historic cost	FVTPL ¹	FVOCI ² (with reclassification)	FVOCI ² (without reclassification)
31 Dec 2018							
Cash and cash equivalents	Hold	6,656	6,656	6,656	0	0	0
Trade accounts receivable	Hold / sell	25,775	25,775	25,193	582	0	0
Financial fixed assets – non-current loans granted	Hold	1,541	1,541	1,541	0	0	0
Total		33,972	33,972	33,390	582	0	0
31 Dec 2017							
Cash and cash equivalents	Hold	9,772	9,772	9,772	0	0	0
Trade accounts receivable	Hold / sell	26,255	26,255	26,255	0	0	0
Financial fixed assets – non-current loans granted	Hold	1,606	1,606	1,606	0	0	0
Total		37,633	37,633	37,633	0	0	0

¹ FVTPL: Fair value through profit and loss

² FVOCI: Fair value through other comprehensive income

The table below shows the book values and fair values of financial liabilities (financial instruments booked as liabilities in the balance sheet) according to the valuation categories of IFRS 9 broken down in categories. If the book value is a reasonable approximation of the fair value, the table does not show information on the fair value of financial liabilities which is not valued at fair value.

€k	Valuation category according to IFRS 9	Book value	Fair value	Valuation according to IFRS 9				Valuation acc. to IAS 17	Non-financial
				Amortised historic cost	FVTPL ¹	FVOCI ² (with reclassification)	FVOCI ² (without reclassification)		
31 Dec 2018									
Current loans and current portion of non-current loans	Financial liabilities at amortised cost	19,044	19,044	19,044	0	0	0	0	0
Trade accounts payable	Financial liabilities at amortised cost	13,594	13,594	13,594	0	0	0	0	0
Other current financial liabilities – finance lease liabilities	Not applicable	452	452	0	0	0	0	452	0
Other current liabilities	Financial liabilities at amortised cost	15,192	4,718	4,718	0	0	0	0	10,474
Non-current finance lease liabilities	Not applicable	1,609	1,609	0	0	0	0	1,609	0
Non-current loans	Financial liabilities at amortised cost	94,483	94,826	94,483	0	0	0	0	0
Total		144,374	133,900	131,839	0	0	0	2,061	10,474

¹ FVTPL: Fair value through profit and loss

² FVOCI: Fair value through other comprehensive income

€k	Valuation category according to IFRS 9	Book value	Fair value	Valuation according to IFRS 9				Valuation acc. to IAS 17	Non-financial
				Amortised historic cost	FVTPL ¹	FVOCI ² (with reclassification)	FVOCI ² (without reclassification)		
31 Dec 2017									
	Current loans and current portion of non-current loans	16,479	16,479	16,479	0	0	0	0	0
	Trade accounts payable	11,470	11,470	11,470	0	0	0	0	0
	Other current financial liabilities – finance lease liabilities	61	61	0	0	0	0	61	0
	Other current liabilities	13,727	4,624	4,624	0	0	0	0	9,103
	Non-current loans	81,851	85,479	81,851	0	0	0	0	0
	Total	123,588	114,485	114,424	0	0	0	61	9,103

In accordance with IFRS 9, net results from financial instruments broken down in categories contain net profit/losses, total interest income/expenses and write-offs and amounted to as follows:

€k	From interest	From fair value valuation	From write-offs	Net results
1 Jan 2018–31 Dec 2018				
Financial assets at amortised cost	72	0	92	164
Financial liabilities at amortised cost	(1,935)	0	0	(1,935)
Total	(1,863)	0	92	(1,771)

¹ FVTPL: Fair value through profit and loss

² FVOCI: Fair value through other comprehensive income

41. CAPITAL MANAGEMENT

The Group aims to maintain a solid capital structure to secure the trust of investors, creditors and markets and a sustainable development of the company. The Management Boards regularly monitors capital yields and the amounts of dividends paid to the shareholders.

The Pankl Group strategy aims at making sure that Pankl Racing Systems AG and all other group companies have an equity base in accordance with local requirements. Capital management is mainly carried out using the parameters shareholders equity in percent of total assets, net debt, gearing and dynamic gearing.

Shareholder's equity in percent of total assets amounted to as follows:

		31 Dec 2018	31 Dec 2017
Shareholders' equity	€k	97,956	91,312
Total assets	€k	244,911	220,231
Shareholders' equity in % of total assets		40.0%	41.5%

Net debt is defined as current and non-current financial liabilities (bond, loans, finance lease liabilities and other interest-bearing liabilities) minus cash and cash equivalents. The aim is to secure non-current liquidity, to use debt financing facilities in an efficient manner and to limit financial risk while optimising returns.

		31 Dec 2018	31 Dec 2017
Financial liabilities		115,588	98,391
Cash and cash equivalents		(6,656)	(9,772)
Net debt		108,932	88,619

The ratio "**Gearing**" (net debt divided by shareholders' equity) and the ratio "**Dynamic gearing**" (net debt divided by EBITDA) are used to monitor the capital structure and were as follows:

		31 Dec 2018	31 Dec 2017
Shareholders' equity	€k	97,956	91,312
Net debt	€k	108,932	88,619
Gearing		111.2%	97.1%
Net debt	€k	108,932	88,619
EBITDA	€k	28,277	25,942
Dynamic gearing	Years	3.9	3.4

IX. LEASING RELATIONSHIPS

42. FINANCE LEASE RELATIONSHIPS

Finance lease relationships in the Pankl Group refer to machinery with a term of up to five years. In the fiscal year 2018, interest expenses amounted to € 21k (2017: € 6k). The book value developed as follows:

€k	31 Dec 2018	31 Dec 2017
Historic cost	5,720	3,427
Cumulated depreciation	(3,537)	(3,159)
Book value	2,183	268

The net present value of the minimum future leasing payments was as follows:

€k	Leasing payments		Net present values	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Up to 1 year	475	61	452	61
From 1 year to 5 years	1,645	0	1,609	0
More than 5 years	0	0	0	0
Total	2,120	61	2,061	61

The payment obligations from finance lease contracts are shown in note 29 "Financial liabilities".

43. OPERATING LEASE RELATIONSHIPS

In the Pankl Group, there are besides finance lease relationships also rent or lease relationships which, from an economic viewpoint, are considered operating leasing relationships. Expenses from operating leasing relationships were defined group-wide in a consistent manner. This item contains also long-term rents for land, buildings and buildings on third party land. In the leasing agreements, the leasing respectively interest expenses are normally variable.

In the fiscal year 2018, leasing payments from operating leasing relationships (rent and lease expenses) were shown as expenses and amounted to € 3,795k (2017: € 3,014k).

The financial obligations against third parties from the use of leased objects which are not shown as fixed assets in the balance sheet (primarily land, administration buildings, factory buildings, storage yards, CNC machines, cars and IT equipment) amounted to € 12,746k (2017: € 4,124k) and have the following maturities:

€k	31 Dec 2018	31 Dec 2017
Up to 1 year	2,639	1,684
From 1 year to 5 years	8,072	2,411
More than 5 years	2,035	29
Total	12,746	4,124

The expenses shown do not contain any major amounts from conditional rent or sub-rent payments

X. NOTES TO RELATED PARTIES AND LEGAL REPRESENTATIVES

44. BUSINESS RELATIONSHIPS WITH RELATED COMPANIES AND PERSONS

Pierer Konzerngesellschaft mbH is the ultimate parent of Pankl Racing Systems AG, which is fully consolidated in the consolidated financial statements of Pierer Konzerngesellschaft mbH. All companies which are included in the consolidated financial statements of Pierer Konzerngesellschaft mbH and which are controlled by or are under significant influence of the Pierer Konzerngesellschaft mbH are shown as related companies in the category "Companies related to shareholder".

In the fiscal years 2018 and 2017, there were no transactions with related persons (except for Management Board and Supervisory Board remuneration, please see note 46 "Management Board and Supervisory Board remuneration"). Business transactions with related companies can be summarised as follows:

€k	Revenues	Expenses	Receivables	Liabilities	Other income
31 Dec 2018					
KTM Group	29,096	1,725	585	425	42
SHW AG	7	(15)	10	0	0
SHW Automotive	37	0	37	0	0
KTM Industries AG	0	1,280	0	50	0
Pierer Industrie AG	0	464	368	44	0
Pierer Konzerngesellschaft mbH	0	257	0	49	0
Pierer Immoreal GmbH	0	648	0	0	0
Total	29,140	4,359	1,000	568	42

€k	Revenues	Expenses	Receivables	Liabilities	Other income
31 Dec 2017					
KTM Group	16,435	1,182	671	105	0
WP Group	10	0	0	0	0
KTM Industries AG	0	1,487	676	38	0
Pierer Konzerngesellschaft mbH	0	277	0	0	0
Pierer Immoreal GmbH	0	486	0	0	0
Total	16,445	3,432	1,347	143	0

All transactions with related companies are at arm's length basis.

Expenses contain expenses for software licenses (€ 257k), participation in the group insurance scheme (€ 399k), rent expenses (€ 648k), sponsoring (€ 800k), salaries (€ 767k), internal group charges (€ 449k) and other group services (€ 294k). KTM AG invoiced operating expenses of € 745k. At the balance sheet date, receivables and liabilities against Pierer Industrie AG and its subsidiaries amounted up to € 1,000k (31 Dec 2017: € 1,204k). All services are invoiced at arm's length basis.

45. LEGAL REPRESENTATIVES OF PANKL RACING SYSTEMS AG

In the fiscal year 2018 and up until the preparation of these consolidated financial statements, the **Management Board** of Pankl Racing Systems AG consisted of the following persons:

- | | |
|-------------------------|------------------------|
| ■ Mr. Wolfgang Plasser | ■ Mr. Thomas Karazmann |
| ■ Mr. Christoph Prattes | ■ Mr. Stefan Seidel |

In the fiscal year 2018 and up until the preparation of these consolidated financial statements, the **Supervisory Board** of Pankl Racing Systems AG consisted of the following persons:

- | | |
|--------------------------------|----------------------------------------|
| ■ Mr. Stefan Pierer (chairman) | ■ Mr. Josef Blazicek (deputy chairman) |
| ■ Mr. Alfred Hörtenhuber | ■ Mr. Harald Plöckinger |
| ■ Mr. Friedrich Roithner | |

46. MANAGEMENT BOARD AND SUPERVISORY BOARD REMUNERATION

In the fiscal year 2018, the Management Board remuneration consisted of salaries, benefits, bonuses and payments into the employee pension fund and amounted in total to € 1,755k (2017: € 1,299k).

In the period from 1 January 2018 until 31 December 2018, the Supervisory Board remuneration amounted to € 22k (2017: € 24k).

At the balance sheet date there were no loans or advances outstanding against the members of the Supervisory Board.

XI. EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date, there were no material events.

XII. GROUP COMPANIES (LIST OF EQUITY HOLDINGS)

The list of equity holdings contains all companies which are included in the consolidated financial statements of the parent company.


Company	Location	Stake		Acquired on
		2018	2017	
Pankl Racing Systems UK Ltd.	Leicester (UK)	100%	100%	7 Mar 1998
Pankl Holdings, Inc.	Irvine (US)	100%	100%	7 Mar 1998
Pankl Japan, Inc.	Tokyo (JP)	100%	100%	9 Apr 1998
CP-CARRILLO, Inc.	Irvine (US)	100%	100%	3 Aug 1998
Pankl Aerospace Systems, Inc.	Cerritos (US)	100%	100%	25 Apr 2000
Pankl Systems Austria GmbH	Kapfenberg (AT)	100%	100%	13 Jan 2005
Pankl Aerospace Systems Europe GmbH	Kapfenberg (AT)	100%	100%	29 Sep 2006
Pankl Automotive Slovakia s.r.o.	Topolčany (SK)	100%	100%	24 Nov 2006
Pankl Turbosystems GmbH	Mannheim (GE)	70%	70%	28 Sep 2012

Kapfenberg, on 20 February 2019

The Management Board of Pankl Racing Systems AG



Wolfgang Plasser
CEO



Thomas Karazmann
CFO



Christoph Prattes
COO



Stefan Seidel
CTO

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

AUDIT OPINION

We have audited the consolidated financial statements of Pankl Racing Systems AG, Kapfenberg, Austria, and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated profit and loss account, consolidated statement of comprehensive income, schedule of consolidated shareholder's equity and consolidated cashflow statement for the year then ended, and the notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and consolidated cashflows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code).

BASIS FOR OUR OPINION

We conducted our audit in accordance with Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Our liability as auditors is guided under Section 275 UGB.

RESPONSIBILITIES OF MANAGEMENT AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES

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

As part of an audit in accordance with Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

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

GROUP MANAGEMENT REPORT

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

Management is responsible for the preparation of the group management report in accordance with Austrian company law.

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

OPINION

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements.

STATEMENT

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

Linz, 20 February 2019

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

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

This report is a translation of the original report in German, which is solely valid.

The consolidated financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the group management report are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

88 **STATEMENT**
OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the group faces.

We confirm to the best of our knowledge that the parent Company financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent Company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Kapfenberg, on 20 February 2019

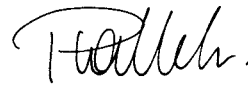
The Management Board of Pankl Racing Systems AG



Wolfgang Plasser
CEO



Thomas Karazmann
CFO



Christoph Prattes
COO



Stefan Seidel
CTO

A

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

C

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

CGU: Cash generating unit

D

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

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

Dividend: (Annual) payment to the shareholders

DOA: *Design Organisation Approval*; certificate of EASA

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

E

EASA: *European Aviation Safety Agency*

EBIT: Earnings before interest and taxes

EBITDA: Earnings before interest, taxes, depreciation and amortisation

EBIT margin: Ratio of EBIT to revenue

EBITDA margin: Ratio of EBITDA to revenue

F

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

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

G

Gearing: Ratio of net debt to equity

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

H

HIP: *Hot Isostatic Pressing*; heat-treatment type to improve material characteristics

I

IAS: *International Accounting Standards*; professional standards for the performance of financial audit of financial information

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

IFRS: *International Financial Reporting Standards*

ISA: *International Standards on Auditing*; professional standards for the performance of financial audit of financial information

M

MotoGP: Premier-class of motorcycle road racing events

N

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

Net debt: Financial liabilities less cash and cash equivalents

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

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

O

OEM: *Original Equipment Manufacturer;* automotive car manufacturers

Ordinary share: Represent the basic voting shares of a corporation

R

ROCE: Return on capital employed; a financial ratio that measures a company's profitability and the efficiency with which its capital is employed

ROE: Return on equity

S

Share capital: All funds raised by a corporation in exchange for shares

Solvency: Liquidity of a company

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

U

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

W

WACC: Weighted average cost of capital

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

WRC: *World Rallye Championship*

Imprint

Owner and publisher: Pankl Racing Systems AG, Industriestrasse West 4, 8605 Kapfenberg, Austria
Investor Relations: Ágnes Molnár, phone +43-3862-33 999-638, fax: +43-3862-33 999-181, e-mail: ir@pankl.com

Concept and design: marchesani_kreativstudio, 1080 Vienna
Photos: Katarina Pashkovskaya (cover, management board), Mathias Kniepeiss, Pankl/KTM archive

PANKL RACING SYSTEMS AG

Industriestrasse West 4, A-8605 Kapfenberg
phone: +43-3862-33 999-0, fax: 33 999-181
e-mail: office@pankl.com

PANKL SYSTEMS AUSTRIA GMBH

Engine Systems

Kaltschmidstrasse 2-6, A-8600 Bruck an der Mur
phone: +43-3862-33 999-0, fax: 33 999-290
e-mail: engine@pankl.com

Drivetrain Systems

Industriestrasse West 4, A-8605 Kapfenberg
phone: +43-3862-33 999-0, fax: 33 999-719
e-mail: drivetrain@pankl.com

Forging Systems

Industriestrasse West 2, A-8605 Kapfenberg
phone: 43-3862-33 999-902, fax: 33 999-910
e-mail: forging@pankl.com

High Performance Systems

Industriestrasse Ost 4, A-8605 Kapfenberg
phone: +43-3862-33 999-0, fax: 33 999-181
e-mail: office@pankl.com

CP-CARRILLO, INC.

1902 McGaw Ave., Irvine, CA 92614, USA
phone: +1-949-567 9000, fax: 567 9010
e-mail: sales@cp-carrillo.com

PANKL TURBOSYSTEMS GMBH

Rudolf-Diesel-Strasse 24, D-68169 Mannheim
phone: +49-621-860 854 430
e-mail: info-turbosystems@pankl.com

PANKL AEROSPACE SYSTEMS EUROPE GMBH

Industriestrasse West 4, A-8605 Kapfenberg
phone: +43-3862-33 999-0, fax: 33 999-860
e-mail: aerospace@pankl.com

PANKL AEROSPACE SYSTEMS, INC.

16615 Edwards Rd., Cerritos, CA 90703, USA
phone: +1-562-207 6300, fax: 207 6301
e-mail: aerospace@pankl.com

PANKL JAPAN, INC.

301 Storia Shinagawa
2-16-8 Konan, Minato-ku, Tokyo, Japan
phone: +81-3-5715 3877, fax: 5715 3878
e-mail: kkagii@pankl.co.jp

PANKL AUTOMOTIVE SLOVAKIA S.R.O.

Práznovská cesta 4707/10, SK-95501 Topoľčany
phone: +421-38-536 98-11, fax: 536 98-98
e-mail: highperformance@pankl.com

PANKL RACING SYSTEMS UK LTD.

Trading as Northbridge

Unit 16 Viking Road, Wigston
Leicester, LE 18 2BL, UK
phone: +44-116-257 8040, fax: 257 8041
e-mail: engine@pankl.com

