

READY TO » RACE

ANNUAL REPORT 2011

KTM

KTM AT A GLANCE

TEUR	2007/2008	2008/2009	2009/2010	09/01/2010– 12/31/2010	2011
EARNINGS RATIOS					
Net sales	605,655	454,618	459,795	131,584	526,801
EBITDA	50,382	39,537	54,576	18,178	64,495
EBIT ¹	20,128	(32,013)	22,440	7,521	31,009
EBT	2,562	(79,963)	10,834	2,889	19,109
Earnings after tax	6,044	(81,433)	11,303	2,660	20,818
EBITDA margin	8.3%	8.7%	11.9%	13.8%	12.2%
EBIT margin	3.3%	(7.0%)	4.9%	5.7%	5.9%
BALANCE SHEET RATIOS					
Balance sheet total	559,738	483,056	476,022	445,325	485,775
Working capital	157,369	147,665	139,021	117,568	99,333
Equity capital	196,873	134,464	173,311	176,786	219,775
Equity in % of total assets	35.2%	27.8%	36.4%	39.7%	45.2%
Net debt ²	199,579	243,779	159,642	150,179	124,995
Gearing ³	101.4%	181.3%	92.1%	84.9%	56.9%
CASH FLOW					
Cash flow from operating activities	18,363	(27,603)	66,599	20,389	70,348
Free cash flow	(36,544)	(47,174)	42,318	8,420	33,077
EMPLOYEES					
Employees as of August 31 or December 31 ⁴	2,148	1,738	1,588	1,579	1,755

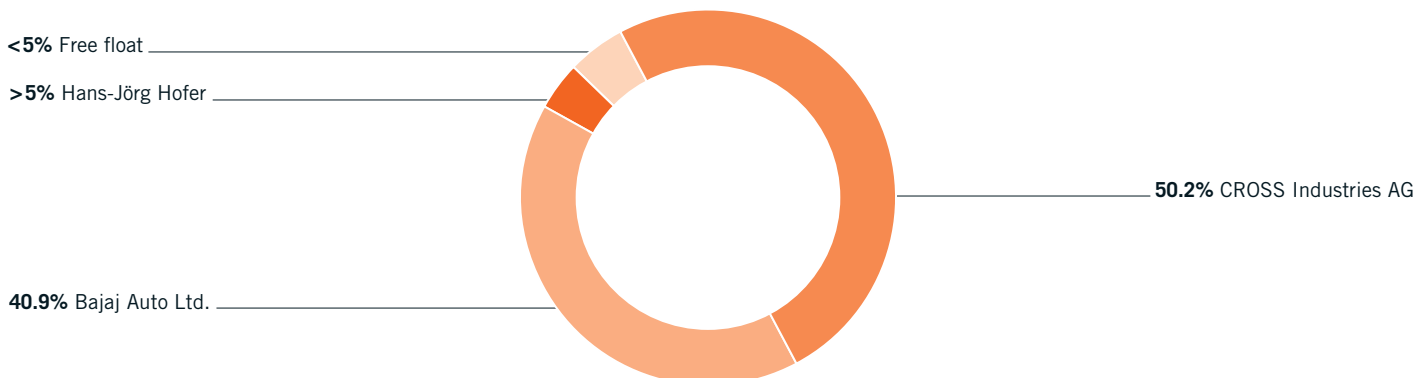
¹ EBIT before restructuring cost, EBIT 2008/2009 after restructuring cost: TEUR 65,079

² Net debt: Financial liabilities (short-term, long-term) – liquid assets

³ Gearing = Net debt / equity capital including non-controlling shares

⁴ Employees including temporary staff and external employees

SHAREHOLDER STRUCTURE (DECEMBER 31, 2011)



ANNUAL REPORT » 2011

for the period from January 1 to December 31, 2011
KTM Power Sports AG, Mattighofen, Austria



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Since December 2003 KTM Power Sports AG has been listed on the Vienna Stock Exchange and forms the roof above the KTM Group. KTM-Sportmotorcycle AG based in Mattighofen is the operative company of the group and manufactures and develops race-ready off-road and street motorcycles. KTM products are distributed globally via 22 sales companies and two joint ventures in Dubai and New Zealand to about 1,100 independent dealers.

Being global leader in the off-road competition segment KTM started in 1994 to develop and produce street motorcycles. Since 1995 KTM-Sportmotorcycle AG develops and manufactures not only vehicles with the brand “KTM”, but also “HUSABERG” motorcycles and entered the automotive sector in 2008 with its super sports car X-Bow.

In 2007 KTM entered a partnership with the Indian Bajaj Group, the second biggest motorcycle and three wheeler manufacturer in India. The focus of the cooperation lies on the common development of street motorcycles in the entry segment 125 to 375 cc. Last year the first jointly developed model (125 Duke) was launched successfully. With the 200 Duke, first presented in January 2012, KTM enters the Indian market together with Bajaj. The 200 Duke is the first model, which is available worldwide.

Since day one motor sport has been the main focus of our brand, which is underlined by our more than 200 championship titles. Motor sport provides the ideal environment to test and further develop the newest materials and technologies under the toughest conditions. True to our motto “Ready to Race” the knowledge gained in motorsport can be directly adapted in serial production.

FOREWORD OF THE CHIEF EXECUTIVE OFFICER

DEAR SHAREHOLDERS,

despite a difficult market environment in the past business year 2011 KTM managed to achieve top results and become the most successful motorcycle manufacturer in Europe and the USA!

Significant increase in earnings and strengthening of financial performance

In business year 2011 KTM generated an EBIT of EUR 31.0 million. The profit after tax rose over proportionally by 30.2% to EUR 20.7 million compared to the same period in the previous year. The equity basis was further strengthened by EUR 14 million through the contribution of KTM Immobilien GmbH in the course of a capital increase. As of December 31, 2011 an equity ratio in the amount of EUR 219.8 million was recorded. Thus the equity ratio increased from 39.7% to 45.2%. With a gearing of 56.9% at the end of the year the group's financial stability was further secured. This was mainly achieved through consistent, working capital related measures.

Most successful motorcycle manufacturer in Europe and the USA

Despite a regression of about 5% on the motorcycle market in Europe and the USA, KTM managed to increase turnover to EUR 526.8 million (+13.4% compared to the previous year) and sales to 81,200 motorcycles (+22.4% compared to the previous year) in the past business year 2011. Mainly responsible for this pleasant development was the successful launch of the 125 Duke as well as the new Enduro Competition generation. Compared to the previous year, KTM's market share in Europe increased by 30% from 4.9% to 6.1%, which makes KTM the most successful motorcycle brand and gives the company a competitive edge.

Focus on emerging markets and technological leadership

The KTM Group aims at breaking into new markets and in particular emerging markets, which have not been developed by the company yet, such as South-East Asia and South America. Together

with Bajaj, KTM is consistently working on implementing a global product strategy. In the area of electro mobility and light-weight construction KTM aims at taking the technological lead. With the presentation of the Freeride E (Zero Emission) at the EICMA in November 2011, KTM laid a further innovative foundation stone in order to achieve this goal.

Strategic partnership with Bajaj strengthened

As a result of the development projects in cooperation with Bajaj the 125 Duke was successfully launched on the European market in March 2011. This model helps KTM to reach a new target group of young motorcyclists and motorcycle newcomers. In the European registrations statistic of June the 125 Duke ranked first. On January 24, 2012 the second model from the partnership – the 200 Duke – was presented to the public in New Delhi together with Bajaj. The 200 Duke is the first KTM model, which is now available world-wide. Herewith KTM sets a further, essential step towards implementing a global product strategy and the expansion in emerging markets.

After the recent purchases, Bajaj Auto Ltd. has increased its share in KTM Power Sports AG to 40.9% and thus underpinned the strategic value of the cooperation for both sides. I would like to extend special thanks to the KTM staff, who, despite the difficult economic conditions, have shown so much commitment and have significantly contributed to the positive development of KTM. Furthermore, long-term cooperation with our dealers and importers has also proven its worth over the past business year.

The Executive Board is convinced that KTM will successfully shape the future on the basis of consistent implementation of the explained strategies and a stable shareholder structure!

Mattighofen, March 2012



Stefan Pierer
CEO

BODIES OF THE COMPANY



f.l.t.r.: Stefan Pierer,
Friedrich Roithner,
Viktor Sigl,
Harald Plöckinger,
Hubert Trunkenpolz

THE EXECUTIVE BOARD

Stefan Pierer
Chairman of the Executive Board (CEO)

Harald Plöckinger
Member of the Executive Board

Friedrich Roithner
Member of the Executive Board

Hubert Trunkenpolz
Member of the Executive Board

Viktor Sigl, MBA
Member of the Executive Board
(since March 23, 2012)

THE SUPERVISORY BOARD

Rudolf Knünz
Chairman of the Supervisory Board

Hans-Jörg Hofer
Deputy Chairman of the Supervisory Board

Rajiv Bajaj
Member of the Supervisory Board

Wolfgang Kappl
Member of the Supervisory Board

Friedrich Lackerbauer
Employee Representative

Horst Resch
Employee Representative

REPORT OF THE SUPERVISORY BOARD



In the business year 2011, the Supervisory Board of KTM Power Sports AG held five meetings, thus fulfilling its duties required by law and under the articles of incorporation.

The Executive Board of KTM Power Sports AG regularly reported to the Supervisory Board on business development and the economic state of the corporation, includ-

ing its associated companies. The annual financial statements and the management report for the business year 2011 as well as the consolidated financial statements and group management report for business year 2011 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, and did not give rise to any objections. The auditors certified that the accounting and annual financial statements as of December 31, 2011 are consistent with the applicable laws, that the annual financial statements give, in all material respects, a true and fair view as possible of the company's net assets, financial position and results of operations in accordance with generally accepted accounting principles, and that the management report is consistent with the annual financial statements. Further, the auditors certified that the consolidated financial statements give a true and fair view in all material respects of the group's net assets and financial position as of December 31, 2011, as well as of the results of operations and cash flows for the past business year in accordance with the International Financial Reporting Standards (IFRS) – as applicable in the EU-, and that the other details in the group management report do not misrepresent the group's situation.

In its report to the Supervisory Board, the Audit Committee concurred with the results of the final audit. After reviewing the management report and the annual statements for the business year including the proposed distribution of net profit, the group management report

from the Executive Board and the consolidated financial statements for the business year 2011, and reviewing the management, the Audit Committee did not raise any objections. The Audit Committee agreed with the distribution of net profit proposed by the Executive Board and recommended to the Supervisory Board that KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, be proposed for appointment as independent auditors for the business year 2012 at the Annual General Meeting. In addition, the Audit Committee also reviewed the corporate governance report and informed the Supervisory Board that it did not reveal any grounds for objection.

The Supervisory Board concurs with the Audit Committee's report and consequently also with the results of the final audit. After obtaining the final results of its review of the Executive Board's management report and group management report, the annual financial statements, including the proposed distribution of net profit and consolidated financial statements, and its management review, the Supervisory Board also raised no objections. The Supervisory Board also concurs with the Executive Board's proposed distribution of net profit. Having been accepted by the Supervisory Board, the annual financial statements can be deemed approved pursuant to Article 96 (4) Stock Corporation Law (AktG). The Supervisory Board acknowledged the consolidated financial statements and the group management report for the business year 2011.

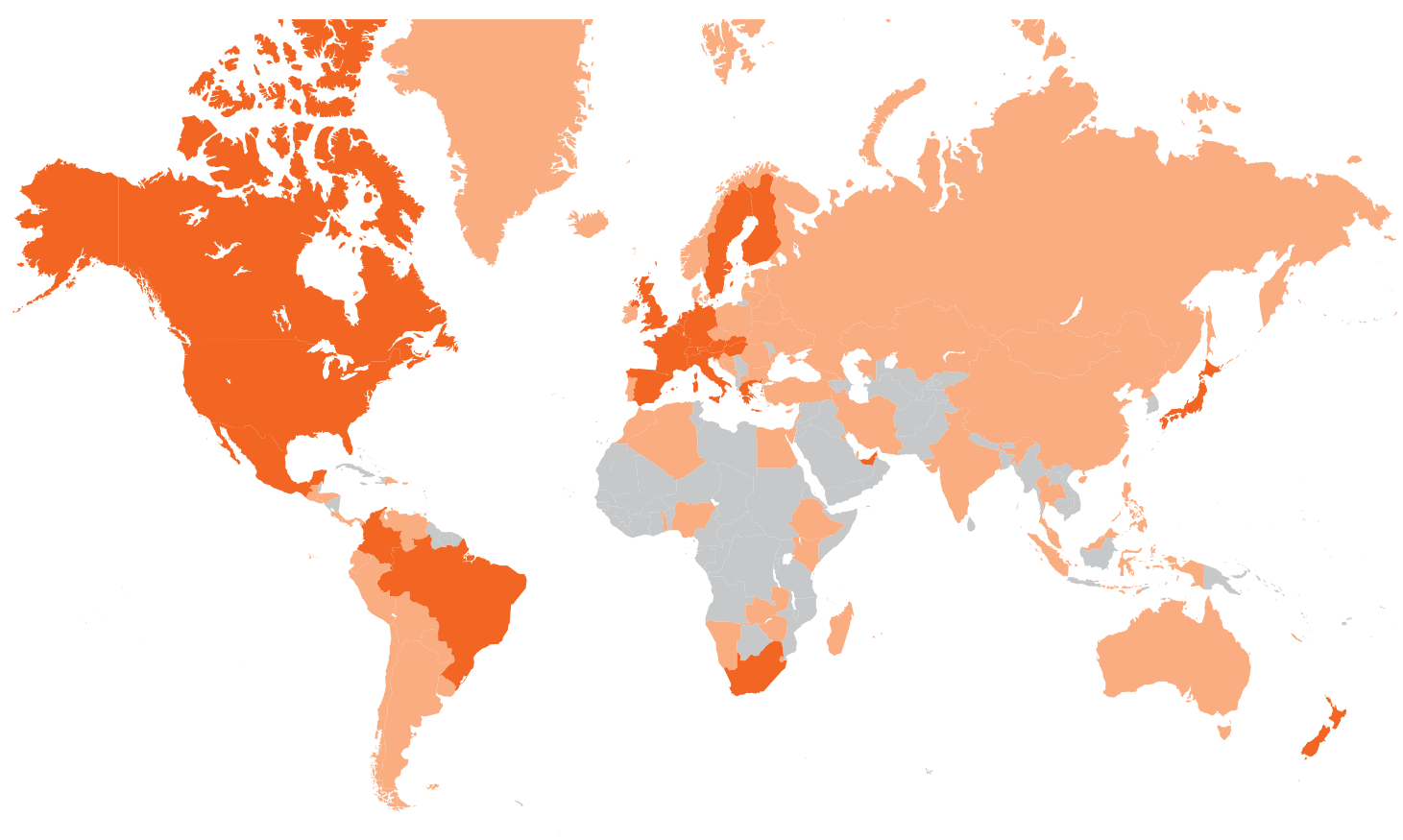
The Supervisory Board recommends that KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, be appointed as independent auditors for the business year 2012.

Mattighofen, March 2012

A handwritten signature in black ink, appearing to read 'R. Knünz'.

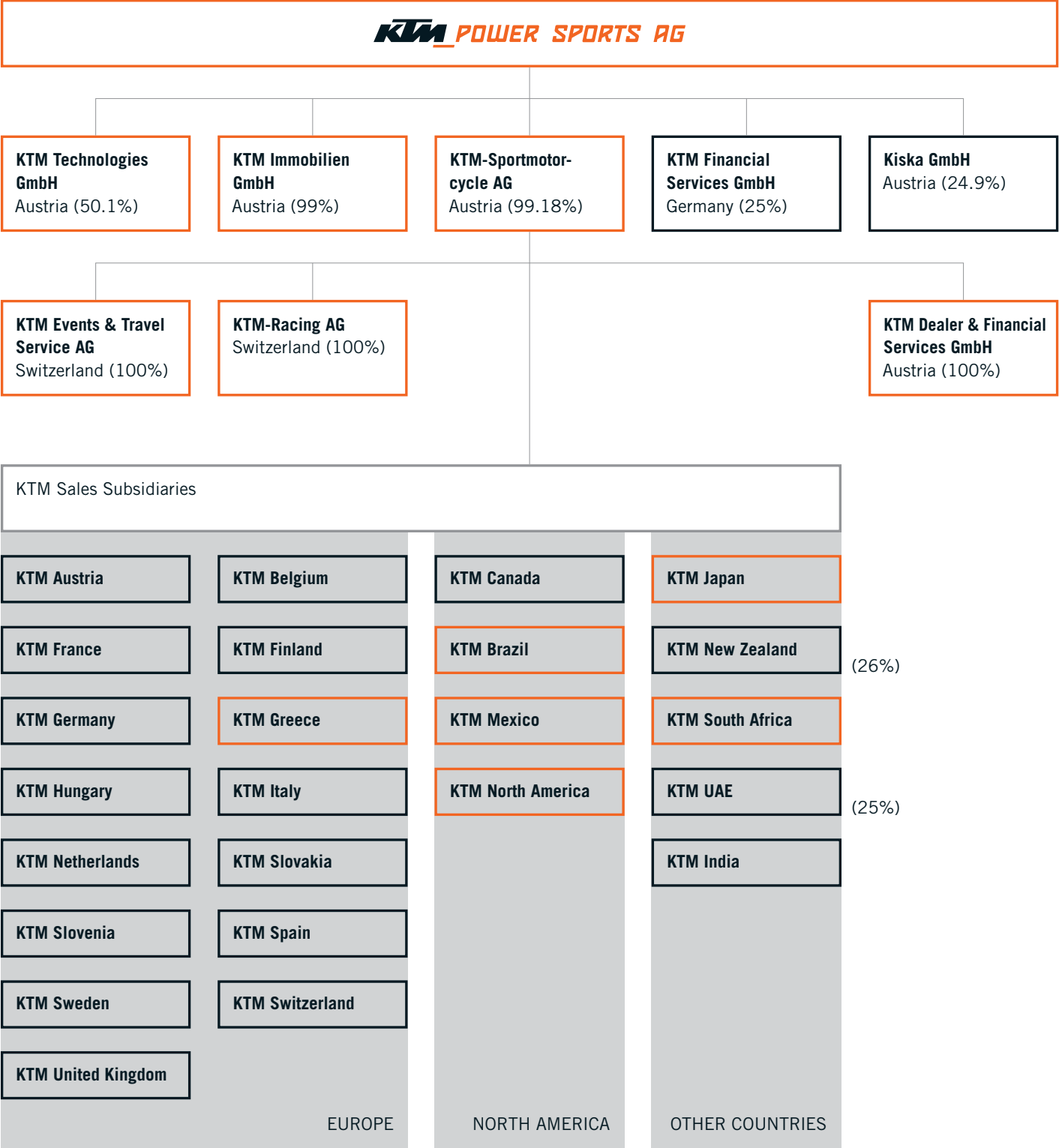
Rudolf Knünz
The Chairman of the Supervisory Board

LOCATIONS AND MARKETS



- KTM sales subsidiaries
- Sales markets

GROUP STRUCTURE



Full consolidation
At-equity

As at March 2012

GOAL AND STRATEGY

KTM is a premium manufacturer of high-performance and race-ready vehicles in the off-road and street sectors. What enables us to guarantee such performance is innovation and design. Our long-term goal is to become the most profitable, global motorcycle manufacturer and the leading power sports brand. To achieve this goal, we focus on further consolidating our position in all existing market segments and also on developing new ones. In business year 2011 KTM became the most successful motorcycle manufacturer in Europe and the USA and managed to gain both, a competitive edge as well as further market shares.

We are currently not only expanding our product portfolio with motorcycles in smaller and higher performance classes, but also with multilane vehicles. A new segment we are targeting is with the small-engine street motorcycles that we develop together with Bajaj Auto Ltd. In March 2011 the 125 Duke was already launched on the European market. Following this step KTM entered the Indian market together with Bajaj with the launch of the 200 Duke model. The 200 Duke is the first KTM model available world-wide, which is a further step towards implementing a global product strategy and pursuing the expansion in emerging markets.

Our product range is well complemented by our street motorcycles, which are readily accessible to a growing group of young motorcycle enthusiasts. With the launch of the first superbike “made in Austria” – the 1190 RC8 – we have sustainably strengthened our position as a premium dealer in the street segment.

Our successful commitment to racing, particularly off-road, strengthens the KTM brand and our market position in the long term. As a result, adaptation of the technology used in motor sport for series production products plays a central role in our strategy. Our re-entry into the street championships in 2012 with our self-developed Moto3 racing motorcycle reflects our global product- and sport strategy. Since day one motor sport has been the main focus of our brand, which is underlined by our more than 200 championship titles. Motor sport provides the ideal environment to test and further develop the newest materials and technologies under the toughest conditions. True to our motto “Ready to Race” the knowledge gained in motor-sport can be directly adapted in serial production.

The cornerstones of our long-term growth strategy are expanding the product range and developing new niches. Our strategic focus therefore lies in research and development, further expansion of the distribution network, and an efficient supply structure.

We maintain close contact with our customers through the KTM dealers, who pass on customer feedback and potential market trends to us. Their professionalism and customer orientation are an integral part of our success. Consequently, we strive to promote sustainable partnerships with our dealers based on trust and fairness. Our comprehensive product portfolio and a specially developed store concept make it possible for dealers to operate a profitable business just by selling KTM products.

KTM POWER SPORTS AG

Since December 2003 KTM Power Sports AG has been noted on the Vienna Stock Exchange and forms the roof above the KTM Group. The major holdings of KTM Power Sports AG, apart from KTM-Sportmotorcycle AG, are KTM Technologies GmbH, KTM Immobilien GmbH as well as the minority holding in Kiska GmbH.

KTM-Sportmotorcycle AG based in Mattighofen/Austria manufactures and develops race-ready off-road and street motorcycles. The subsidiaries of KTM-Sportmotorcycle AG include KTM-Racing AG, KTM Events & Travel Service AG as well as KTM Dealer & Financial Services GmbH. KTM products are distributed globally via 22 sales companies and two joint ventures in Dubai and New Zealand to about 1,100 independent dealers.





KTM-Sportmotorcycle AG is the operative company in the KTM Group, where we develop and produce race ready motorcycles for the off-road and street segments. As the global leader in the off-road competition segment we have also begun to develop and produce street motorcycles in the 1990s. By now KTM offers an attractive and broad product range including off-road and street motorcycles.

In 2007 we entered a partnership with the Indian Bajaj Group – the second biggest motorcycle and three wheeler manufacturer in India. The focus of our cooperation lies on the common development of street motorcycles in the entry segment 125 cc to 375 cc, which are produced in India and distributed by both companies on their markets under the brand KTM. The 125 Duke is the first motorcycle, which is produced in Pune, India with the support of the KTM Group already since March 2011 and was successfully launched on the Indian market in June 2011. Moreover, the common distribution in selected emerging markets (Malaysia, India and Indonesia) is planned for the future.

On January 24, 2012 the new 200 Duke model was presented to the public in New Delhi for the first time. With this motorcycle KTM enters the Indian market together with Bajaj. The 200 Duke is the first KTM model, which is available world-wide.

All KTM vehicles can be used both in competitions and for leisure sports. Apart from KTM vehicles, KTM-Sportmotorcycle AG has been developing and producing vehicles of the brand “HUSABERG” since 1995.

For decades we have been committed to motor sports and were able to achieve numerous successes during this period of time. Motor sport provides the ideal environment for testing our newly developed materials and technology under the toughest conditions. True to the motto “Ready to Race” we directly transfer our knowledge from motor sport into serial production. In doing so, our customers can experience the newest racing technology with their own KTM vehicle.

Since the foundation of KTM the racing segment has been an integral part of our company's success. Therefore, we will maintain this strategy for the future.

In order to enlarge our product portfolio we have acquired the Swedish motorcycle manufacturer HUSABERG in 1995. Since then we have integrated HUSABERG models in our product portfolio as our second brand. The Swedish traditional brand is known for its extraordinary and new technical approach. The low power to weight ratio as well as the puristic design are the main characteristics of HUSABERG models. In order to ensure this, Husaberg in particular works on the further development of the engine design. The four-stroke engine for the Enduro motorcycle as well as an innovative concept for a single-cylinder engine, where the cylinder does not face upwards but is nearly flat to the front, were also developed by HUSABERG engineers.

Another positive impetus both in trade as well as in off-road racing was achieved in the current model year through the use of especially reliable and powerful two-stroke engines.

Since 2003 HUSABERG motorcycles have been assembled at our main production site in Mattighofen for the classes Enduro, Cross Country and Supermoto.



“Ready to Race” – for KTM these three words are more than just a slogan. They stand for the overall philosophy of the company to develop vehicles that will hold 100% steady in any race. From the dealer directly on to the racing track and ready for victory.

Through motor sports we have the possibility to test our products in direct competition and under the toughest conditions. We are committed to racing since 1953 and had our first big success in 1954 with the Austrian championship title. Since then we have been on the winning track in almost all motorcycle race series. In 1993 we started our Rallye career and cruised to victory in five classes already in our first season at the Atlas Rallye.

When competing, our drivers race our KTM vehicles under the most extreme conditions, be it in the desert, on rocky terrain or on the street and gain essential insights for the optimization and further development of our products. These insights help us to develop new technologies for the KTM vehicles of tomorrow. True to the motto “Ready to Race” our customers profit from the direct connection between product development and the KTM racing division.

Our track record in racing with over 200 championship titles in various racing classes, countless national championship titles and eleven victories at the Rallye Dakar – the toughest Rallye in the world – proof our high technical competence as well as the quality of our products.

Apart from the launch of the new 350 SX-F in motor sport, which was crowned with the victory of the MX1 championship, the KTM Superbike team also won the IDM championship title. Our two official KTM Rallye drivers also had a perfect start into the new season. Marc Coma won the Rallye Dakar just ahead of Cyril Despres. This eleventh victory for KTM at the Rallye Dakar is also worth an entry into the record books.

DRIVER TITLES

MOTOCROSS

65 cc: Jorge Prado Garcia (Spain)

85 cc: Pauls Jonass (Latvia)

WMX: Steffi Laier (Germany)

MX1: Antonio Cairoli (Italy)

MX2: Ken Roczen (Germany)

ENDURO

Indoor: Taddy Blazusiak (Poland)

RALLY

Dakar: Marc Coma (Spain)

SUPERBIKE

IDM Champion: Martin Bauer (Austria)

MANUFACTURER TITLES

MOTOCROSS

65 cc: Manufacturer Title

85 cc: Manufacturer Title

WMX: Manufacturer Title

MX1: Manufacturer Title

MX2: Manufacturer Title

RALLY

Manufacturer Title



KTM WORLD CHAMPS 2011

READY TO RACE
www.ktm.com

MOTORCROSS

MX 1
MX 2

WMX
65CC
85CC

203 WORLD CHAMPION TITLES

ENDURO

INDOOR

DAKAR

MARC COMA

10 CONSECUTIVE DAKAR WINS

IDM

KTM

6 RIDER TITLES
6 MANUFACTURER TITLES
FOR KTM IN 2011





Every KTM driver strives to experience KTM's values – purity, extreme, performance and adventure – at first hand. KTM Events & Travel Service AG offers our customers the possibility to enjoy the driving experience on one of our vehicles at an adventurous motorcycle tour.

We offer tours with various difficulty levels throughout Europe, which are accompanied by professional drivers, who even won some championship titles and can now pass extensive their know how on to the tour participants.

Apart from this, enthusiastic off-road drivers have the possibility to book a motocross or Enduro tour with a specially conceptualized training program. KTM Events & Travel AG is one of the biggest providers of motorcycle tours in Europe.

KTM TRACK'N TEST (TNT)



Fascination race track! KTM offers specially conceptualized driving and testing possibilities on the track. No matter if you want to test the potential of your bike without any speed limits and oncoming traffic or if you want to fight for every tenth of a second – the KTM Track'n Test events are made for drivers of all classes. For our professionally organized ring training KTM has already secured some fixed dates on the most popular race tracks in Europe.

True to the motto "Track'n Test" we provide all current KTM street models for testing at every event.

One essential reason for successful cooperation of the KTM Group with its dealers is a functioning dealer- and customer financing. The dealer financing enables the KTM Group to strengthen distribution, to react to changing requirements in a flexible and fast way as well as to gain market relevant information. KTM Dealer & Financial Services GmbH bundles all holdings in dealers, flagship stores and importers.

The KTM Group supports its dealers with the establishment of customer financing programs. In June 2011 a Europe-wide cooperation for customer financing for the overall vehicle- and spare part product range was set up between KTM and Santander Consumer Finance. Santander Consumer Finance is one of the globally leading providers of financial services in the private customer sector and one of the biggest, manufacturer-independent financiers in the automobile and motorcycle sectors in Europe.

This enables us to provide extensive financing possibilities to our customers in the future.





KTM Power Sports AG holds 50.1% in KTM Technologies GmbH, which focuses on vehicle- and product development as well as on consulting with a specialization in lightweight construction and fiber-reinforced plastic.

The connection of know how in automotive engineering and experience in the composite development and production form the basic core (USP) of the company. Together with the design company KISKA GmbH, in which KTM holds 24.9%, KTM Technologies

GmbH works on innovative products and vehicle concepts at the production site in Anif, where the products range from extreme sports cars such as the KTM X-Bow to electric vehicles for OEMs.

The service portfolio ranges from the overall development process with a focus on concept- and process development to simulation and the product-oriented shift to serial production. Our experience in manufacturing processes, building of prototypes and support in serial production outlines the high practical relevance of our work.



Our broad, well-functioning distribution network is our extended arm to our customers. We therefore successively develop the network and adapt it to the existing market conditions. Our own organizations in various countries allow us to control sales for the specific market and target investment towards developing brand awareness and communicating core brand values. Some 1,100 independent dealers worldwide are now supplied with our products through 22 independent sales subsidiaries and two joint ventures in New Zealand and Dubai.

Comprehensive evaluation and training in service, repairs and sales advice enables us to maintain the quality of our dealers even when new products are launched. Thanks to the wide range of KTM products available and a specially developed store concept, customers can explore and experience the KTM brand world at any dealer.

HUMAN RESOURCES

Enthusiasm for KTM products and emotional identification with the KTM brand starts with our staff. It is the flexibility and commitment they show that enables us to guarantee the performance and quality of our products even in difficult economic conditions.

Feedback from our staff, many of whom are enthusiastic motorcycle riders themselves, is extremely valuable to the product and indeed the Group's future development.

We attach particular importance to our staff's personal and professional growth and therefore provide comprehensive training and HR development programs in many areas.

Since 2003 we have been running in-depth apprenticeship training and a training workshop. 88 apprentices on average are undergoing in-house training in various fields. Of them, some 20 young people complete their apprenticeships every year as production, automotive, mechanical engineering and mechatronics technicians, and industrial management assistants. Prospective trainees who are as yet undecided as to what career to pursue can benefit from our three-day "taster" apprenticeships. Our "Leadership in Production" training program targets experienced staff and aims at promoting team work, developing their cooperation and communication skills, and enhancing their leadership and motivation qualities.

In business year 2011 we employed a total of 1,632 people on average in the KTM Group (previous year: 1,594), 262 of whom worked abroad.

Productivity increased compared with the same period the previous year. Sales per employee rose by 10.8% and value added per employee was up 9.4% year on year.

For the management of KTM social commitment and employee satisfaction play the same vital role as success in sports and good economic results. In February 2012 the KTM Executive Board initiated the introduction of a toddler's group, in which ten children between the age of one and three are currently being looked after.



INVESTMENTS

In the past business year we increased investments in tangible and intangible assets from EUR 34.8 million the previous year to EUR 37.7 million.

With a view to developing our product range, we invest above all in new tools and machinery.

RESEARCH AND DEVELOPMENT

As a premium manufacturer in the niche sector, we place a special focus on research and development. Innovative products and technical innovations enable us to meet our customers' expectations and gain market shares.

KTM puts great emphasis on the early recognition of trends in the motorcycle sector, research and development in technical and functional areas as well as the identification of customer needs in order to achieve an innovative and close to the market product development.

The technologies and construction methods used are being constantly further developed and the technical and functional standards of our products steadily improved. Technical and functional innovations are principally used in motorsports first before they can be transferred into serial production on the basis of experience in this sector.

Here KTM not only operates in its original core markets, but also develops products in new market segments and niches as soon as these new market segments and niches are identified and usable for the brand KTM.

A key project was the development of small motorcycles in the street segment in cooperation with Bajaj Auto Ltd. Together with the Indian company we helped in particular young motorcycle enthusiasts with the entry in the KTM street product range.

In addition KTM pioneered with the A3 project "Zero Emission Motorcycle (ZEMC)" which involved testing of electrically driven sport motorcycles. In cooperation with Arsenal Research Österreichisches Forschungs- und Prüfzentrum Arsenal GmbH and Kiska GmbH, KTM developed an electrically driven sport motorcycle, which clearly demonstrates the potential of electric drives for high-performance applications. As a result we developed a motorcycle with a comparable performance, but with a lower weight than conventional motorcycles. This vehicle concept and the therefor developed vehicle components will be eventually transferred into a market-ready product.

In business year 2011 we employed 221 employees on average in our research and development department (15.8% of the total workforce).

In operative terms and without the effects from the activation and depreciation of development expenses, we invested 6.3% (–15% compared to the previous year) of our total sales revenue in research & development.

In business year 2011 we started or completed the following R&D projects:

- Start of production of the 690 Enduro and 690 SMC Facelift
- Start of production of the new 690 Duke
- Start of production of the re-engineered 990 SM-R equipped with ABS
- Start of production of the 125 Duke in the entry segment
- Start of production of the new EXC generation, 125 cc to 500 cc

- Development of the 200 Duke
- Development of a new motorcycle platform with 375 cc in cooperation with Bajaj Auto Ltd.
- Development of a new 2T motorcycle platform for future emission- and noise regulations
- Development of a new generation of Enduro motorcycles
- Development of two further vehicle platforms in cooperation with Bajaj Auto Ltd.
- Development of an electro off-road bike (Zero Emission Motorcycle)
- Development of a new street model range
- Model care activities X-Bow
- Concept development of a new 2-cylinder engine platform in cooperation with Bajaj Auto Ltd.
- Concept development of a new EMS system for future emission regulations (EURO4, EURO5, EURO6)



QUALITY

As a premium manufacturer, we have set ourselves the goal of producing innovative, top of the line and above all safe products tailored to the respective markets. The entire development process for a vehicle – from the product idea through market analysis, design study, engineering and development, cooperation with suppliers, purchasing of components for manufacture, parts fabrication, assembly of the engine and vehicle to packaging and shipping – is covered by the process-oriented quality management system and controlled by the KTM process management system.

We achieve high product quality by implementing design geared to production, using analytical and statistical calculation methods, comprehensive testing and inspection, meeting the relevant homologation requirements, focusing on process quality, targeted communication and training both at KTM and our suppliers.

Certain key components for our motorcycles, such as the engine in particular are manufactured by KTM itself. The in-house production of core components aims at maintaining the identity of motorcycles of the brands “KTM” and “HUSABERG” and also guarantees quality- and performance standards for the entire product.

KTM's success record in motorsports with over 200 championship titles in various racing classes, numerous national championship titles and eleven victories at the Rallye Dakar proves our high technical competence and quality of KTM products.





Having focused on technology, innovation and design since the 1990s, we have graduated from being just a manufacturer of offroad motorcycles to become an innovative producer of street motorcycles, ATVs and a premium sports car as well.

As a manufacturer in the niche segment, we constantly strive to expand our existing product range, identify emerging trends and set new trends. Together with Bajaj Auto Ltd. we have already developed new small-engine street motorcycles in response to the rising demand for small, agile bikes for the urban area. In the future we would in particular like to attract customers in the emerging markets with this new product, since they will represent one of the most important growth drivers of KTM in the next few years.

With innovations in the area of electric drives, KTM intends to be one of the first to follow and systematically implement the trend of urban mobility.

In this respect electric drives provide the technological opportunity to implement sustainable solutions. Experiences made in the framework of a research project on the development of an electric, high-performance motorcycle (Freeride E) have clearly shown the potential of electric drives. Especially for urban areas innovative vehicle concepts for various requirements can be implemented with available technologies. On the basis of these research results the KTM Group has developed an “urban mobility concept”, which aims at setting new standards for individual mobility through the launch of innovative, electric vehicles.

In addition – with the launch of the sports car KTM X-Bow, the KTM Group has already proven that it is able to develop new products outside of the traditional core business. Here, one of the major challenges was to develop a light-weight chassis out of carbon fiber composite materials. The experience gained in the lightweight construction of vehicles forms a further, essential foundation stone for the development of new vehicle concepts.

KTM Power Sports AG strives to maintain a policy of transparent, timely and comprehensive information and communication with the capital market participants and the general public. We therefore update them on KTM's financial situation and future development at regular intervals.

The Investor Relations team at KTM Power Sports AG is convinced that confidence in our company and products can only be secured with a transparent, timely and comprehensive information and communication policy. As a result, we aim to give investors, analysts and the general public an in-depth insight into the current economic situation and future development. Not only can private and institutional investors meet the management at road shows and information events, but we also give the public the opportunity to visit the KTM plant in Mattighofen every Friday.

Our website <http://company.ktm.com/> offers interested parties a wide-ranging pool of information on the company and products.

THE KTM SHARE

Development

The KTM share was listed on the Vienna Stock Exchange's prime market from flotation in December 2004 until September 2009 and was traded on the regulated unofficial market at the Vienna Stock Exchange. As free float market capitalization was too low during the last period under review in fiscal year 2008/2009, the KTM share

has been traded on the Vienna Stock Exchange's mid market since mid-September 2009. The KTM share will continue to be traded on the regulated unofficial market.

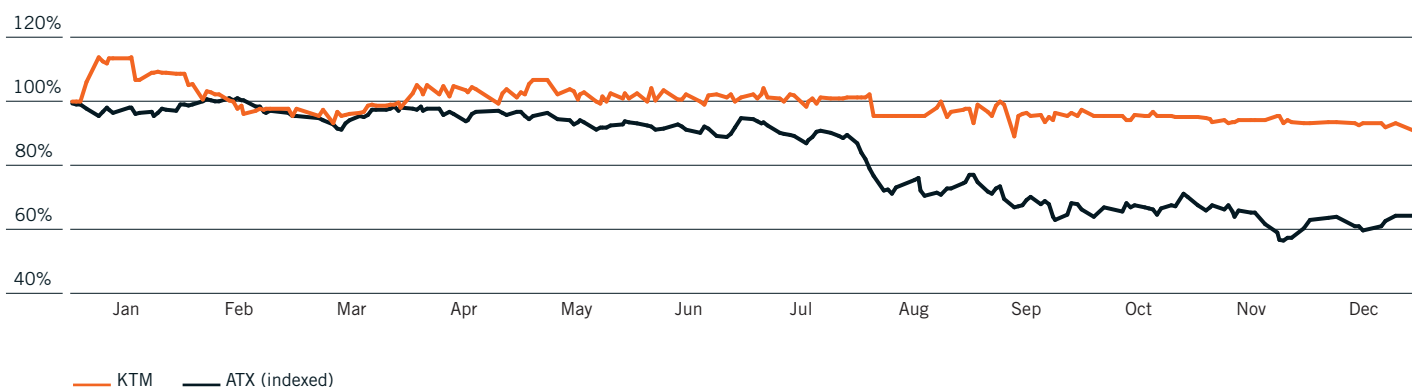
Closing on the last trading day of the business year at EUR 37.73 (previous year: EUR 41.90) the KTM share price remained rather stable in business year 2011 and decreased slightly at year end. Market capitalization on the last trading day of business year 2011 EUR 396.5 million (10,509,000 shares admitted to trading).

Capital Increase

The share capital of KTM Power Sports AG was increased – after the end of the subscription period on June 15, 2011 – against contribution in cash and contribution in kind from EUR 10,109,000 to a total of EUR 10,509,000. In accordance with the resolution of the General Meeting of April 26, 2011 the share capital was increased against contribution in kind by EUR 355,000 through the issue of 355,000 bearer shares at a par value of EUR 1.00 each, and against contribution in cash by EUR 45,000 through the issue of 45,000 bearer shares at a par value of EUR 1.00, hence a total of EUR 400,000 through issuance of 400,000 bearer shares at a par value of EUR 1.00. The issue price per share amounted to EUR 35.00.

The capital increase against contribution in kind was done through a contribution of 99% of KTM Immobilien GmbH, FN 351879 w, held by CROSS Industries AG. Thus, the so-called "KTM-real estate" bundled in KTM Immobilien GmbH and held by CROSS Industries

DEVELOPMENT OF KTM SHARE (JANUARY 1 TO DECEMBER 31, 2011)



AG were acquired by KTM Power Sports AG and concurrently strengthened their equity capital base. The volume of the capital increase against contribution in kind equals EUR 12,425,000.

At the time the capital increase against contribution in cash was decided upon, also the capital increase against contribution in kind was fixed. The subscription right was addressed solely to existing shareholders. Since the core shareholders CROSS Industries AG and Bajaj Auto International Holding B.V. waived their subscription rights in the run-up, all other existing shareholders had the chance to compensate the dilution from the capital increase against contribution in kind. A total of 32,231 new shares were subscribed, Bajaj Auto International Holding B.V. took over the remaining shares. The volume of the capital increase against contribution in cash equals EUR 1,575,000.

The capital increase was registered June 18, 2011; the first trading date of the new shares was June 21, 2011. As of January 1, 2011 the new shares are entitled to dividend payments. As of June 21, 2011 a total of 10,509,000 new shares, the total share capital of KTM Power Sports AG, are admitted to trading at the Vienna Stock Exchange.

Further information relevant to shares is to be found on our company website at <http://company.ktm.com> and the Vienna Stock Exchange's website at www.wienerboerse.at.

Due to the economic situation, the Executive Board of KTM Power Sports AG will submit a proposal at the Annual General Meeting not to pay dividends for the business year 2011.

FINANCIAL CALENDAR 2012

April 20, 2012	Annual General Meeting
April 30, 2012	Ex-Dividend-Day
April 30, 2012	Dividend Pay-Out
May 24, 2012	Publication First Quarter of 2012
August 29, 2012	Publication First Half of 2012
November 28, 2012	Publication First Three Quarters of 2012

GENERAL INFORMATION ON THE KTM SHARE

Investor Relations: Viktor Sigl, MBA
Phone: +43 7742 6000-144
E-mail: ir@ktm.com

Security	
Identification number	64540
Symbol	KTM
ISIN	AT0000645403
Listing	Vienna Stock Exchange, Mid Market
Number of shares	10,509,000 (since June 21, 2011)
Share capital	EUR 10,509,000 (since June 21, 2011)

Reuters	KTMP.VI
Bloomberg	KTM AV
Datastream	O: KTMAG

PERFORMANCE FIGURES FOR THE KTM SHARE

		2011	09/01/2009– 12/31/2010	2008/2009
Number of shares (as at August 31 or December 31)	unit	10,509,000	10,109,000	7,580,000
Average shares outstanding	unit	10,342,333	9,002,563	7,236,322
Dividend per share ¹	EUR	2.00	1.55	(11.25)
Dividend per share ²	EUR	0.00	0.00	0.00
Dividend yield (closing price)		0.00%	0.00%	0.00%
Highest price	EUR	47.81	41.90	53.40
Lowest price	EUR	37.20	15.78	14.01
Closing price	EUR	37.73	41.90	18.90
P/E ratio (closing price)	EUR	18.84	27.12	(1.68)
Market capitalisation per ultimo	EUR m	396.5	349.4	43.3

¹ Derived from the average shares outstanding

² Proposal to the Annual General Meeting

BOARDS

The Boards of KTM Power Sports AG consist of the Executive Board, the Supervisory Board and the Annual General Meeting. The Executive and Supervisory Boards cooperate at regular intervals on the basis of open and transparent discussion. Details on who may attend the Annual General Meeting as well as details on the chair, adopting resolutions at the Annual General Meeting, the location and advance notice are stated in the Articles of Association of KTM Power Sports AG (<http://company.ktm.com/gb/investor-relations/corporate-governance/articles-of-association.html>).

(1) THE EXECUTIVE BOARD

■ **Stefan Pierer** (born November 25, 1956)
Chairman of the Executive Board (CEO)
Initial appointment: October 11, 1996
Current term of office: until December 31, 2015

Stefan Pierer is member of the Management Board and CEO of CROSS Industries AG, which is the majority shareholder in KTM Power Sports AG. As member of the Executive Board, Stefan Pierer is responsible for corporate- and product strategy, vehicle development, engine development, product management, racing, marketing, organisation, IT, quality management, customer service and procurement. He started his career in 1982 as sales assistant with HOVAL GmbH in Marchtrenk. Later he became sales manager and authorized officer of the company. In 1987 he founded the CROSS investment group, where he is shareholder and member of the board.

■ **Harald Plöckinger** (born March 23, 1961)
Chief Officer of Business Development, Business Interface with Bajaj, Logistics as well as Production Graz (COO)
Initial appointment: April 3, 2007
Current term of office: until December 31, 2015

Harald Plöckinger has been a member of the Board of KTM-Sportmotorcycle AG since 2004 and a member of the Board of KTM Power Sports AG since 2007. He started his career with the BMW Group in the field of engine development. From 1990 to 2004 he held the position of authorized officer, production manager, head of strategic planning and finally general manager at Bombardier-Rotax.

■ **Friedrich Roithner** (born March 10, 1963)
Chief Officer of Finance (CFO)
Initial appointment: January 1, 2011
Current term of office: until June 30, 2013

After graduating from University of Linz (Business Administration) Friedrich Roithner started his career as auditing assistant at one of the big four leading tax consultancy and auditing companies in Austria (focus on tax consultancy and auditing). In 1992 he switched to Austria Metall AG and was member of the Management Board from 2002 until 2006. Since 2006 Friedrich Roithner has been a member of the CROSS management team.

■ **Hubert Trunkenpolz** (born May 17, 1962)
Chief Officer of Sales (motorcycles, X-Bow, related products) (CSO)
Initial appointment: April 3, 2007
Current term of office: until December 31, 2015

Hubert Trunkenpolz joined KTM-Sportmotorcycle AG as a member of the Board in 2004. Having started his career as marketing manager with ISA Audivisual Communication Corp., he went on to become general manager with TRUMAG. He has been working for the CROSS Group since 1992.

Officers' Supervisory Board Seats at Listed Companies in Business Year 2011

■ **Stefan Pierer**
Chairman of the Supervisory Board of Pankl Racing Systems AG, at CROSS Motorsport Systems AG and of BRAIN FORCE HOLDING AG; member of the Supervisory Board of BEKO Holding AG (until March 2011)

■ **Friedrich Roithner**
Deputy Chairman of the Supervisory Board at BRAIN FORCE HOLDING AG

Executive Board Composition and Work Methods

The Executive Board of KTM Power Sports AG conducts company business independently and on its own responsibility on the basis of the applicable law, Articles of Association and Rules of Procedure. The Rules of Procedure also define the distribution of responsibilities between the members of the Board and arrangements for deputies. The Board members undertake to notify each other routinely of any important events and inform each other of important business transactions. The Executive Board is responsible for implementing the corporate governance principles of the company and meeting the compliance requirements.

Executive Board Compensation

Remuneration for the Executive Board in business year 2011 totalled TEUR 2,966 (previous year: TEUR 2,795), out of which TEUR 1,043 were fixed (previous year: TEUR 1,375) and TEUR 1,923 were variable (previous year: TEUR 1,420). The variable remuneration of the Executive Board is based on a positive development of result- and cash flow related key figures.

At agreed-upon contract expiration, the members on the Executive Board shall receive a one-time severance pay under analogous application of Article 23 Salaried Employees Act (AngG), including remuneration components relevant to the calculation of the assessment basis for severance pay as required by law. In business year 2011 reserves were made for severance pays to members of the Executive Board in the amount of TEUR 345 (previous year: TEUR 110). Former members of the Executive Board received severance pays of TEUR 0 (previous year: TEUR 723).

As of the balance sheet date, there were no pending loans and advances granted to members of the Executive Board.

There are no stock option plans in place.

(2) THE SUPERVISORY BOARD

■ Rudolf Knünz (born July 8, 1951)

Chairman of the Supervisory Board, entrepreneur, dependent

Initial appointment: March 9, 2007 as Chairman of the Supervisory Board

Current term of office: until the Annual General Meeting deciding on his discharge for business year 2015

Other functions: Chairman of the Supervisory Board of CROSS Industries AG; Deputy Chairman of the Supervisory Board of Pankl Racing Systems AG and CROSS Motorsport Systems AG; member of the Supervisory Board of BEKO HOLDING AG (until March 2011).

■ Hans-Jörg Hofer (born January 30, 1949)

Deputy Chairman of the Supervisory Board, businessman, independent

Initial appointment: August 19, 2005

Current term of office: until the Annual General Meeting deciding on his discharge for business year 2015

Other functions: Deputy Chairman of the Supervisory Board of KTM-Sportmotorcycle AG and SIE AG; member of the Board of Partners at Knoch, Kern GmbH & Co KG; member of the Supervisory Board at Wietersdorfer Industriebeteiligungs GmbH; CEO of JGH Trust reg.

■ Rajiv Bajaj (born December 21, 1966)

Member of the Supervisory Board, entrepreneur, independent

Initial appointment: November 30, 2007

Current term of office: until the Annual General Meeting deciding on his discharge for business year 2015

Other functions: Managing Director of Bajaj Auto Ltd.; member of the Management at Bajaj Auto Holdings, Ltd., Bajaj Auto Finance Ltd., Bajaj Holdings & Investment Ltd. and Bajaj Finserv Ltd.

■ Wolfgang Kappl (born August 12, 1960)

Member of the Supervisory Board, executive consultant, independent

Initial appointment: April 26, 2011

Current term of office: until the Annual General Meeting deciding on his discharge for business year 2015

Other functions: Independent executive consultant as well as Managing Director and shareholder at Independent Capital GmbH

■ Friedrich Lackerbauer (born March 2, 1955),

Employee Representative

Since January 12, 2006

■ Horst Resch (born April 7, 1966),

Employee Representative

Since January 12, 2006

■ Ernst Chalupsky (born May 5, 1954)

Member of the Supervisory Board, attorney, independent

Initial appointment: April 16, 1996; discharged in April 2011

In business year 2011 the Supervisory Board held five meetings.

Supervisory Board Work Methods

The Supervisory Board of KTM Power Sports AG carries out its duties on the basis of the applicable laws, Articles of Association and Rules of Procedure. In accordance with the Articles of Association, the Supervisory Board has elected a Chairman and a Deputy Chairman and has appointed an Audit Committee in order to comply with legal requirements. For further information on the Supervisory Board's work methods, please refer to the Supervisory Board report.

Committees of the Supervisory Board

■ **Audit Committee:** Hans-Jörg Hofer (Chairman of the Audit Committee and financial expert), Rudolf Knünz (member), Friedrich Lackerbauer (member)

During business year 2011 the Audit Committee held two meetings, out of which one was attended by an auditor's representative. The duties of the Audit Committee at KTM Power Sports AG are amongst others, reviewing the Executive Board's management report and group management report, the annual financial statements including the distribution of net profit and the consolidated financial statements. A report on the results of the review must then be written and submitted to the Supervisory Board. The Audit Committee also submits a recommendation to the Supervisory Board regarding the independent auditors for the next business year before their appointment is approved at the Annual General Meeting. In addition to the meetings, the Audit Committee liaises with the Executive Board at regular intervals to check the group-wide internal control system's efficiency.

Supervisory Board Compensation

The Executive Board of KTM Power Sports AG proposes remuneration for the Supervisory Board's activities in business year 2011 of TEUR 3 per meeting for the Chairman of the Supervisory Board, TEUR 2 per meeting for each member of the Supervisory Board and a one-off payment of TEUR 3 for the Audit Committee Chairman. Given their substantial interest in KTM Power Sports AG, Rudolf Knünz and Rajiv Bajaj do not receive any remuneration for their Supervisory Board duties in business year 2011. At the Annual General Meeting to be held in April 2012, remuneration

totalling TEUR 26 (previous year: TEUR 29) will be proposed for the Supervisory Board for business year 2011, which will be distributed as follows:

Independence of Supervisory Board Members

Concerning the independence of Supervisory Board members, the Supervisory Board of KTM Power Sports AG follows the guidelines given in Annex I of the Austrian Code of Corporate Governance (Österreichischer Corporate Governance Kodex). A material conflict of interests exists, if a Supervisory Board member or an enterprise in which a Supervisory Board member has a considerable economic interest generates over 15% of his, her or its total income from the company and/or a subsidiary of the company.

Measures to Increase the Number of Women on the Executive Board, Supervisory Board and in Executive Positions

KTM Power Sports AG promotes career opportunities for women in executive positions within the company and has been employing a relatively high number of women in executive positions for many years. Women held roughly 28.6% of the executive positions at KTM Power Sports AG in business year 2011.

(3) DIRECTORS' DEALINGS

All declarations on Directors' Dealings are published in due time and rendered accessible for at least three months on the KTM Power Sports AG website <http://company.ktm.com/investor-relations/corporate-governance/directors-dealings.html>.

COMPENSATION OF THE SUPERVISORY BOARD		
	2011	09/01/2010– 12/31/2010
	TEUR	TEUR
Rudolf Knünz, Chairman	0	0
Hans-Jörg Hofer, Deputy Chairman	16 ¹	19 ¹
Ernst Chalupsky, Member (until April 2011)	4	10
Wolfgang Kappl, Member (since April 2011)	6	–
Rajiv Bajaj, Member	0	0
Friedrich Lackerbauer, Employee Representative	0	0
Horst Resch, Employee Representative	0	0
TOTAL	26	29

¹ Thereof TEUR 6 (previous year: TEUR 9) for the activities as Chairman of the Audit Committee

CORPORATE GOVERNANCE AT KTM

KTM Power Sports AG is committed to sustainable and transparent corporate governance. We have undertaken to comply with the Austrian Code of Corporate Governance since the preparations for the IPO in fall 2003. The Code of Corporate Governance is not only an integral part of cooperation between the Supervisory Board and the Executive Board of KTM Power Sports AG, but also serves as a guideline for interacting with our staff, shareholders and the general public.

The Corporate Governance Report for business year 2011 (January 1, 2011 to December 31, 2011) of KTM Power Sports AG is available for downloading on the KTM website (<http://company.ktm.com/investor-relations/corporate-governance/governance-system.html>). The Austrian Corporate Governance Codex is available for downloading on the website of the Austrian Working Group for Corporate Governance (www.corporate-governance.at).

(4) COMPLY OR EXPLAIN

Since the Code became effective in 2002, the rules have successively been adapted to the legal changes in Austria. KTM implemented the amendments given in the revised and updated versions of the Code immediately, although the company would only have been required to do so at a later date.

In addition to the mandatory L Rules (legal requirements), KTM Power Sports AG complies with all the C Rules (comply or explain) in the Austrian Code of Corporate Governance as amended in January 2010 with the following restrictions:

■ **C Rule 18 (Internal auditing as a separate functional unit reporting to the Executive Board):** As the company is not large enough, it does not comply with the rule of setting up a separate internal auditing functional unit.

■ **C Rule 26 (Supervisory Board mandates in stock corporations that do not belong to the group):** Due to Stefan Pierer's functions as Chief Executive Officer and co-owner of CROSS Industries AG, the exercise of three Supervisory Board seats (three of them in Chairman positions) are required in stock corporations that do not belong to the group.

■ **C Rule 31 (fixed and performance-linked Executive Board remuneration):** This rule is not complied with, as publication of the total Executive Board remuneration broken down into fixed and variable parts is deemed adequate information for the shareholders.

■ **C Rules 39, 41, 43 (setting up of nomination and remuneration committees):** With the exception of an Audit Committee (L Rule 40), no other committees have been set up, because the Supervisory Board only consists of four shareholder and two employee representatives, and thus setting up additional committees would not improve the efficiency of the Supervisory Board's work.

■ **C Rule 49 (disclosure of contracts with companies in which a Supervisory Board member has a financial interest):** The company and its subsidiaries are advised on legal matters by Saxinger, Chalupsky & Partner Rechtsanwälte GmbH (SCWP). A partner in SCWP, Ernst Chalupsky, partner in SCWP, works as attorney and general manager. Ernst Chalupsky was discharged from the Supervisory Board in April 2011. In November 2007, KTM Power Sports AG signed an agreement with Bajaj Auto Ltd., where Rajiv Bajaj is the managing director, covering joint projects to develop new engine and vehicle platforms for small street motorcycles.

■ **C Rule 53 (independence of Supervisory Board members):** Concerning the independence of Supervisory Board members, the Supervisory Board of KTM Power Sports AG follows the guidelines given in Annex I of the Austrian Code of Corporate Governance. According to these guidelines, all members of the Supervisory Board of KTM Power Sports AG except Rudolf Knünz shall be regarded as independent.

■ **C Rule 83 (Report of the Annual Auditor on the risk management functionality):** This rule is not complied with, since the company-specific risk management is established on the affiliated-companies-level and thus, the risk management is part of the investment management due to the holding function.

(5) COMPLIANCE REGULATION FOR ISSUERS

KTM Power Sports AG applies the provisions of the Compliance Regulation for Issuers of the Austrian Financial Market Authority (FMA) to all Supervisory Board members. The Compliance Guidelines for KTM Power Sports AG are to be found on the website (<http://company.ktm.com/investor-relations/corporate-governance/governance-system.html>).

“This statement does not constitute a claim under Article 860 Austrian General Civil Code (ABGB) or pledge of use under Article 880 (a) ABGB. Where legally permissible, liability on the part of the company or its executive bodies or group companies or their executive bodies arising from failure to comply with the provisions of the Austrian Code of Corporate Governance as amended from time to time is excluded.”

(6) DISCLOSURE OF AUDITORS' FEES

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft received the following fee for the past business year from the KTM Group (see table “Fee of the auditor”).

(7) RISK MANAGEMENT

Concerning the risk report, please refer to the notes to the consolidated financial statements.

Mattighofen, March 2012



Stefan Pierer
CEO



Harald Plöckinger
COO



Friedrich Roithner
CFO



Hubert Trunkenpolz
CSO

FEE OF THE AUDITOR

	2011 TEUR
Auditing	158
Review	37
Audit related consulting	32
TOTAL	227

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GROUP STATUS REPORT

FOR BUSINESS YEAR 2011

BUSINESS DEVELOPMENT

Despite the decline on the motorcycle market in Europe and the US with a downward trend of about 5%, KTM increased its turnover in business year 2011 to EUR 526.8 million (+13.4% compared to the previous year) and sales to 81,200 motorcycles (+22.4%).

This positive development can be attributed to the launch of the 125 Duke as well as to the new Enduro Competition generation. KTM's market share in Europe increased by 30% – from 4.9% to 6.3% – compared to previous year's period, which makes KTM the most successful motorcycle brand and gives the company a competitive edge.

As already described in the notes to the consolidated financial statements, a resolution was also passed at the extraordinary general meeting on August 30, 2010 to create a short business year from September 1, 2010 to December 31, 2010 and change the balance sheet date for the annual financial statements from August 31 each year to December 31 each year. In connection with changing the balance sheet date, there is the option of selecting a reporting period longer than one year in accordance with IAS 1.36. The Executive Board therefore prepared complete consolidated financial statements for the reporting period from September 1, 2009 to December 31, 2010 (16 months).

In addition, consolidated financial statements in accordance with IFRS were prepared subsequently for the short business year from September 1, 2010 to December 31, 2010. These consolidated financial statements were subject to an annual audit and were published in the annual financial report. Regarding the AFRAC statement "Business Year of the Consolidated Financial Statements Austrian Commercial Code (UGB) vs. Stock Exchange Act (BörseG)" stated in the draft, figures from these IFRS consolidated financial statements will be used for comparison purposes. Due to the inclusion of four months in the previous year, a comparison with previous year's figures is not possible.

To ensure better comparability the figures from the 16-months reference period September 1, 2009 to December 31, 2010 are also included in the group income statement, group statement of comprehensive income, group cash flow statement and group equity development.

(1) MARKET DEVELOPMENT

Compared to the previous year (calendar year 2010) the overall **European market**¹ showed a declining development by 7.3% in business year 2011 with sales of 482,047 vehicles. This negative trend is mainly due to the decline on the biggest European markets such as Spain (–22.0%), Italy (–11.7%) and Great Britain (–8.1%). In this challenging environment KTM managed to gain market shares in essential markets like France (+1.8 percentage points compared to the previous year), Germany (+1.4 percentage points), Spain (+1.5 percentage points) and Italy (+0.8 percentage points). On the overall European market KTM increased its market share by 1.4 percentage points to 5.8%.

Registrations on the overall **US market**² increased in business year 2011 compared to the previous year (calendar year 2010) by 0.4% to 379,595 vehicles. Compared to the previous year KTM managed to increase its market share in this market environment on the overall US market by 0.4 percentage points to 2.9%.

(2) TURNOVER DEVELOPMENT BY REGIONS

Compared to the previous year the group turnover increased by 300.4%, from EUR 131.6 million to EUR 526.8 million. The turnover in North America increased by 340.6% to EUR 106.5 million,

¹ Motorcycles above 120 cc without motocross, scooters and ATVs

² Motorcycles above 120 cc including motocross without scooters and ATVs

GROUP TURNOVER BY REGIONS	2011		09/01/2010– 12/31/2010 TEUR	Change in %
	TEUR	in %		
Europe	329,073	62.5%	86,883	278.8%
North America	106,537	20.2%	24,182	340.6%
Other countries	91,191	17.3%	20,519	344.4%
TOTAL	526,801	100.0%	131,584	300.4%

which equals 20.2% of the overall turnover (+1.8 percentage points compared to the previous year). In Europe the turnover in comparison to the previous year grew by 278.8% to EUR 329.1 million. Here the share in the overall turnover amounts to 62.5% (-3.5 percentage points compared to the previous year). In the rest of the world the turnover increased by 344.4% to EUR 91.2 million. The share in the overall turnover in the rest of the world amounts to 17.3% (+2.0 percentage points compared to the previous year).

(3) SALES BY REGIONS

With a share in total sales of 18.0% in business year 2011 the USA remain the biggest single market for KTM. In Europe the share in total sales amounted to 55.2%, out of which France (10.8%), Italy (8.9%), Germany (9.7%), Great Britain (6.0%) and Spain (5.1%) were the strongest markets in terms of sales. In total 75.6% of the overall sales were generated in the ten most important countries.

(4) TURNOVER BY PRODUCT GROUPS

Compared to the previous year the share of motorcycles including sportminicycles, ATVs and X-Bows in the overall turnover increased by 4.9 percentage points to 80.8% (previous year 75.9%). The turnover in the off-road segment increased by 272.1% to EUR 267.5 million. Also in the street segment turnover increased compared to the previous year by 618.3% to EUR 131.4 million. Turnover from the spare part business as well as from the power wear and power parts segment increased by 219%.

(5) SALES BY PRODUCT GROUPS

In the past business year 2011 KTM sold 81,200 vehicles; thereof 80,404 motorcycles (+318.4% compared to the previous year), 742 ATVs (+100% compared to the previous year) and 54 X-Bows (+260.0% compared to the previous year).

GROUP TURNOVER BY PRODUCT GROUPS	2011		09/01/2010– 12/31/2010 TEUR	Change in %
	TEUR	in %		
Off-road sportmotorcycles	267,541	50.8%	71,908	272.1%
Street sportmotorcycles	131,426	24.9%	18,296	618.3%
Full Size	398,967	75.7%	90,204	342.3%
Sportminicycles	19,829	3.8%	7,340	170.1%
ATVs (All Terrain Vehicles) / Sportquads	4,277	0.8%	1,802	137.3%
X-Bows	2,485	0.5%	486	411.3%
Related products and others	101,243	19.2%	31,752	218.9%
TOTAL	526,801	100.0%	131,584	300.4%

GROUP SALES BY PRODUCT GROUPS	2011		09/01/2010– 12/31/2010 TEUR	Change in %
	TEUR	in %		
Off-road sportmotorcycles	51,146	63.0%	13,889	268.2%
Street sportmotorcycles	21,918	27.0%	2,619	736.9%
Full Size	73,064	90.0%	16,508	342.6%
Sportminicycles	7,340	9.0%	2,707	171.1%
Motorcycles	80,404	99.0%	19,215	318.4%
ATVs (All Terrain Vehicles) / Sportquads	742	0.9%	371	100.0%
X-Bows	54	0.1%	15	260.0%
TOTAL	81,200	100.0%	19,601	314.3%

In the **off-road segment** 51,146 motorcycles were sold (+268.2 compared to the previous year). Compared to the previous year, sales in the motocross segment increased by 736.9% to 14,341 motorcycles and in the Enduro segment by 351.3% to 36,805 motorcycles.

In the **street segment** 21,918 motorcycles were sold (+736.9% compared to the previous year). The increased sales in the street segment can be mainly attributed to the launch of the 125 Duke, which was sold 8,355 times in the previous business year.

In the **sportminicycle segment** sales increased by 171.1% compared to the previous year to 7,340 motorcycles.

(6) PERFORMANCE ANALYSIS

In business year 2011 the **net sales** increased by 300.4% to EUR 526.8 million (previous year: EUR 131.6 million). The manufacturing costs increased as well compared to the previous year by 311.8% to EUR 371.8 million; the gross margin decreased by 2.0 percentage points compared to last year to 29.4%. Overheads increased by EUR 90.2 million to EUR 124 million (+267.0%).

Costs for distribution and marketing have risen by EUR 41.8 million (+246.8%) compared to the previous year. Motorsport expenses increased as well compared to the previous year by EUR 10.2 million to EUR 13.2 million (+335.7%).

Expenses for infrastructure and administration rose by EUR 15.3 million to EUR 20.9 million (+277.4%).

The operative development costs increased by EUR 23.5 million to EUR 33.2 million (+242.3%) in business year 2011. The higher net activation of development costs in the amount of EUR 4.8 million (+300.0% compared to the previous year) as well as the consideration of funding for research in the amount of EUR 4.4 million (+63.0 compared to the previous year) lead to net development expenses in the amount of EUR 23.1 million (+299.4% compared to the previous year).

Other operative expenses in the amount of EUR 9.2 million mainly comprise warranty costs, which have increased compared to the previous year by EUR 6.5 million to EUR 9.1 million (+252.2%).

The EBIT increased by EUR 23.5 million to EUR 31.0 million (previous year: EUR 7.5 million).

On the basis of the current mid-term planning, an impairment test for all assets was carried out. This test assumes a discount factor

of 7.73% (equaling the untaxed group-WACC) as well as a growth parameter of 2% for the periods “six to ten” and for the perpetuity. As a result there is a sufficient coverage of book values of all assets in the expected future group cash flows. The calculation is based on a group tax rate of 25% of earnings before tax. The results of the impairment tests are very sensitive due to the growth parameter, the EUR/USD exchange rate as well as the group-WACC tax rate. The calculation was carried out based on the USD exchange rate of 1.40 as well as a group-WACC tax rate of 7.73% for the perpetuity. A sensitivity analysis shows, under similar conditions, a sufficient coverage of book values of all assets up to an EUR/USD exchange rate of 1.50 as well as a group-WACC tax rate of 10.7% for the perpetuity. A sufficient coverage of the book value of all assets is given at a decrease of future planned cash flows up to 40%.

In business year 2011 the financial result deteriorated compared to the previous year by EUR 7.3 million to EUR –11.9 million (–156.9%). This can be attributed to higher interest expenses in the amount of EUR 9.7 million (previous year: EUR 4.3 million) faced by a negative evaluation of financial instruments in the amount of EUR 2.9 million (previous year: EUR 0.8 million). The interest earnings increased to EUR 0.8 million (previous year: EUR 0.4 million).

(7) BALANCE SHEET ANALYSIS

The **balance sheet total** increased compared to the previous year by 9.1% to EUR 485.8 million.

Trade receivables including receivables towards affiliated companies decreased by EUR 3.7 million to EUR 53.6 million (–6.4%). Under consideration of receivables sold in the course of an ABS transaction last year and in the current year the results show an increase in receivables by about EUR 0.5 million (+0.6%). In business year 2011 **inventory** increased by EUR 5.1 million to EUR 114.0 million (+4.7%). This increase can be mainly attributed to increased inventories of raw materials, consumables and factory supplies. The inventory levels of finished vehicles remained the same compared to the previous year.

Other **short-term assets** increased by EUR 2.5 million (+34.2%) and mainly comprise receivables towards financial authorities and valuations from derivative financial instruments. **Long-term assets** increased as well by EUR 30.1 million (+11.5%) to EUR 291.9 million (60.1% of the balance sheet total). The increase of intangible assets mainly results from higher activated development costs whereas the increase of tangible fixed assets can be mainly attributed to the initial consolidation of KTM Immobilien GmbH.

The set-up of the balance sheet total is to be found in the following items on the liability side: **Short-term bank loans** were reduced by EUR 8.6 million to EUR 5.4 million compared to the previous year. Trade accounts payable including trade accounts payable towards affiliated companies increased by EUR 19.9 million to EUR 65.6 million. Accounts payable towards associated group companies slightly decreased by EUR 0.3 million to EUR 2.6 million compared to the previous year. Accounts payable for taxes rose by EUR 1.4 million to EUR 1.5 million compared to the previous year. The remaining accounts payable were reduced mainly due to the market assessment of derivatives by EUR 4.7 million. Provisions increased by EUR 0.3 million (+7.4%) to EUR 4.3 million, in particular in the area of warranty provisions as well as in the area of provisions for litigation expenses.

Compared to the previous year **long-term bank loans** increased by EUR 2.9 million to EUR 132.9 million. The **net indebtedness** decreased as a result of the positive free cash flow by EUR 25.2 million to EUR 125.0 million, thus the gearing ratio amounts to 56.9%. With EUR 7.7 million **personnel expenses** slightly increased by EUR 1.2 million.

The **deferred taxes** decreased by EUR 1.3 million, whereas other long-term accounts payable increased compared to the previous year by EUR 0.5 million.

The **long-term accounts payable** towards affiliated companies were reduced completely by EUR 13.0 million due to the initial consolidation of KTM Immobilien GmbH and the resulting discontinuation of finance lease payables in the KTM Group.

Compared to the previous year the **equity capital** increased by EUR 43.0 million. Apart from the profit generated in business year 2011 in the amount of EUR 20.7 million, the capital increase in June 2011 in the amount of EUR 13.5 million and the change in the cash flow hedge reserve in the amount of EUR 8.5 million were responsible for this result. Thus the equity ratio, which was declared on December 31, 2011 amounts to 45.2% (last year 39.7%).

(8) LIQUIDITY ANALYSIS

The operative group cash flow increased by EUR 49.9 million to EUR 70.3 million compared to the previous year. The working capital lay above previous year's level by EUR 11.5 million with EUR 19.4 million. Under consideration of disinvestments of EUR -12.0 million investments increased to EUR -37.3 million resulting in an increase of the free cash flow at balance sheet date by EUR 8.4 million to EUR 33.1 million.

The group cash flow from financing activities amounts to EUR -27.1 million (previous year: EUR -11.5 million) and results mainly from the repayment of bank loans.

Liquid assets were significantly above previous year's level with EUR 15.0 million.

(9) INVESTMENTS

For the further development of the already existing product range as well as of new products in the off-road and street segment the company primarily invested in the development and purchase of tools in the past business year 2011. In business year 2011 the company invested EUR 39.1 million in total (previous year: EUR 12.7 million) (not considering disinvestment measures), whereof EUR 10.6 million can be allotted to investments in tangible fixed assets and EUR 25.3 million to activated development expenses (previous year: EUR 6.5 million).

(10) EMPLOYEES

In business year 2011 KTM employed 1,632 employees on average (previous year: 1,565 employees), out of which 269 employees were working abroad. The turnover per employee increased by 283.9% to TEUR 322.8 (previous year: TEUR 84.1). The value added per employee increased compared to the previous year by 394.9% to TEUR 87.5 (previous year: TEUR 17.7).

REVENUE AND TURNOVER PER EMPLOYEE		
	2011	09/01/2010– 12/31/2010
Revenue	526,801	131,584
Average payroll	1,632	1,565
Turnover per employee	322.8	84.1
Value added per employee	87.5	17.7

(11) RESEARCH AND DEVELOPMENT

In business year 2011 KTM employed on average 220 employees in the research and development department (13.5% of the total workforce). About EUR 33.2 million were invested in research and development in the past business year 2011, which equals 6.3% of the total turnover (-1.1 percentage points compared to the previous business year).

(12) RACING

Decades of commitment in racing, which lead to 203 world championship titles and eleven victories at the Rallye Dakar series – the toughest rallye in the world – strengthened the popularity of the brand on the one hand and also bound our target group emotionally to the diverse brand environment of KTM on the other hand. In addition, KTM profits in terms of technology from the racing segment, since the know how from racing can be applied for the series production.

In the past business year 2011 KTM invested EUR 17.5 million in racing, which equals 3.3% of the total turnover (previous year: 2.9%).

(13) FINANCIAL INSTRUMENTS

Concerning the use of financial instruments and the related risk management goals, please refer to the notes to the consolidated financial statements.

(14) QUALITY

KTM applies a process-oriented quality management system to all activities from the product idea through market analyses, design studies, engineering and development, cooperation with suppliers, purchasing of components for manufacture, parts production, assembly of the engine and vehicle to packaging and shipping.

Product Quality

High product quality is achieved with design geared to production, the use of analytical and statistical calculation methods, comprehensive testing and inspection, meeting the relevant homologation requirements, focusing on process quality, communication and training both at KTM and the suppliers.

Process Quality

The auditors at TÜV Süd LG Austria (Technical Inspection Authority) have certified that KTM has exceeded the requirements of EN ISO 9001:2000 and the German Federal Motor Transport Authority (KBA).

(15) RISK REPORT

Concerning the risk report, please refer to the notes to the consolidated financial statements.

(16) SUSTAINABILITY**Commitment to Sustainability**

KTM creates added value for society and shareholders with strategic leadership, focusing on developing core strengths, continuous improvement of work processes, treating employees and suppliers as partners, and the process-oriented quality management system. With 1,363 people on average working at the facilities in Mattighofen, KTM is one of the largest employers in the region.

However, KTM takes every opportunity to meet the sustainability demands of a modern company. The production and administration buildings, for example, are energy efficient and economical on resources, air conditioning for the testing rooms and the tool shop is controlled with groundwater, and we separate various materials for preliminary and finished products, and use returnable containers.

Suppliers

The manufacturing company in Mattighofen/Austria uses locally sourced products for meeting most of its needs (around 21% within a radius of 100 km, around 29% within a radius of 200 km; around 43% within a radius of 300 km; over 50% within a radius of 400 km), which means that KTM plays a proactive role in creating and maintaining regional value added.

To minimize risks and ensure the availability of materials, we at KTM attach great importance to selecting new suppliers according to defined criteria and promoting or developing sustainable cooperation with existing suppliers. As the quality of KTM products depends to a great extent on the quality and properties of the subcomponents to be procured, we pay particular attention to the supplier's credit rating, manufacturing facilities and production processes.

Recycling and Packaging

As a manufacturing company, KTM is fully aware of its responsibility towards the environment. Setting an innovative example for

the entire industry, we have developed a special KTM motorcycle logistics system on reusable metal plates, which dispenses with the need for additional packaging material.

Human Resources

KTM aims to offer our employees a path to personal development. It is only with our people's experience and expertise, creativity, willingness to innovate and productivity that the company's goals can be achieved.

In order to continuously improve employees' skills and qualifications, we regularly invest in their training and development. KTM spent TEUR 28.0 in this area in the past business year 2011 (previous year: TEUR 100.2). Apprentices in Mattighofen are trained in mechanical engineering, automotive and production technology, mechatronics and administration with the aim of integrating them in the relevant fields and, after they complete the course, employing them at KTM in the long term. As of the balance sheet date, KTM employed 80 apprentices, demonstrating our clear commitment to long-term apprentice training at the company.

Furthermore, KTM also gives employees the opportunity to prepare for the apprenticeship examination after work. This enables KTM employees who do not have any formal training to gain qualifications while working and pursue personal development.

The in-house toddler's group, which was introduced in February 2012, underlines KTM's social commitment. Moreover, this innovation shall also facilitate employees' re-entry into working life.

Health and Safety

To ensure continuous improvement in the field of occupational health and safety, KTM also takes preventive action regarding general safety in the workplace, fire protection and machine safety, holds various seminars on topics related to health and safety, promotes health at work, and implements measures for providing suitable workplaces (including lighting, heights, layout of equipment, and use of tools). With the "Ready to Run" fitness program KTM gives employees the chance to take part in weekly walking, mountain biking and jogging training sessions.

Production Reliability

When designing and continuously improving work processes, KTM makes sure to provide a safe working environment for the staff. This includes frequent training courses and instructions, regular service and maintenance of production facilities, and a high level of technology.

Quality Management

KTM meets the challenge of manufacturing innovative, market-driven, top-quality and above all safe products with a comprehensive, process-oriented quality management system certified to ISO 9001:2008. The system controls all the processes from the product idea through market analyses, design studies, development, engineering, cooperation with suppliers, component purchasing, parts production, assembly of the engine and vehicle, shipping, sales and customer service. We attach particular importance to the continuous improvement process, which ensures consistent and sustainable improvements in the quality of products and services.

Product Safety

Up to 321 motorcycles a day are assembled in Mattighofen, Austria. Experienced KTM staff inspects each vehicle component in accordance with a quality control plan. After assembly, each KTM motorcycle also undergoes a complete function check on the dynamometer. Thorough in-process product audits on engines and vehicles ensure the high standard of quality in production. Only then are KTM products ready for shipping worldwide.

Our factory teams put the KTM employees' development work to the test on the race tracks right from the prototype stage. In addition, a testing and endurance program at all prototype and manufacturing stages ensures a series production product that meets the highest quality and safety standards. Therefore only innovative and tested concepts are adapted to volume production and merit the rating "Ready to Race".

Environmental Indicators

KTM meets Euro 3, the European emission standard for motorcycles, with all off-road carburetors (EXC models). The standard not only applies to new, but also existing vehicle types. We primarily achieve compliance by using fuel injection systems.

Wings for Life

KTM supports the Wings for "Life Spinal Cord Research Foundation", which was set up by Heinz Kinigadner, in all marketing issues in connection with KTM. Wings for Life is a non-profit organization which follows the principal aim of promoting research worldwide in order to expedite scientific and clinical progress towards a putative cure for spinal cord injury (SCI) paralysis.

Key Agreements

Concerning refinancing, please refer to item (21) in the notes to the consolidated financial statements.

(17) EVENTS AFTER THE BALANCE SHEET DATE

Concerning the events of particular significance after the balance sheet date, please refer to item (31) in the notes to the consolidated financial statements. Other events after the balance sheet date that are material to the valuation of the assets and debts are either taken into account in the present financial statements or not known.

(18) INFORMATION REQUIRED ACC. TO ARTICLE 243a UGB

As at December 31, 2011 the share capital amounted to TEUR 10,509 and is divided into 10,509,000 bearer shares with a nominal value of EUR 1.00 each. The shares grant the usual rights to the holder as set forth in the Austrian Stock Corporation Law. Included is the right to receive a dividend as per resolution at the shareholders' meeting and the right to exercise share voting rights at the shareholders' meeting. All the shares are approved for trading on the Vienna stock exchange. They were on the prime market until September 20, 2009 and have been on the mid-market since September 21, 2009.

Shareholders with over 10% of the share capital on the balance sheet date and at the time of preparing the financial statements:

- CROSS Industries AG: 50.2%
- Bajaj Auto Ltd. (via Bajaj Auto Holdings Ltd.): 40.9%

In connection with the Province of Upper Austria guarantee mentioned under item (21) Liabilities in the notes to the consolidated financial statements for business year 2011, CROSS Industries AG, Wels, undertook not to reduce its interest in KTM Power Sports AG during the term of the contract below 48.5% plus one share without prior written permission from the Province of Upper Austria.

Concerning the Board's option of issuing shares, please refer to the explanations on authorized capital under item (25) Group Equity in the notes to the consolidated financial statements.

In the event of a change in control, Executive Board members Harald Plöckinger and Hubert Trunkenpolz have the right to terminate their employment contracts that run until December 31, 2015 without renouncing any claims. The same shall apply for CROSS Industries AG, which has concluded a transfer agreement for Mr. Friedrich Roithner with KTM Power Sports AG until June 30, 2013. Under this agreement, there is a change in control in accordance with Article 22 (2) Takeover Law if CROSS Industries AG, Wels, does not directly or indirectly hold at least 50% of the voting rights in KTM Power Sports AG. There are no compensation agreements between the company and the Supervisory Board members and employees in the event of a change in control. Other important agreements that would be affected by a change in control or public takeover offer do not exist.

(19) OUTLOOK

According to recent prognoses the European and the American overall markets will further show a decline or even stagnate in 2012. Therefore, KTM made a further step towards implementing a global product strategy and expanding on the Asian market.

On January 24, 2012 the 200 Duke was presented to the public for the first time in New Delhi. With this motorcycle, which was developed in cooperation with Bajaj, KTM initially enters the Indian market and expects sales of over 20,000 motorcycles. The 200 Duke is the first KTM model, which is available world-wide.

Thus, KTM expects a further increase in turnover and sales for 2012.

Mattighofen, on February 20, 2012



Stefan Pierer
CEO



Harald Plöckinger
COO



Friedrich Roithner
CFO



Hubert Trunkenpolz
CSO

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CONSOLIDATED INCOME STATEMENT

FOR BUSINESS YEAR 2011

TEUR	Note	2011	09/01/2010– 12/31/2010	09/01/2009– 12/31/2010
Net sales	(5)	526,801	131,584	591,379
Cost of goods sold	(6)	(371,752)	(90,266)	(414,210)
Gross margin		155,049	41,318	177,169
Selling and sport-activity expenses	(6)	(71,952)	(19,975)	(79,712)
R&D expenses	(6)	(23,099)	(5,784)	(28,777)
Infrastructure and administration expenses	(6)	(20,870)	(5,530)	(27,214)
Other operating expenses	(8)	(9,206)	(2,785)	(12,284)
Other operating income	(9)	1,088	276	779
Operating result		31,009	7,521	29,961
Interest income		768	405	1,415
Interest expenses		(9,693)	(4,256)	(18,392)
Other financial and participation result	(10)	(2,975)	(781)	739
Pre-tax result		19,109	2,889	13,723
Tax on income and earnings	(11)	1,709	(229)	240
NET RESULT		20,818	2,660	13,963
<i>Thereof net result to owners</i>		<i>20,719</i>	<i>2,614</i>	<i>13,910</i>
<i>Thereof net result to non-controlling shareholders</i>		<i>99</i>	<i>46</i>	<i>53</i>
EARNINGS PER SHARE (EUR)				
Basic	(12)	2.003	0.259	1.545
Diluted	(12)	1.968	0.265	1.551

The following notes to the consolidated financial statements are an integral part of the income statement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR BUSINESS YEAR 2011

TEUR	Note	2011	09/01/2010– 12/31/2010	09/01/2009– 12/31/2010
Net result of the business year		20,818	2,660	13,963
Currency conversion		107	84	311
Valuation of cash flow hedges	(25)	11,393	816	(18,963)
Deferred tax on the valuation of cash flow hedges	(25)	(2,848)	(85)	4,860
Other income		8,652	815	(13,792)
TOTAL INCOME		29,470	3,475	171
Thereof net result to owners		29,371	3,429	118
Thereof net result to non-controlling shareholderes		99	46	53

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31

ASSETS

TEUR	Note	12/312011	12/31/2010
SHORT-TERM ASSETS			
Liquid assets	(13)	14,962	8,946
Accounts receivable – trade to third parties	(14)	49,924	53,087
Accounts receivable – trade to affiliated companies	(31)	1,443	1,040
Accounts receivable – trade to associated comanies		2,227	3,130
Inventory	(15)	113,979	108,910
Prepayments		1,649	1,169
Other short-term assets	(14)	9,701	7,231
		193,885	183,513
LONG-TERM ASSETS			
Financial fixed assets	(16)	7,458	6,222
Tangible fixed assets	(17, 18)	84,256	63,204
Goodwill	(17, 19)	78,793	78,492
Intangible fixed assets	(17, 20)	118,202	110,118
Deferred taxes	(11)	3,132	3,725
Other long-term assets		49	51
		291,890	261,812
ASSETS		485,775	445,325

EQUITY AND LIABILITIES

TEUR	Note	12/31/2011	12/31/2010
SHORT-TERM LIABILITIES			
Bank loans	(21)	5,415	14,061
Accounts payable – trade to third parties		54,578	37,725
Accounts payable – trade to affiliated companies	(21, 31)	11,062	7,979
Accounts payable – trade to associated companies	(21, 31)	2,600	2,895
Provisions	(23)	4,238	3,993
Liabilities – corporate tax		1,470	33
Prepayments		735	1,614
Other short-term liabilities	(21)	29,256	33,926
		109,353	102,226
LONG-TERM LIABILITIES			
Interest-bearing loans	(21)	132,898	129,957
Liabilities for personnel	(24)	7,699	6,479
Liabilities from deferred taxes	(11)	14,560	15,851
Liabilities to affiliated companies		0	13,021
Other long-term liabilities		1,490	1,005
		156,648	166,313
SHAREHOLDER'S EQUITY			
Share capital	(25)	10,509	10,109
Reserves including retained earnings	(25)	208,987	166,593
Non-controlling shares		279	84
		219,775	176,786
EQUITY AND LIABILITIES		485,775	445,325

The following notes to the consolidated financial statements are an integral part of the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

FOR BUSINESS YEAR 2011

TEUR	2011	09/01/2010– 12/31/2010	09/01/2009– 12/31/2010
CONSOLIDATED CASH FLOW FROM OPERATING ACTIVITIES			
+ (–) Profit (loss) of the business year	20,818	2,660	13,963
+ (–) Profit (loss) of non-controlling shareholders	(99)	(46)	(53)
+ (–) Depreciation (write-up) of fixed assets	33,368	10,657	42,793
+ (–) Depreciation (write-up) to financial assets	118	0	0
+ (–) Deferred taxes	(3,352)	229	(437)
– Results from consolidation not affecting income	(649)	0	0
– Results from companies validated at-equity not affecting income	(657)	(614)	(786)
+ (–) Addition (disposal) of liabilities for personnel	1,432	(405)	537
– (+) Profit (loss) from the sale of fixed assets	(59)	(11)	(256)
Consolidated cash flow from earnings	50,919	12,470	55,761
– (+) Increase (decrease) in inventories including prepayments	(5,069)	(14,564)	11,766
– (+) Increase (decrease) in accounts receivable – trade, prepayments, other short- and longterm assets	831	43,650	23,738
– (+) Increase (decrease) in accounts receivable – trade from affiliated companies	430	(100)	730
– (+) Increase (decrease) in accounts receivable – trade from associated companies	903	3,762	3,984
(+)– Increase (decrease) in accounts payable – trade, prepayments and other short-term and long-term liabilities	16,346	(19,232)	86
(+)– Increase (decrease) in accounts payable – trade from affiliated companies	3,083	(4,539)	(1,159)
(+)– Increase (decrease) in accounts payable – trade from associated companies	(295)	(130)	259
(+)– Increase (decrease) from corporate taxes, deferred taxes and other provisions	3,201	(928)	(8,349)
	19,429	7,919	31,055
Cash flow from operating activities	70,348	20,389	86,816

TEUR	2011	09/01/2010– 12/31/2010	09/01/2009– 12/31/2010
CONSOLIDATED CASH FLOW FROM INVESTMENT ACTIVITIES			
– Investments in fixed assets (outflow of funds for investments)	(37,705)	(10,259)	(34,401)
– Investments in financial assets	(697)	(2,047)	(1,199)
(+)– Changes from first/final consolidation	273	0	(1,133)
+ Disposal of fixed assets (inflow of funds from sales: book value + profit (– loss) from the disposal of fixed assets)	871	116	1,264
(+)– Currency rate differences from fixed assets	(13)	221	(608)
Consolidated cash flow from investment activities	(37,271)	(11,969)	(36,077)
CONSOLIDATED CASH FLOW FROM FINANCING ACTIVITIES			
+ (–) Currency rate differences	33	84	289
+ Capital increase	1,095	0	29,358
+ (–) Increase (decrease) of short-term bank loans	(8,646)	(28,417)	(47,685)
+ (–) Change in liabilities to affiliated and associated companies	(259)	(189)	(14,238)
+ (–) Increase (decrease) in long-term interest bearing loans	(19,479)	17,018	(12,915)
+ (–) Changes in non-controlling interests	196	47	53
+ (–) Change deconsolidation Cost Plus subsidiaries	0	0	(610)
Consolidated cash flow from financing activities	(27,060)	(11,457)	(45,748)
CONSOLIDATED CASH FLOW			
+ (–) Consolidated cash flow from operating activities	70,348	20,389	86,816
+ (–) Consolidated cash flow from investment activities	(37,271)	(11,969)	(36,077)
+ (–) Consolidated cash flow from financing activities	(27,060)	(11,457)	(45,748)
Change in the liquidity of the group	6,017	(3,037)	4,991
+ Starting cash and cash equivalents of the group	8,946	11,983	3,955
CASH AND CASH EQUIVALENTS OF THE GROUP AS AT DECEMBER 31	14,962	8,946	8,946
<i>Consisting of: cash in hand, cheques, cash at bank and term deposits</i>	<i>14,962</i>	<i>8,946</i>	<i>8,946</i>
Interest paid	10,052	5,437	19,050
Taxes paid	547	63	542

The following notes to the consolidated financial statements are an integral part of the consolidated cash flow statement.

DEVELOPMENT OF THE GROUP'S EQUITY CAPITAL

FOR BUSINESS YEAR 2011

TEUR	Nominal capital	Reserves incl. net result for the business year	Revaluation reserve	Cash flow hedge reserve	Currency translation adjustments	Total	Shares of non-controlling interests	Total share capital
As at August 31, 2009	7,580	109,605	17,235	455	(411)	134,464	0	134,464
Currency conversion	0	0	0	0	227	227	0	227
Financial instruments	0	0	0	(14,834)	0	(14,834)	0	(14,834)
Profit and loss directly recognized in equity	0	0	0	(14,834)	227	(14,607)	0	(14,607)
Result of the business year	0	11,296	0	0	0	11,296	7	11,303
Total profit and loss recognized in equity	0	11,296	0	(14,834)	227	(3,311)	7	(3,304)
Capital increase	2,529	40,473	0	0	0	43,002	0	43,002
Cost of capital increase	0	(844)	0	0	0	(844)	0	(844)
Change in non-controlling interests	0	(38)	0	0	0	(38)	31	(7)
As at August 31, 2010	10,109	160,492	17,235	(14,379)	(184)	173,273	38	173,311
Currency conversion	0	0	0	0	84	84	0	84
Financial instruments	0	0	0	731	0	731	0	731
Profit and loss directly recognized in equity	0	0	0	731	84	815	0	815
Result of the business year	0	2,614	0	0	0	2,614	46	2,660
Total profit and loss recognized in equity	0	2,614	0	731	84	3,429	46	3,475
As at December 31, 2010	10,109	163,106	17,235	(13,648)	(100)	176,702	84	176,786
Currency conversion	0	0	0	0	105	105	0	105
Financial instruments	0	0	0	8,545	0	8,545	0	8,545
Profit and loss directly recognized in equity	0	0	0	8,545	105	8,650	0	8,650
Result of the business year	0	20,719	0	0	0	20,719	99	20,819
Total profit and loss recognized in equity	0	20,719	0	8,545	105	29,369	99	29,469
Capital increase	400	13,600	0	0	0	14,000	0	14,000
Cost of capital increase	0	(480)	0	0	0	(480)	0	(480)
Change in non-controlling interests	0	(96)	0	0	0	(96)	96	0
AS AT DEZEMBER 31, 2011	10,509	196,849	17,235	(5,103)	5	219,495	279	219,775

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR BUSINESS YEAR 2011

I. THE COMPANY

KTM Power Sports AG is located at Stallhofnerstrasse 3, Mattighofen, Austria, and registered with the Regional Court in Ried im Innkreis, commercial register certificate number FN 107673v.

KTM Power Sports AG develops, produces and distributes motorized recreational vehicles (Power Sports), in particular under the brands “KTM” and “Husaberg”, and also participates in companies that develop, manufacture and sell such products. As at December 31, 2011, the KTM Group comprised 13 subsidiaries in Austria, Switzerland, the United States, Japan, South Africa, Mexico and Greece, which are included in the consolidated financial statements. In addition, the KTM Group included 16 sales subsidiaries in EU countries (Sweden, Switzerland, the Netherlands, Germany, United Kingdom, France, Spain, Italy, Belgium, Hungary, Slovenia, Slovakia, Finland, the Czech Republic and Austria) as well as in Canada that were deconsolidated on May 31, 2010 and will be rated at-equity in the future in order to keep administrative costs low. Furthermore, the KTM Group holds shares in general importers in important distribution markets (New Zealand and Dubai), as well as shareholdings in several flagship stores in Austria and Germany.

The group's key markets are the United States, France, Germany, Italy, Australia, United Kingdom, Spain, Austria, Canada and other European countries.

The Extraordinary General Meeting of August 30, 2010 passed – among others – the resolution to constitute an abridged fiscal year for the period of September 1, 2010 to December 31, 2010 and to change the group's balance sheet date for the annual financial statements from August 31 to December 31.

When changing the balance sheet date, it is possible – in accordance with IAS 1.36 – to determine a reporting period that is longer than a calendar year. Therefore the Executive Board has set up consolidated financial statements for the period of September 1, 2009 to December 31, 2010 (16 months).

Additionally, consolidated financial statements according to IFRS for the abridged period from September 1, 2010 to December 31, 2010 were set up, audited and published with the annual report. Based on the AFRAC statement available in draft form “Financial year of the group statements UGB [Austrian Business Code] vs. BörseG [Stock Exchange Act]”, the figures of the IFRS group statements for the abridged period are used for comparison. Due to the four month consolidation accounting, the prior year figures cannot be compared.

The consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow and the consolidated development of the group's equity capital show the figures for the 16 month period from September 1, 2009 to December 31, 2010 for better comparison.

The consolidated financial statements as at December 31, 2011 were drawn up by CROSS Industries AG for the largest number of companies.

II. PRINCIPLES OF ACCOUNTING AND BALANCING AND VALUATION METHODS

(1) PRINCIPLES OF ACCOUNTING

The consolidated financial statements for the years ended December 31, 2010 and December 31, 2011 were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) where they are adopted in the European Union.

The consolidated financial statements are set up in Euro, the functional currency of the parent company. All amounts are, unless otherwise stated, in thousand Euros (TEUR), whereby differences from rounding may occur.

The consolidated financial statements were authorized by the Executive Board on February 20, 2012 for presentation to the Supervisory Board.

The IASB has released the following revisions of existing IFRS as well as several new IFRS and IFRIC, already adopted by the European Union and mandatory applicable since January 1, 2011.

- IAS 24 (revised 2009): Related party disclosure
- IAS 32 (amendment): Changes regarding the classification of rights issues
- IFRS 1 (amendment): Limited Exemption from Comparative IFRS 7 Disclosures for first-time Adopters
- IFRIC 14 (amendment): Prepayments of a minimum funding requirement
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments
- Revisions in several IFRS resulting from the improvement process 2010

Due to the first-time adaption of the listed IFRS there were no major effects on the financial and valuation methods compared to the previous year.

The IASB and IFRIC have passed further standards and interpretations, which however are not yet binding in business year 2011 and have not yet been adopted by the EU Commission. These standards and interpretations are as follows.

	Coming into force ¹	EU Endorsement
IFRS 7: Information requirements for the transfer of financial assets	07/01/2011	07/01/2011
IAS 1 (amendment): Description of facts and circumstances in the other results	07/01/2012	— ²
IAS 12 (amendment): Deferred taxes on real estate held as a financial investment	01/01/2012	— ²
IAS 19 (revised 2011): Employee Benefits	01/01/2013	— ²
IAS 27 (revised 2011): Separate Financial Statements	01/01/2013	— ²
IAS 28 (revised 2011): Investments in Associates and Joint Ventures	01/01/2013	— ²
IAS 32 (amendment): Balancing of financial assets and liabilities	01/01/2014	— ²
IFRS 1 (amendment): Hyperinflation and replacment of the fixed conversion moment for the first time use of IFRS	07/01/2011	— ²
IFRS 7 (amendment): Information on the notes – balancing of financial assets and financial debt	01/01/2013	— ²
IFRS 9: Financial Instruments	01/01/2015	— ²
IFRS 10: Consolidated financial statements	01/01/2013	— ²
IFRS 11: Joint Arrangements	01/01/2013	— ²
IFRS 12: Disclosure of interests in other entities	01/01/2013	— ²
IFRS 13: Fair Value Evaluation	01/01/2013	— ²
IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine	01/01/2013	— ²

¹ Applicable to business years that start on or after the date stated (according to IASB)

² Not yet adopted

The planned revision of IAS 19 “Employee Benefits” will have a considerable impact on the recognition and valuation of the expenses for defined benefit pension plans and severance payments as well as reporting requirements for employee benefits. For the KTM Group the major changes include the recognition of actuarial profit and loss upon accrual in the “other income”, the OCI. Their immediate recognition in profit or loss is no longer admissible.

The previous valuation criteria of IAS 39 were changed by IFRS 9 “Financial Instruments – Classification and Measurement” issued in November 2009. Their attribution to the category “amortized cost” depends on the business model and product characteristics of the individual company. Instruments, which do not fulfill the characteristics of the “amortized cost” category, are valued at fair value through profit or loss. Their effect on the consolidated financial statements is currently under evaluation.

Other effects on the consolidated financial statements of KTM Power Sports AG are not expected. A premature application of the new standards and interpretations is not planned.

The accounting of the companies included in the group financial statements is based on the standardized accounting principles. These principles were applied by all of the companies included. The individual closings of the most important subsidiaries are equal to the cut-off date for the consolidated financial statements.

The financial statements included for all the key fully consolidated domestic and foreign companies that are subject to auditing under national regulations or undergo auditing voluntarily were audited by independent auditors and provided with unqualified audit certificates.

(2) BASIS OF CONSOLIDATION

All key subsidiary companies that are under the legal or constructive control of KTM Power Sports AG are included in the consolidated financial statements of KTM Power Sports AG. Accordingly, the KTM Group includes 13 companies (thereof eight foreign companies and five Austrian companies) apart from the parent company of the group by way of full consolidation. The companies included in the consolidated financial statements are stated in the list of equity interests as at December 31, 2011 (see enclosure to the notes to the consolidated financial statements, page 100).

The balance sheet date of all key companies included in the consolidated financial statements is December 31, 2011.

In September 2009, 74% of the shares in KTM Technologies GmbH, Anif, were acquired for TEUR 89 and the company was also initially consolidated at the same time. In September 2011, 23.9% of the shares of KTM Technologies GmbH, Anif, were sold to CROSS Lightweight Technologies Holding GmbH, Wels. Thus, 50.1% of the shares of KTM Technologies GmbH, Anif, remain with KTM Power Sports AG.

In October 2010, the remaining 74% of the shares in KTM South East Europe S.A., Elefsina, Greece, were acquired for TEUR 604. The initial consolidation of the company was on November 1, 2010. According to IFRS 3 “Business Combinations” the fair value of assets and liabilities has to be corrected retroactively within twelve months after the acquisition date, if new information on facts becomes known that had influenced the valuation of the amounts at the balance sheet date if known. The goodwill of KTM South East Europe S.A., Elefsina, Greece – first consolidated in November 2010 – was increased by TEUR 351 according to IFRS 3.

In March 2011 100% of the shares in Kunststoff 1 Management GmbH, Vienna, were purchased and renamed into KTM Dealer & Financial Services GmbH, Mattighofen. In May 2011 the company was consolidated for the first time. The company holds primarily minority shares of local and foreign KTM dealers.

The capital increase against contribution in kind, registered on June 18, 2011 was completed through a contribution of 99% of KTM Immobilien GmbH, Mattighofen, held by CROSS Industries AG. KTM Immobilien GmbH, Mattighofen, was first consolidated on June 1, 2011.

The following assets and liabilities were transferred:

TEUR	
Fixed assets	38,567
Other short-term assets	1,129
Bank loans	(22,420)
Other short-term liabilities	(4,300)
Negative goodwill	(551)
Contribution in kind from capital increase 2011	12,425
Minus non-cash purchase price components	(12,425)
Cash acquired	273
Net inflow from acquisition	273

The negative goodwill in the amount of TEUR 558 (previous year: TEUR 0) is reported in the other operating income.

The merger of KTM Dealerservice GmbH, Mattighofen, into KTM-Sportmotorcycle AG, Mattighofen was executed retroactively as at January 1, 2011.

Further statements regarding IFRS 3 "Business Combinations" were waived, as they can be neglected due to their minor relevance.

On May 31, 2010 16 distribution subsidiaries were deconsolidated due to their minimal relevance. They will be rated at-equity in the future in order to keep administrative costs low. For further information regarding the at-equity valuation of these companies please refer to item 16 of the notes to the consolidated financial statements.

Of the eight other shareholdings, one was consolidated at-equity and the remaining five reported at cost due to immateriality.

In business year 2011 the basis of consolidation developed as follows:

	Consolidation	At-equity valuation
As at January 1, 2011	12	17
Additions	2	0
Disposals due to mergers	(1)	0
As at December 31, 2011	13	17

(3) CONSOLIDATION METHODS

Capital consolidation: The first consolidation was carried out on September 1, 2009 using the acquisition method according to IFRS 3 (2010). On the acquisition date – the date when the control is transferred – the revalued identifiable assets and liabilities of the acquired company are compared to the equivalent; the amount attributable to the non-controlled interests, if applicable and the fair value of the shares already held at acquisition date. A remaining positive amount is activated as goodwill, a remaining negative amount will be revaluated as “acquisition below market value” realized as earning in the income statement. The cost of the acquisition is realized as an expense.

Transactions with non-controlling shareholders, not resulting in a loss of control, are realized directly and solely in equity, without adjustments of assets and liabilities of the company or the goodwill.

Mergers before September 1, 2009 were pursued according to transitional provisions.

Using the **equity method**, investments in associated companies and investments in immaterial sales companies are recorded on the balance sheet at cost and subsequently adjusted to reflect any changes in the group's share of the associated company's net assets occurring after acquisition. The value or goodwill related to an at-equity valued company is included in the carrying values of the investment and not subject to scheduled amortization.

All accounts receivable and payable, income and expenditures from offsetting between the consolidated companies, and profits and losses resulting from intercompany sales of inventories or assets were eliminated. Regarding the consolidation of income and expenses, intercompany earnings amounting to TEUR 110,707 (previous year: TEUR 27,730) were set off with intercompany expenses. Intercompany profits and losses arising from intercompany deliveries or transfers of assets were eliminated. This results in expenses of TEUR 91 (previous year: income of TEUR 71) in business year 2011. In the past business year no material results arising from intercompany deliveries or transfers of assets were realized.

Deferred taxes from consolidation are recognized in the consolidation processes in the income statement.

Currency translation: In the balance sheets of subsidiaries transactions in foreign currencies were recorded at the exchange rate on the transaction date. When the balance sheet was prepared, the foreign currency items were translated at the reporting date rate. All exchange rate differences are recorded as income or expense in the individual financial statements for the period in which they occurred.

The group currency is the Euro. Subsidiaries located outside the Euro-zone are regarded as economically independent companies. Under the functional currency concept, the assets and liabilities reported in the individual financial statements for these companies, including goodwill reported and value adjustments resulting from initial consolidation, are therefore translated at the average exchange rate at the balance sheet date and the items recognized in income statement at the weighted average exchange rate for the business year. Any resultant foreign currency profits and losses are recognized in equity without affecting net income.

The main foreign exchange rates used for currency translation in the consolidated financial statements showed the following trends over the year:

	Reporting date rate		Weighed annual average rate	
	12/31/2011	12/31/2010	2011	09/01/2010–12/31/2010
CHF	1.2156	1.2504	1.2318	1.3107
JPY	100.2000	108.6500	111.3208	110.8500
USD	1.2939	1.3362	1.4000	1.3469
ZAR	10.4830	8.8625	10.1436	9.3324
MXN	18.0512	16.5475	17.4218	16.8225

(4) ACCOUNTING AND VALUATION METHODS

The accounting of the companies included in the consolidated financial statements is based on standardized accounting and valuation methods. They are identical to those used in the business year from September 1, 2010 to December 31, 2010 except for the new obligatory standards.

Several positions in the income statement and balance sheet are summarized to improve the clearness and informative value. These positions are separately illustrated in the notes to the consolidated financial statements. Any short-term assets and liabilities are basically realised within twelve months after the balance sheet date. All other assets and liabilities are basically realised beyond this period.

Consolidated Income Statement

The consolidated income statement was drawn up using the **cost of sales method**.

Sales revenues are reported after the transfer of risk or after the time when a service was performed, as the case may be, less cash discounts, customer bonuses and other discounts. Given the nature of the manufactured products, the rules of the percentage of completion method are not applied.

Other operating income is recognized if a financial benefit is likely from the contract forming the basis of it and there is a reliable use for the income.

Interest income is realised in due consideration of the effective interest rate; dividends are reported when the legal right is constituted.

Consolidated Balance Sheet

Cash and cash equivalents include cash on hand, cash in banks, cheques and fixed-term deposits for a maximum of three months, and are reported at fair value at the balance sheet date.

Accounts receivable and other assets are reported at the nominal value, while receivables in foreign currencies are reported converted at the current rate, less any adjustments necessary due to recognizable risks. Financial receivables are allocated to the “Loans and Receivables” category and reported using the amortized cost method.

Specific financial assets are adjusted if the book value of the financial asset is higher than the cash value of the future, discounted cash flow. Indicators for value adjustments are financial difficulties, insolvency, breach of contract and default of payment. The value adjustments are composed from numerous individual positions, none of which is essential taken individually.

Inventories are valued at acquisition or manufacturing costs or, if lower, the realizable selling price (lower of cost or net realizable value) on the balance sheet date. For this purpose, the average value method is used. Adjustments for variability (adjustments because of limited utilizability) are applied.

Acquisition costs include all costs incurred for the item to achieve the required state and to be shipped to the relevant location. Manufacturing costs include material and production costs as well as appropriate parts of the material and production overheads. Administrative and distribution overheads are not part of the manufacturing costs. Interest on borrowed capital are not reported, as inventories do not include qualified assets according to IAS 23.

The other **short-term assets** and **financial assets** reported in the previous fiscal year included securities. **Short-term investments** (trading securities) are valued at their market price, and valuation changes are recorded in the income statement. **Held-to-maturity securities** (debt instruments) are recorded in the balance sheet at their acquisition cost less depreciation in the case of a steady decrease in value. The remaining securities (financial assets available for sale) are recognized at fair value at the balance sheet date. The fair value is generally taken to be the stock exchange price at the balance sheet date. Any changes in valuation, where material, are recorded without affecting net income. Other shares, where a fair value cannot be determined without major effort, are valued at the acquisition costs. Acquisitions and sales of any financial instruments are recognized on the settlement date.

Shareholdings are allocated to the "Available For Sale" category (at cost) and reported at their individual acquisition costs. Investments in **non-consolidated affiliated companies** and investments in **associates** are reported using the equity method of accounting.

Tangible assets are valued at acquisition or manufacturing costs, less scheduled depreciation. Scheduled depreciation is calculated using the straight line depreciation method and is based on the following useful life expectancies:

	Effective life
Software	3–5 years
Buildings	10–50 years
Machines/tools	2–10 years
Fixtures and furnishings	3–8 years

All direct costs, including separable material and production overheads, are recorded in the manufacturing costs of self-constructed assets. Financing costs resulting from the direct allocation of borrowed capital or the application of an average capitalization interest rate to the expenses incurred of qualified assets according to IAS 23 are capitalized.

Non-scheduled depreciation is carried out when the expected discounted earnings (future cash flows) fall short of the current book values. If tangible assets are financed with leasing contracts that give the company rights similar to those of an owner, the items are shown on the balance sheet. They are reported at the present value of the minimum lease payments to be expected in the future. At the same time, a corresponding liability is shown on the balance sheet as lease liabilities. Straight-line depreciation is used over the normal useful life of these tangible assets. Amortization is deducted from the lease liability. The interest component in the lease liability is recognized in the income statement.

Goodwill is not subject to regular depreciation, but undergoes an annual impairment test and appropriate depreciation is taken into consideration in net income as required. The impairment test requirement for the consolidated financial statements as at December 31, 2011 was calculated on the basis of the current five-year plan using the discounted cash flow method and assuming a discounting factor of 7.73% (previous year: 7.91%) (= untaxed group WACC) and a growth parameter of 2.0% (previous year: 2.0%) for periods six to ten and the perpetual annuity. The calculation was based on a group tax rate of 25.0% for the pretax result. The valuation of essential assumptions represents the management's evaluation of future trends in the motorcycle industry and is based both on external and internal sources.

Because of the growth parameters, the EUR/USD exchange rate and the group WACC interest rate, the results of the impairment test are highly sensitive. Calculations were based on a EUR/USD exchange rate of 1.40 and a group WACC interest rate of 7.73% for the perpetual annuity. A sensitivity analysis revealed that there is adequate cover for the carrying values of all assets up to a EUR/USD exchange rate of 1.50 if all other conditions remain the same and a group WACC interest rate of 10.7%. A decrease in planned future cash flows by a margin of up to 40% on equal terms provides sufficient cover for the book value of all assets.

Intangible assets, when acquired for payment, are capitalized at acquisition cost and valued less scheduled amortization.

In the case of self-constructed intangible assets, the manufacturing period is divided into a research, a development and a model upgrading phase. Costs incurred during the research and model upgrading phases are immediately recognized in the income statement. Costs incurred during the development phase are capitalized as intangible assets if certain conditions are met that confirm the future usefulness of the expenses incurred, in particular the technical feasibility of the developed product or process and its marketability. The valuation of the self-constructed intangible assets is ascertained by calculating the manufacturing costs less scheduled and non-scheduled amortization. The amortization is calculated using the line amortization method and is based on a useful life of five years.

Intangible assets with an indefinite useful life, as for example the brand name "KTM" in the amount of TEUR 60,000, capitalized during the original purchase price allocation, are not amortized regularly, but are subjected to an annual impairment test and any depreciation recognized in the income statement. The Executive Board considers the useful life as indefinite since the rights in the relevant sales markets do not underlie timely, legal or contractual restrictions and no economic devaluation exists due to the sustainable reputation of the brand. For this impairment test the same parameters as for the impairment test of goodwill are used.

Allocations for deferred taxes are created for business transactions expected to have tax implications and are either already reflected in the group financial statements or in the KTM Group's tax balance sheet (timing differences). Deferred taxes on tax losses carried forward are accumulated according to their timely recoverability. Deferred tax items on both the asset and liability side are reported balanced out if they are subject to the same tax jurisdiction and similar due dates. If realization is foreseeable, only deferred taxes are accrued according to IAS 12.38 to differ between the tax base of fully consolidated or at-equity valued shares from the corresponding group equity. Calculations are based on the normal income tax rate in the relevant country at the time of the anticipated reversal of the difference in value.

Liabilities are reported at the amounts repayable, while foreign currency liabilities are converted at the reporting date rate. Financial debts are allocated to the "Financial Liabilities at Amortized Cost" category.

Other **provisions** are set up in cases where an obligation to third parties exists, utilization is likely and the probable amount of the provision can be reliably estimated.

The **social capital obligations** consist of obligations for severance payments and anniversary bonuses. Statutory provisions require KTM Power Sports AG to make severance payments to all employees in Austria whose employment contracts commenced before January 1, 2003 if the employer terminates the contract or the employee retires. This defined benefit obligation depends on the number of years of service and the income at the time of termination or retirement. It is between two and twelve months' salary. For all employees in Austria whose contracts commenced after December 31, 2002, KTM Power Sports AG pays 1.53% of their salaries monthly into a company employee benefit fund, where the contributions are saved in employees' accounts and paid out to them on termination of their employment contract or transferred as credit to another fund. KTM Power Sports AG is only obliged to pay the contributions that are reported under expenses in the fiscal year for which they were paid (defined contribution obligation).

As a result of collective bargaining agreements, KTM Power Sports AG is required to pay employees in Austria jubilee benefits once they have reached a certain number of years in service (minimum years of service: 25) (defined benefit obligation).

Any differences at the end of the year (actuarial gains or losses) between the severance payment obligations calculated according to plan and the actual projected benefit obligations are recognized in full immediately in the income statement for the year they occur.

The value of defined benefit obligations for pensions and severance payments is determined using the projected unit credit method specified in IAS 19 "Employee Benefits" on the basis of actuarial assumptions. This projected unit credit method takes into consideration both the known benefits accrued at the balance sheet date and the increases in salaries and pensions to be expected in the future. It involves determining the present value of the defined benefit obligation (DBO) and offsetting it against the fair value of the existing plan assets at the balance sheet date if necessary. The actuarial result is immediately recognized in the income statement.

Provisions for warranties are set up at the time the products are sold and thus affect net income.

Government grants and subsidies are recognized as soon as it is certain that the group will receive them and the group can meet the specified requirements. Grants and subsidies are generally recognized in the income statement on the basis of a direct connection with the relevant costs that will be settled by the grant or subsidy.

Investment grants from public funds that do not yet refer to any expenses and/or that are under repayment requirement, are shown in the consolidated financial statements under long-term borrowed funds.

Contingent liabilities are possible or present liabilities that are based on past events, where discharge of resources is estimated possible but unlikely. According to IFRS, these liabilities have to be reported in the notes to the consolidated financial statements and not in the balance sheet.

Derivative Financial Instruments

Under IAS 39, derivatives must generally be valued at their market value. Depending on the degree of certainty that the transaction will take place, different rules apply to how the hedge connection between the underlying transaction and the derivative (hedge accounting) is shown in the balance sheet – separately for reported assets and liabilities – as well as for binding contracts (**firm commitments**) and expected transactions (**forecasted transactions**).

A **fair value hedge** exists when the assets, liabilities, and binding contracts in the balance sheet are hedged with a derivative. IAS 39 contains a series of premises concerning the underlying transaction to be secured on the one hand and the hedging connection on the other hand. In the case of a fair value hedge, fluctuations in the fair value of the derivative are recorded in full in the operating result. Fluctuations in the fair value of the underlying transaction are also recognized so that the hedged risk affects net income. This method of reporting automatically results in compensation in the group income statement. If the hedge is not effective, the ineffective component simultaneously affects the operating result.

A **cash flow hedge** exists when variable payment flows from assets, liabilities and expected business transactions that are subject to a fair value risk are hedged. If the requirements for a cash flow hedge are met, the effective component of the fair value fluctuations of the hedging instrument must be recognized in the group's equity without affecting the operating result. It is only reported in the income statement when the transaction takes place. Eventual changes due to inefficiencies of these derivative financial instruments are reported in full and recognized in the income statement.

Hedging transactions that do not meet the criteria for hedging instruments defined in IAS 39 are classified as **trading transactions** and recognized in the financial assets "At Fair Value through Profit or Loss" category (held for trading). Fair value changes are recognized in full in the income statement for the current period and reported in the financial results.

Estimates and Uncertainties in Cases of Discretionary Decisions and Assumptions

To a certain extent, estimates and assumptions have to be made in the consolidated financial statements. These estimates have an impact on the balance sheet assets and liabilities, the disclosure of contingent liabilities at the balance sheet date, and the reporting of expenses and income in the business year. The subsequent actual amounts may then differ from such estimates. This applies in particular to the impairment of goodwill and intangible assets with an indefinite useful life and to the assets and liabilities reported at the time of initial consolidation.

The most important balance sheet items, where the valuation related to the planned useful life is based on estimates, are tools (tangible assets) and capitalized development costs (intangible assets). Estimates are also based on deferred tax assets for losses carried forward regarding the period of utilization for the losses carried forward.

In addition, there are uncertainties regarding the valuation of receivables and the recognition and valuation of obligations for social capital and other provisions.

III. NOTES TO THE CONSOLIDATED INCOME STATEMENT

(5) NET SALES

Net Sales by Regions

TEUR	2011	09/01/2010– 12/31/2010
Austria	27,593	5,989
Other European countries	301,480	80,894
North America	106,537	24,182
Other countries	91,191	20,519
Total	526,801	131,584

Net Sales by Product Groups

TEUR	2011	09/01/2010– 12/31/2010
Offroad Sportmotorcycles	267,541	71,908
Street Sportmotorcycles	131,426	18,296
Sportminicycles	19,829	7,340
ATVs (All Terrain Vehicles) and Sportquads	4,277	1,802
X-Bows	2,484	486
Total vehicles	425,557	99,832
Accessories and spare parts as well as other sales revenues, less revenue deductions	101,244	31,752
Total	526,801	131,584

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

(6) BREAKDOWN OF EXPENSES

The items in the consolidated income statement prepared according to the cost-of-sales accounting format can be broken down into the following types of expenses:

Cost of Sales

TEUR	2011	09/01/2010– 12/31/2010
Cost of materials and expenses for purchased services	320,118	75,742
Personnel expenses	33,513	10,226
Depreciation and amortization of tangible assets and intangible assets including low-value assets	10,351	3,675
Other operating expenses	7,770	623
Total	371,752	90,266

Selling and Racing Expenses

TEUR	2011	09/01/2010– 12/31/2010
Cost of materials and expenses for purchased services	9,572	2,457
Personnel expenses	14,682	4,408
Depreciation and amortization of tangible assets and intangible assets including low-value assets	1,243	317
Other operating expenses	52,712	14,750
Sponsorship income and contributions	(6,257)	(1,957)
Total	71,952	19,975

Since June 1, 2010 other operating expenses include income from the at-equity valuation of the immaterial sales subsidiaries totalling TEUR 657 (previous year: TEUR 285) because this income refers to higher selling and racing expenses due to the cost plus agreement with these companies.

Research and Development Expenses

TEUR	2011	09/01/2010– 12/31/2010
Cost of materials and expenses for purchased services	1,450	(233)
Personnel expenses	3,611	549
Depreciation and amortization of tangible assets and intangible assets including low-value assets	19,618	5,892
Other operating expenses	2,815	2,520
Subsidies	(4,395)	(2,946)
Total	23,099	5,784

The capitalized development costs include staff expenses totalling TEUR 15,777 (previous year: TEUR 4,655).

Infrastructure and Administrative Expenses

TEUR	2011	09/01/2010– 12/31/2010
Cost of materials and expenses for purchased services	133	30
Personnel expenses	7,075	1,896
Depreciation and amortization of tangible assets and intangible assets including low-value assets	2,075	750
Other operating expenses	11,587	2,854
Total	20,870	5,530

Personnel expenses for business year 2011 amount to TEUR 60,533 (previous year: TEUR 17,611).

Expenses for Auditors

The expenses for the audit of the business year 2011 by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft amount to TEUR 158 (previous year: TEUR 103). Expenses for confirmatory services amounted to TEUR 37 (previous year: TEUR 0) and other auditing related consulting amounted to TEUR 32 (previous year: TEUR 41).

(7) EXECUTIVE BOARD REMUNERATION AND STAFF INFORMATION

The total fixed salaries paid by the group companies for the Executive Board's activities and their administrative duties during the business year 2011 amounted to TEUR 1,043 (previous year: TEUR 345). For variable benefits, TEUR 1,834 (previous year: TEUR 60) were accrued and TEUR 89 (previous year: TEUR 1,360) were paid out as bonus. In the business year 2011 no retirement expenses were incurred in the form of contributions to pension funds and provisions made for pensions.

Upon expiration of the agreed contract term, the members of the Executive Board receive a one-time payment (severance pay). As at December 31, 2011 the liabilities for severance payments amounted to TEUR 345 (previous year: TEUR 110). To former members of the Executive Board, a severance payment in the amount of TEUR 0 (previous year: TEUR 523) was made.

At the Annual General Meeting to be held in April 2012, remuneration totaling TEUR 26 (previous year: TEUR 7) will be proposed for the Supervisory Board for the business year 2011 (to be paid in business year 2012).

As at the balance sheet date, there are no pending loans and advances granted to members of the Executive Board of KTM Power Sports AG.

There are no stock option plans in place.

Staff members (annual average)

	2011	09/01/2010– 12/31/2010
Wage earners	807	802
Salary earners	825	764
Total	1,632	1,565

(8) OTHER OPERATING EXPENSES

Other operating expenses totalling TEUR 9,206 (previous year: TEUR 2,785) include warranty expenses amounting to TEUR 9,101 (previous year: TEUR 2,584) as well as other expenses amounting to TEUR 105 (previous year: TEUR 201).

(9) OTHER OPERATING INCOME

Other operating income totalling TEUR 1,088 (previous year: TEUR 276) includes income from passive difference due to first consolidation in the amount of TEUR 558 (previous year: TEUR 0), insurance compensation amounting to TEUR 101 (previous year: TEUR 157) as well as other operating income amounting to TEUR 429 (previous year: TEUR 119).

(10) FINANCIAL AND PARTICIPATION RESULT

The financial and participation result can be broken down as follows

TEUR	2011	09/01/2010– 12/31/2010
Measurement of derivative instruments (not meeting the hedge criteria to IAS 39)	(2,628)	(945)
Income and expenditure from participations and trading securities	(40)	(28)
Other	(307)	192
Total	(2,975)	(781)

(11) TAXES ON INCOME

The Group's income tax income and expenses can be broken into current and deferred taxes as follows:

TEUR	2011	09/01/2010– 12/31/2010
Current taxes		
Austria	1,375	11
Rest of the world	268	217
	1,643	228
Deferred taxes		
Austria	(4,147)	(152)
Rest of the world	889	106
Consolidation	(94)	47
	(3,352)	1
Total	(1,709)	229

The taxes on income and earnings paid or owed in the individual countries and deferred taxes are recognized as income taxes. The Austrian companies in the KTM Group are subject to a corporation tax rate of 25.0%. Calculation of foreign income taxes is based on the laws passed or regulations applicable in the individual countries. The income tax rates applied to foreign companies vary from 10% to 40%.

A reconciliation from the expected tax expenses for the business year (application of the total tax rate of 25.0% to the pre-tax profit of TEUR 19,109 (previous year: loss TEUR 2,889) to the actual tax expenses/income can be shown as follows:

TEUR	2011	09/01/2010– 12/31/2010
Expected tax income/expense	4,777	722
Non-temporary differences	(139)	12
Losses carried forward	(144)	0
Investment incentives	(726)	(623)
Taxes for previous periods	(18)	26
Effects of foreign tax rates	208	128
Value adjustment of losses carried forward	(5,697)	185
Depreciation of investment	(68)	(33)
Equity accounting	(164)	(72)
Other	262	(116)
Total	(1,709)	229

The tax losses carried forward and capitalized in the KTM Group can be summarized as follows:

TEUR	Losses carried forward		Deferred tax assets	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
KTM Power Sports AG, Mattighofen	114,035	130,740	17,105	13,141

The deferred taxes on the asset and liability sides are calculated from the following consolidated balance sheet items:

TEUR	12/31/2011	12/31/2010
Deferred tax assets		
Short-term assets		
Receivables and other assets	211	239
Inventories	1,143	1,298
Other current assets	45	44
Long-term assets		
Tangible assets	0	4
Financial assets	30	0
Losses carried forward	28,509	32,685
Value adjustment of losses carried forward	(11,404)	(19,544)
Social capital	817	0
Provisions	20	0
Liabilities	1,878	2,141
Total	21,249	16,867

TEUR	12/31/2011	12/31/2010
Deferred tax liabilities		
Short-term assets		
Receivables and other assets	(2,906)	(1,787)
Long-term assets		
Intangible assets	(28,469)	(26,761)
Tangible assets	(1,189)	(253)
Accounts payable	0	(8)
Subsidies	(113)	(146)
Other	0	(38)
	(32,677)	(28,993)
Total	(11,428)	(12,126)
<i>Thereof deferred tax assets</i>	3,132	3,725
<i>Thereof deferred tax liabilities</i>	(14,560)	(15,851)

Deferred taxes not recognized in accordance to IAS 12.38f on shareholdings in subsidiaries and companies recognized at-equity amount to TEUR 1,372 (previous year: TEUR 1,093).

Deferred taxes showed the following changes from the last fiscal year:

TEUR	2011	09/01/2010– 12/31/2010
Deferred taxes (net) as at January 1 or September 1	(12,126)	(11,730)
Deferred taxes affecting net income	3,352	(1)
Deferred taxes not affecting net income	(2,654)	(395)
Deferred taxes (net) as at December 31	(11,428)	(12,126)

(12) NET EARNINGS PER SHARE

The net earnings per share were calculated in accordance with IAS 33 from the group result after taxes attributable to the common stockholders of the parent company and the average number of shares outstanding during the business year. The number of shares as at December 31, 2010 was 10,109,000, as at December 31, 2011 10,509,000.

For further information regarding the conversion privilege stated in the calculation of the diluted net earnings per share please refer to item (21) of the notes to the consolidated financial statements.

The basic net earnings per share are calculated as follows:

		2011	09/01/2010– 12/31/2010
Net profit to owners	TEUR	20,719	2,614
Average number of outstanding shares	units	10,342,333	10,109,000
Basic net earnings per share	EUR	2.003	0.259

The diluted net earnings per share are calculated as follows:

		2011	09/01/2010– 12/31/2010
Net profit to owners	TEUR	20,719	2,614
Interest expenses conversion privilege (net)	TEUR	302	152
Basis for the diluted net earnings per share	TEUR	21,020	2,766
Average number of outstanding shares	units	10,342,333	10,109,000
Average number of potential shares	units	336,000	336,000
Average number of outstanding shares for the diluted net earnings per share	units	10,678,333	10,445,000
Diluted net earnings per share	EUR	1.968	0.265

IV. NOTES TO THE CONSOLIDATED BALANCE SHEET

(13) CASH AND CASH EQUIVALENTS

For certain items under the financial assets and financial liabilities, the KTM Group has an enforceable right of mutual offsetting. In the consolidated financial statements, these items are only shown as net amounts. A sum of TEUR 33,206 (previous year: TEUR 7,167) was therefore set off against the bank deposits and liabilities to banks.

(14) TRADE ACCOUNTS RECEIVABLE TO THIRD PARTIES, OTHER SHORT-TERM ASSETS

The receivables were reduced by TEUR 1,761 (previous year: TEUR 1,439) due to specific provisions for bad debts. No flat-rate adjustments were made.

The adjustments to receivables showed the following changes:

TEUR	
As at September 1, 2010	1,525
Exchange rate differences	(79)
Additions	475
Use	(134)
Reversal	(348)
As at December 31, 2010	1,439
Exchange rate differences	16
Additions	928
Use	(266)
Reversal	(356)
As at December 31, 2011	1,761

The expenses for completely writing off trade accounts receivable amounted to TEUR 561 (previous year: TEUR 116).

Other short-term assets are composed as follows:

TEUR	12/31/2011	12/31/2010
Receivables from derivative financial instruments and option contracts	725	886
<i>Thereof derivatives cash flow hedge</i>	366	758
<i>Thereof derivatives fair value hedge</i>	359	128
Other short-term financial assets	6,189	3,624
<i>Thereof accrued subsidies</i>	3,647	550
<i>Thereof accrued interest</i>	257	0
<i>Thereof other</i>	2,285	3,074
Other short-term financial assets	6,914	4,510
Receivables to tax authorities = other short-term non-financial assets	2,787	2,721
Total	9,701	7,231

(15) INVENTORIES

TEUR	12/31/2011	12/31/2010
Raw and auxiliary materials and supplies	13,513	8,960
Unfinished goods	12,625	12,786
Finished goods and products	86,927	86,892
Payments on account	914	272
Total	113,979	108,910
Inventories gross	128,880	122,703
Write-down of inventories	(14,901)	(13,793)
Inventories net	113,979	108,910

Inventories (less raw and auxiliary materials and supplies) in the amount of TEUR 71,541 (previous year: TEUR 68,013) were stated with their net sales proceeds.

(16) FINANCIAL ASSETS

The fully consolidated companies included in the group financial statements are given in the list of equity interests as at December 31, 2011 (see enclosure to the notes to the consolidated financial statements, page 100). In addition, participations reported at-cost and at-equity in the balance sheet are also stated.

The investments in affiliated companies include 16 sales companies that were deconsolidated on May 31, 2010 due to their immateriality and are thus valued at-equity.

Investments in affiliated companies:

TEUR	Share of result 2011	Stake value 12/31/2011
Miscellaneous KTM sales subsidiaries	657	5,027

The valuation of the KTM sales subsidiaries include goodwill in the amount of TEUR 761 and foreign currency differences in the amount of TEUR 39.

The following participation was recognized at-equity:

TEUR	Share of result 2011	Stake value 12/31/2011
KTM New Zealand Ltd., Auckland, New Zealand	(3)	0

These companies' net assets, financial position and results of operations are as follows (respectively 100%) (as at December 31, 2011, unless otherwise specified):

TEUR	Net Sales	Result	Assets	Liabilities
KTM New Zealand Ltd., Auckland, New Zealand, Financial Statement as at June 30, 2011	3,527	(11)	563	751
Miscellaneous KTM sales subsidiaries	21,361	657	11,107	6,880

The participations recognized at cost, are shareholdings in sales companies that by nature do not pose any other risks. Due to immateriality, further disclosures on these participations in the notes to the consolidated financial statements are therefore waived.

(17) FIXED ASSETS

The breakdown of the fixed assets and their development in the business year 2011 and in the business year from September 1, 2010 to December 31, 2010 is stated in detail in the fixed assets schedule (see enclosure to the notes to the consolidated financial statements, pages 94 to 97).

(18) TANGIBLE ASSETS

Having applied IAS 36, there were no impairment loss expenses or reversals of impairment losses during the fiscal year.

The following tangible assets include capitalized leasing assets (capital lease):

TEUR	Book values 12/31/2011	Book values 12/31/2010
Fixtures and furnishings	37	0
Land and buildings	0	13,242
Total	37	13,242

Leasing obligations to third parties amounting to TEUR 37 (previous year: TEUR 13,021) were incurred for the capitalized leasing assets. The decline of capitalized leasing assets results from the contribution of KTM Immobilien GmbH, Mattighofen, into KTM Power Sports AG in the course of the capital increase in June 2011 and the consequent consolidation of KTM Immobilien GmbH.

The specified leasing obligations relate to obligations for the years listed below:

TEUR	Lease payments	Interest	Present value 12/31/2011
Up to 1 year	10	1	9
2 to 5 years	31	3	28
Over 5 years	0	0	0
Total	41	4	37

(19) GOODWILL

The capitalized goodwill results from the capital consolidation and is broken down as follows:

TEUR	12/31/2011	12/31/2010
KTM-Sportmotorcycle AG, Mattighofen	78,793	78,492

According to IFRS 3 “Business Combinations” the fair value of acquired assets and liabilities has to be corrected retroactively within twelve months after acquisition if new information affecting the valuation of the of the amounts at record date is available. The goodwill of KTM South East Europe S.A., Elefsina, Greece, first consolidated in November 2010, has been increased by TEUR 351 and attributed to the cash generating unit “KTM-Sportmotorcycle AG, Mattighofen”.

Following IFRS 3 “Business Combinations”, the capitalized goodwill is not regularly amortized, but tested on its recoverability using an impairment test. In the business year 2011 this did not result in an amortization of the goodwill.

(20) INTANGIBLE ASSETS

Development costs in the KTM Group totaling TEUR 25,332 (previous year: TEUR 6,518) were capitalized in the business year 2011. The item “Intangible Assets” comprised development costs having a book value of TEUR 53,856 (previous year: TEUR 46,323).

In the course of the capital increase in December 2004 and the resulting full consolidation of the KTM Group in the consolidated financial statements for KTM Power Sports AG, the value of the KTM brand was determined to be TEUR 60,000, which is subject to an annual impairment test in accordance with IAS 36. This did not result in a need for an amortization as at December 31, 2011. In business year 2011 the value of the brand “KTM” was increased by EUR 1.1 million due to a down payment to KTM Kühler GmbH, Mattighofen.

Passive deferred taxes were created both for the capitalized development costs as well as for the brands.

(21) LIABILITIES

In May 2004 KTM Group GmbH issued a corporate bond amounting to EUR 90 million. It had a five-year term and an interest rate of 4.5%. The bond was settled in May 2009.

The refinancing of the TEUR 90,000 bond was part of a strategic funding concept with a banking consortium (led by Raiffeisen Zentralbank Österreich AG, Vienna) also used previously for turning short-term financing arrangements into long-term credit lines.

The financing concept expires on May 31, 2014.

With the beginning of the business year 2009/2010 the financial covenants were adopted to the current mid-term-plan. The financial covenants were calculated on the basis of the current mid-term plan considering safety margins. If a key financial indicator deviates adversely on two successive quarter reporting dates, the banking consortium is technically entitled to demand repayment under the financing agreement described above. As at December 31, 2011 there were no negative deviations for the financial covenants. The refinancing conditions improved in business year 2011 because of the positive economic development.

As at January 1, 2011 the refinancing agreement was adjusted to reflect the changes in the global economic environment, thus reducing the interest margin. Financial covenants will be adjusted as of business year 2011 and in future calculated on a half-year basis (per June 30 and December 31). A deviance on two consecutive reporting dates may result in a reduction respectively an increase of the future interest margin.

Under the above mentioned refinancing agreement, the following has been pledged as security for the banking consortium (as at December 31, 2011):

Pledges

- All shares of KTM-Sportmotorcycle AG, Mattighofen (15,868,000 shares) and shares held in trust by CROSS Industries AG, Wels (132,000 shares)
- Shareholding in KTM Finance GmbH, Frauenfeld, Switzerland, corresponding to a fully paid in capital stock of TEUR 12.5
- Shareholding in KTM Financial Services GmbH, Kiefersfelden, Germany, 25% of the shareholding corresponds to paid in capital stock of TEUR 17.5
- Shareholding in KTM Technologies GmbH, Anif, 50.1% of the shareholding corresponds to paid in capital stock of TEUR 60
- All national and international trademark rights owned by KTM-Sportmotorcycle AG, Mattighofen
- Finished products at KTM-Sportmotorcycle AG, Mattighofen
- Production and storage facilities including office furniture and equipment, the training center and reception building in Mattighofen (on non-owned property)

Guarantees

- Province of Upper Austria guarantee amounting to TEUR 33,600 for the TEUR 42,000 loan to KTM Power Sports AG

Furthermore, in the framework of the above described refinancing, a conversion right has been considered that would enable the banking consortium to convert a part of the outstanding financial debt into primary shares of KTM Power Sports AG after three years at the earliest. Accordingly, the Executive Board obtained the necessary approvals at the Annual General Meeting of December 18, 2009. In the present revised refinancing agreement clauses regarding the conversion right were changed per January 1, 2011 as follows. The banking consortium allows CROSS Industries AG to collect receivables from the loan that is not collateralized by a liability assumed by the Province of Upper Austria through a unilateral redemption agreement to acquire the conversion right. Upon redemption CROSS Industries AG receives the conversion right. The period for redemption is May 8, 2012 at the earliest and May 15, 2014 the latest.

Bank loans from group companies are secured by recorded mortgage deeds in the amount of TEUR 14,047 and by recordable mortgage deeds in the amount of TEUR 13,545.

Breakdown of financial debts

TEUR	12/31/2011	12/31/2010
Liabilities to banks	55,801	34,061
Consortium loan	87,454	82,042
Financial lease obligations	35	13,021
Loans from affiliated companies	1,609	2,086
Export acceptance credit from the Austrian Control Bank (OeKB)	17,000	13,000
ERP investment financing	6,613	10,650
Loans from the government's research promotion fund	4,651	4,265
Total	173,163	159,125
<i>Thereof remaining term up to 1 year</i>	<i>22,422</i>	<i>16,829</i>
<i>Thereof remaining term 1 to 5 years</i>	<i>139,167</i>	<i>131,367</i>
<i>Thereof remaining term over 5 years</i>	<i>11,574</i>	<i>10,929</i>

For certain items under the financial assets and financial liabilities, the KTM Group has an enforceable right of mutual offsetting. In the consolidated financial statements, these items are only shown as net amounts. A sum of TEUR 33,206 (previous year: TEUR 7,167) was therefore set off against the bank deposits and liabilities to banks.

Existing liabilities to staff members amounted to TEUR 1,648 (previous year: TEUR 1,475).

Other short-term debts are mainly due to liabilities for personnel, liabilities incurred within the scope of social security as well as liabilities from interest deferrals.

(22) CONTINGENT LIABILITIES

Contingencies exist in the form of a TEUR 3,000 guarantee (previous year: TEUR 3,000) for export funding for KTM Financial Services GmbH, Kiefersfelden, Germany.

(23) PROVISIONS

The KTM Group created provisions for warranties and accommodation warranties for known, expected individual cases. Expected expenses are based mainly on past experience.

Estimating future expenses obviously involves various uncertainties, which could make adjustments to the provisions necessary. In addition, there is also the possibility that the actual expenses for these measures could exceed the provisions made for them to an unpredictable extent. Reserves for warranties and accommodation warranties amounted to TEUR 3,823 as at December 31, 2011 (previous year: TEUR 3,646).

For detailed information, please refer to the schedule of provisions (see enclosure to the notes to the consolidated financial statements, page 98).

(24) OBLIGATIONS FOR SOCIAL CAPITAL

The obligations for social capital include claims that become due when employees retire at the statutory age or reach a certain number of years with the company and therefore constitute benefits similar to pensions. These benefits were determined in accordance with the requirements in IAS 19.

The liabilities for social capital include provisions for severance payments amounting to TEUR 6,871 (previous year: TEUR 5,769) and anniversary bonuses totaling TEUR 826 (previous year: TEUR 711) as well as pensions in the amount of TEUR 2. The present value of the defined benefit obligations is shown in the balance sheet. Liabilities for social capital are not financed with a fund.

The obligations for social capital showed the following trends:

TEUR	12/31/2011	12/31/2010	08/31/2010	08/31/2009	08/31/2008
Defined benefit obligations as at September 1 or January 1	6,479	6,884	6,190	6,191	5,897
Service cost	558	54	795	716	724
Interest cost	342	96	294	359	268
Severance, anniversary bonus	(212)	(516)	(417)	(522)	(674)
Actuarial gains/losses	280	(37)	251	(554)	(24)
Other	252	(2)	(229)	0	0
Defined benefit obligations at the end of the business year	7,699	6,479	6,884	6,190	6,191

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

	2011	09/01/2010– 12/31/2010
Interest rate	5.00%	4.75%
Wage and salary trend	3.00%	3.00%
Pension age for women/men	65 years ¹	65 years ¹

¹ With transition regulations

Taking the very long average terms and high average life expectancy into consideration, the interest rate was determined on the basis of market interest rates.

Staff fluctuation is determined for each company and taken into account depending on age/service. The actuarial assumptions are based on mortality tables for the individual country. The statutory retirement age for each country was selected as the retirement age.

Contributions for severance payments amounting to 1.53% of the wage or salary are paid into a statutory staff provision fund for employees who joined Austrian group companies after January 1, 2003. In the business year 2011 the contributions paid totalled TEUR 469 (previous year: TEUR 157).

(25) CONSOLIDATED EQUITY

The changes in the group equity capital for the business year 2011 and for the business year from September 1, 2010 to December 31, 2010 are shown in the statement of consolidated shareholders' equity.

The share capital amounted to TEUR 10,509 as at December 31, 2011 and is divided into 10,509,000 bearer shares with a nominal value of EUR 1.00 each. The shares accord shareholders the ordinary rights pursuant to the Austrian Stock Exchange Act. These include the right to payment of dividends as decided in the Annual General Meeting (AGM) as well as the right to exercise the voting right in the AGM.

In accordance with article 169 of the Austrian Public Companies Act (AktG) the Executive Board is authorized, based on the resolution of the Annual General Meeting of December 18, 2009, for a maximum of five years, that is until January 23, 2015 and upon approval of the Supervisory Board – to increase the company's capital stock – if need be in tranches – by up to TEUR 2,526 through issuing 2,526,000 bearer shares with a nominal value of EUR 1.00 each at a minimum issuing price of 100% against contribution in cash (authorized capital) and to determine the issuing price and the terms of issue with the consent of the Supervisory Board, whereby the Executive Board will be authorized, with the consent of the Supervisory Board, that the new shares shall be taken over by a financial institution in accordance with article 153 section 6 of the Austrian Public Companies Act (AktG) with the obligation to offer them to the shareholders for subscription.

Additionally, in accordance with article 169 of the Austrian Public Companies Act (AktG) and based on the resolution of the General Meeting of December 18, 2009 the Executive Board is authorized, for a maximum of five years after entry of the amendment into the commercial register, that is until January 23, 2015 and upon approval of the agreement of the Supervisory Board, to increase the company's capital stock – if need be, in tranches – by up to a total of EUR 1,264,000.00 through issuing up to 1,264,000 shares with a nominal value of EUR 1.00 each at an issuing price of EUR 25.00 against contributions in kind (authorized capital), to eliminate the shareholders' subscription right, and to determine the other terms of issue, whereby only the following contributions in kind are taken into consideration:

- Receivables from the company deriving from the loan agreement it concluded on May 8, 2009 with Raiffeisen Zentralbank Österreich Aktiengesellschaft on the grant of a collateral loan in the amount of EUR 42 million, insofar as they are not collateralized by a liability assumed by the Province of Upper Austria, as well as receivables from capitalized interests from the loan described above and
- Receivables from the company deriving from the availment of a guarantee it has assumed for liabilities of KTM-Sportmotorcycle AG from capitalized interests in favor of Raiffeisen Zentralbank Österreich Aktiengesellschaft from the loan agreement, concluded on May 8, 2009 by KTM-Sportmotorcycle AG as borrower and with the company joining, regarding a loan of up to EUR 48 million and a liquidity reserve of up to 12 million or for liabilities of the KTM-Sportmotorcycle AG from capitalized interests from so-called old liabilities in the sense of abovementioned loan agreement.

The authorized capital has not been used so far.

For further explanations please refer to item (21) of the notes.

On February 26, 2010 the company increased its equity by issuing 779,000 bearer shares of EUR 1.00 per value against contribution in kind and on April 16, 2010 the company increased its equity by issuing 1,750,000 bearer shares of EUR 1.00 par value against contribution in cash. The equity of these capital increases was authorized at the extraordinary General Meeting of February 26, 2010. The company's equity capital increased from TEUR 7,580 to EUR 10,109. The issuing price per share was EUR 17.00, thus resulting in an agio of TEUR 40,473.

The share capital of KTM Power Sports AG was increased in business year 2011 against contribution in kind and contribution in cash from TEUR 10,109 to TEUR 10,509. In accordance with the resolution of the Annual General Meeting of April 26, 2011 the share capital was increased against contribution in kind by EUR 355,000.00 through the issue of 355,000 bearer shares at a par value of EUR 1.00 each, and against contribution in cash by EUR 45,000.00 through the issue of 45,000 bearer shares at a par value of EUR 1.00, hence a total of EUR 400,000 through issuance of 400,000 bearer shares at a par value of EUR 1.00.

The capital increase against contribution in kind in the amount of TEUR 12,425 was done through a contribution of 99% of KTM Immobilien GmbH held by CROSS Industries AG. The volume of the capital increase against contribution in cash amounted to TEUR 1,575. The issue price per share amounted to EUR 35.00 per share, resulting in an increase of share capital in the amount of TEUR 14,000, which is included in the group reserves, less costs that can be directly attributed to the capital increase.

The capital increase was registered on June 18, 2011. As at June 21, 2011 a total of 10,509,000 shares, the total share capital of KTM Power Sports AG, were admitted to trading at the Vienna Stock Exchange.

The shares outstanding have developed as follows:

Units	
As at December 31, 2010	10,109,000
Capital increase	400,000
As at December 31, 2011	10,509,000

All shares have been paid for in full. The equity reported in the consolidated financial statements corresponds to the equity reported in the individual statements of KTM Power Sports AG.

In the business year 2011 no dividend was distributed.

The group's reserves include the agio paid in from the capital increase in business year 2009/2010 in the amount of TEUR 40,473 reduced by the cost attributable to the capital increase in the amount of TEUR 1,125. In accordance to IAS 32.35 the issuing cost – directly recognized in the group equity – had to be reduced by the income tax privilege in the amount of TEUR 281.

The group's reserves further include the agios in the amount of TEUR 13,600 paid in the course of the capital increase in business year 2011 less the costs related to the capital increase in the amount of TEUR 640. According to IAS 32.35 the emission costs and the related income tax benefits in the amount of TEUR 160 had to be reduced.

The cash flow hedge provision (after taxes) developed as follows:

TEUR	
As at August 31, 2010	(14,379)
Effective share of fair value changes from cash flow hedges	731
Transfer from equity to income statement (realization of underlying transaction) – recognition in operating result	0
As at December 31, 2010	(13,648)
Effective share of fair value changes from cash flow hedges	5,103
Transfer from equity to income statement (realization of underlying transaction) – recognition in operating result	13,648
As at December 31, 2011	5,103

As at December 31, 2011, the net result (after taxes) amounted to TEUR 0 (previous year: TEUR 262) as a consequence of ineffective components of the derivative financial instruments, which are classified as cash flow hedges.

The reserves from currency translation differences include all exchange rate differences arising from the translation of annual financial statements for consolidated subsidiaries reported in a foreign currency.

The revaluation reserve was set up in 2005 in the course of the successive acquisition of the former KTM-Group GmbH. The amount was calculated from the pro rata value increase after tax of the brand "KTM" for the shares owned by the holding company (former CROSS Holding AG, now KTM Power Sports AG) before obtaining control.

Capital Management

The aim of capital management is to achieve a strong capital base so that a yield reflecting the company's risk situation can be maintained for the shareholders, the future development of the business promoted and value also provided for other interest groups. Management only regards the book equity as defined in IFRS as capital. As of the balance sheet date, the equity ratio was 45.3% (previous year: 39.7%).

Targets are generally met and capital management controlled on the basis of the key figures for net financial debt/EBITDA, the ratio between net financial debt and equity and free cash flow.

V. OTHER

(26) RISK REPORT

As a global corporation, the KTM Group is confronted with a large number of potential risks that are monitored with a comprehensive risk management system. The Executive and Supervisory Boards are regularly informed about any risks that could have a significant effect on business development. Management therefore takes timely action to prevent, minimize and hedge the risks involved.

Integrated into the financial reporting process is an internal control system that is adjusted to the company's requirements and includes basic principles such as separation of functions and the two-man rule. Internal and external inspections make sure that processes are improved and optimized on an ongoing basis.

Regarding the special risks in connection with financial instruments please refer to further comments in item (27) of the notes to the consolidated financial statements.

Ongoing corporate growth depends on a variety of factors, such as demand patterns, product development, exchange rate trends, the economic environment in the various sales markets, purchase prices for bought in parts, and human resources development.

Model-based annual planning: Assessing the market situation and model based annual planning have a considerable impact on the company's sales and earnings performance. Increasing market research activities and adapting model-based planning to these results enables the company to respond to the rapidly changing market environment. In the course of the past fiscal year, financial reporting was honed to provide the Executive Board with prompter and more comprehensive information on the extent of goal achievement as well as on market and competitive changes.

Exchange rate fluctuations: Regarding the currency risks, please refer to the relevant details given in item (27).

Motorcycle riding restrictions: KTM Group sales also depend on the opportunities for riding motorcycles off road and are therefore affected to a considerable extent by the national legislation governing off-road racing, motorcycle homologation and driving licenses in the countries where they are sold.

Technical innovation, racing: Technical innovations and the launch of new products are vital for giving KTM an edge over the competition. Performance in racing is not only of major importance to the company as a marketing tool, but also forms the basis for product development and serves as a benchmark for volume production development. Before being incorporated in serial production, technical improvements undergo comprehensive testing by the quality management system to eliminate any technical errors as far as possible that could negatively affect the financial results.

Purchasing risk: In view of current developments in the national and international markets, KTM's purchasing risk essentially relates to its ability to take suitable measures to assure delivery of components in case of supplier insolvencies. Thanks to adequate monitoring, the uninterrupted availability of components could be ascertained despite isolated cases of supplier insolvencies.

(27) FINANCIAL INSTRUMENTS

(27.1) Basis

The KTM Group holds primary and derivative financial instruments. Primary financial instruments mainly include financial assets, trade accounts receivable, deposits with banks, bank loans, trade accounts payable, financial liabilities and bonds. The amount of financial instruments is shown in the balance sheet and described in the notes to the consolidated financial statements.

Derivative financial instruments are generally used to hedge existing change in interest rate and foreign exchange risks. The use of derivative financial instruments is subject to appropriate authorization and control procedures in the group.

Acquisitions and sales of any financial instruments are recognized on the settlement date.

The financial instruments are generally valued at cost at the time of addition. The financial instruments are written off if the rights to payments from the investment have expired or been transferred and the group has basically transferred all the risks and rewards that are involved in ownership.

(27.2) Book Values, Fair Values and Net Result of the Financial Instruments

The book values, fair values and valuation techniques for financial assets (financial instruments on the asset side) can be broken down into the following classifications and categories according to IAS 39 and IAS 17:

TEUR	Book value	Fair value	Valuation to IAS 39				Valuation to IAS 17
			Amortized cost	Cost	Fair value affecting net income	Fair value not affecting net income	
December 31, 2011							
Loans and Receivables							
Cash and cash equivalents	14,962	14,962	✓				
Trade accounts receivable	53,594	53,594	✓				
Other financial receivables (short-term and long-term)	6,237	6,237	✓				
Financial Assets Available-for-Sale							
Financial assets – investments in affiliated and associated companies	7,458	7,458		✓			
Others							
Other short-term assets – derivatives with positive market value (fair value hedge)	359	359			✓		
Other short-term assets – derivatives with positive market value (cash flow hedge)	366	366				✓	
Total	82,976	82,976					
December 31, 2010							
Loans and Receivables							
Cash and cash equivalents	8,946	8,946	✓				
Trade accounts receivable	57,257	57,257	✓				
Other financial receivables (short-term and long-term)	2,584	2,584	✓				
Financial Assets at Fair Value through Profit and Loss							
Other short-term assets – securities (trading in terms of IAS 39)	1,091	1,091			✓		
Financial Assets Available-for-Sale							
Financial assets – investments in affiliated and associated companies	4,370	4,370		✓			
Financial assets – investments	1,852	1,852		✓			
Others							
Other short-term assets – derivatives with positive market value (fair value hedge)	128	128			✓		
Other short-term assets – derivatives with positive market value (cash flow hedge)	758	758				✓	
Total	76,986	76,986					

Trade accounts receivable and other financial receivables primarily have short maturity periods. Their book values on the balance sheet date are therefore approximately the same as the fair values.

The financial assets in the available-for-sale measurement category do not include listed equity instruments if their fair value could not reliably be determined. These equity instruments are shown in the above tables in the “Available-for-Sale (at Cost)” measurement category and are recognized at cost.

The book values, fair values and valuation techniques for financial debts (financial instruments on the liability side) can be broken down into the following classifications and categories according to IAS 39 and IAS 17:

TEUR	Book value	Fair value	Valuation to IAS 39				Valuation to IAS 17
			Amortized cost	Cost	Fair value affecting net income	Fair value not affecting net income	
December 31, 2011							
Financial Liabilities at Amortized Cost							
Bank loans	139,922	139,917	✓				
Trade accounts payable	54,578	54,578	✓				
Trade accounts payable to affiliated companies	11,062	11,062	✓				
Other financial receivables (short-term and long-term)	22,363	22,363	✓				
Others							
Finance lease obligations	37	37					✓
Other financial liabilities – derivatives with negative fair value (fair value hedge)	2,024	2,024			✓		
Other financial liabilities – derviations with negative fair value (cash flow hedge)	4,506	4,506				✓	
Total	234,492	234,487					
December 31, 2010							
Financial Liabilities at Amortized Cost							
Bank loans	146,104	146,195	✓				
Trade accounts payable	37,725	37,725	✓				
Trade accounts payable to affiliated companies	7,979	7,979	✓				
Financial liabilities to affiliated companies	13,021	13,021	✓				
Other financial receivables (short-term and long-term)	13,849	13,849	✓				
Others							
Other financial liabilities – derivatives with negative fair value (fair value hedge)	3,658	3,658			✓		
Other financial liabilities – derviations with negative fair value (cash flow hedge)	16,073	16,073				✓	
Total	238,408	238,499					

Trade accounts payable and other financial liabilities generally have short maturity periods. The recognized values are therefore approximately the same as the fair values. The fair values for the bank debts, financial liabilities and bonds are, where material, determined as the present value of the payments involved in the debts on the basis of the market parameters effective at the time.

Classification of financial instruments by valuation method

The current market value of financial instruments is determined by listed market prices for the identical instrument in active markets (level 1). In case no listed market price on active markets is available, the current market value is determined by valuation methods, whose parameters are based on monitorable market data (level 2). Otherwise the determination of the current market value is based on valuation methods whose parameters are not based on monitorable market data (level 3):

TEUR	Level 1	Level 2	Level 3	Total
December 31, 2011				
Financial assets				
Derivative financial instruments	0	725	0	725
Financial liabilities				
Derivative financial instruments	0	6,530	0	6,530
December 31, 2010				
Financial assets				
Securities	1,091	0	0	1,091
Derivative financial instruments	0	886	0	886
Financial liabilities				
Derivative financial instruments	0	19,731	0	19,731

The net result from the financial instruments in the classifications and measurement categories according to IAS 39 includes net profit/loss, total interest income/expenditure and impairment losses, and can be broken down as follows:

TEUR	From interest	From subsequent measurement at fair value	From value adjustment	From disposal result	Net result (total)
2011					
Loans and Receivables	766	0	(572)	561	755
Financial Assets Available-for-Sale	0	0	(117)	66	(51)
At Fair Value through Profit or Loss	0	(2,637)	0	0	(2,637)
Financial Liabilities at Amortized Cost	(9,693)	0	0	0	(9,693)
Total	(8,927)	(2,637)	(689)	627	(11,626)
09/01/2010–12/31/2010					
Loans and Receivables	405	0	210	394	1,009
At Fair Value through Profit or Loss	0	(971)	0	0	(971)
Financial Liabilities at Amortized Cost	(4,248)	0	0	0	(4,248)
Total	(3,843)	(971)	210	394	(4,210)

The change in value adjustment for “Loans and Receivables” is shown in the other operating expenses. The remaining components of the net result are included in the financial income or expenditure.

(27.3) Financial Risk Management

Principles of Financial Risk Management

Regarding its assets, debts and planned transactions, the KTM Group is exposed to credit, market and liquidity risks. The aim of financial risk management is therefore to control and limit these risks. The Executive and Supervisory Boards are regularly informed about any risks that could have a significant effect on business development.

The basic principles of financial risk management are laid down and monitored by the Supervisory Board as well as the Executive Board. Group treasury is in charge of implementation. The KTM Group applies derivative financial instruments to hedge the financial risks described below. The aim is to hedge operative cash flows against fluctuations of foreign exchange rates and/or interest rates. The hedging scope usually encompasses currently still open items as well as planned transactions in the coming twelve months. In exceptional cases and in accordance with the Supervisory Board, also longer-term strategic hedge positions can be employed.

Currency risks

As a global corporation, the KTM Group is also affected by general economic conditions, such as changes in monetary parities or developments on the world's financial markets. The exchange rate trends for the US dollar in particular, which represents the highest individual foreign exchange risk for the KTM Group, play a significant role in the company's sales and earnings performance. In the business year 2011 23% of sales revenue (previous year: 24%) was generated in US dollars. Currency risk management, especially hedging strategies, can compensate for exchange rate deviations to a great extent, at least over a model year. For business year 2012 the US dollar-business was hedged at a rate between 1.30 and 1.39 EUR/USD.

There are also currency risks for the group when financial assets and debts are in a currency that is not the local one for the company concerned. The group companies issue the majority of bills in their local currency and finance themselves to a large extent in the local currency. Investments are primarily in the national currency of the investing group company. As a result, the currency items are usually closed naturally.

Sensitivity analyses were carried out for the currency risks involved in financial instruments that show the impact of hypothetical changes in exchange rates on earnings (after tax) and equity. The balances affected at the balance sheet date as well as the planned purchases and sales in foreign currencies in 2012 were taken as basis. It was assumed for the analysis that the risk on the balance sheet date basically represents the risk during the business year. The group tax rate used was 25%. In addition, the analysis was also based on the assumption that all other variables, especially interest rates, remain constant. Included in the analysis were currency risks for financial instruments that are denominated in a currency deviating from the functional one and of a monetary nature.

Currency risks from Euro items in subsidiaries whose functional currency deviates from the Euro were added to the currency risk for the functional currency of the relevant subsidiary. Risks involved in foreign currency items not in Euros were aggregated at group level. Exchange rates differences resulting from converting financial statements into the group currency are not taken into account.

Revaluation of the Euro – on the basis of the above assumptions – by 10% against all other currencies on the balance sheet date would have reduced the earnings (after tax) by TEUR 2,768 (previous year: reduction by TEUR 1,235) and increased the equity by TEUR 1,888 (previous year: reduction by TEUR 10,333). In addition to the sensitivity of the earnings (after tax), the sensitivity of the equity was affected by that of the currency related cash flow hedge reserve totaling TEUR 4,656 (previous year: TEUR 11,568).

Devaluation of the Euro – on the basis of the above assumptions – by 10% against all other currencies on the balance sheet date would have increased the earnings (after tax) by TEUR 3,371 (previous year: reduction by TEUR 1,575) and reduced the equity by TEUR 2,351 (previous year: TEUR 12,293). In addition to the sensitivity of the earnings (after tax), the sensitivity of the equity was affected by that of the currency related cash flow hedge reserve totaling TEUR 5,722 (previous year: TEUR 13,868).

Interest Rate Risks

The financial instruments primarily have variable interest rates both on the asset and liability side. As a result, the risk lies in rising expense interest rates and falling income interest rates due to an adverse change in the market interest rates.

As KTM Group's refinancing instruments primarily have variable interest rates they underlie interest rate risks. The risk is observed by a constant monitoring of the money and capital markets as well as by the implementation of fixed interest rate payer swaps. The company receives variable interest from the interest swaps and pays fixed interest on the nominal values in return.

Interest rate risks are therefore generally the result of primary financial instruments with variable interest rates (cash flow risk). Sensitivity analyses were carried out for the interest rate risks involved in these financial instruments that show the impact of hypothetical changes in market interest rate levels on earnings (after tax) and group equity. The balances affected at the balance sheet date were taken as the basis. It was assumed for the analysis that the risk at the balance sheet date basically represents the risk during the business year. The group tax rate used was 25%. In addition, the analysis was also based on the assumption that all other variables, especially exchange rates, remain constant.

A rise in the market interest rate level – on the basis of the above assumptions – by 50 basic points at the balance sheet date would have reduced the earnings (after tax) and group equity by TEUR 219 (previous year: TEUR 398). The share capital was influenced by the sensitivity of the cash flow hedge reserve – besides the sensitivity of the result (after tax) – and by the sensitivity of the cash flow hedge reserve for interest rate hedge in the amount of TEUR 1,180.

A fall in the market interest rate level – on the basis of the above assumptions – by 50 basic points at the balance sheet date would have increased the earnings (after tax) by TEUR 219 (previous year: TEUR 398) and decreased the share capital by TEUR 1,018. The share capital was influenced by the sensitivity of the cash flow hedge reserve – besides the sensitivity of the result (after tax) – and by the sensitivity of the cash flow hedge reserve for interest rate hedge in the amount of TEUR 1,237.

Other Market Price Risks

In addition to currency and interest rate risks, the KTM Group is also exposed to other price risks that, as a whole, are however of lesser importance to the group.

Default Risks (Credit Risks)

The default risk involved in receivables from customers can be considered low, as the risk rating of new and existing customers is checked regularly and security is demanded. When it comes to the other financial instruments shown on the asset side, the default risk is also regarded as low because the parties are debtors with excellent credit ratings. The group is exposed to a credit risk resulting from derivative financial instruments, should the parties not meet their contractual obligations. The contract parties are international financial institutions.

On the basis of their ratings, carried out by highly respected agencies, the risk for the group can be regarded as low.

In the KTM Group, default risks are hedged to a great extent by bad debt insurance on the one hand and bank securities on the other (guarantees, letters of credit). Internal guidelines define the default risks and give procedures for controlling them. When derivative financial instruments have a positive market value, the default risk is limited to the costs of replacing them. Given that the contract parties are solely banks with high credit ratings, the risk involved can be classed as low.

On the asset side, the amounts shown represent the maximum default risk. Apart from the agreement described in item (21) of the notes to the consolidated financial statements, there are no other general offsetting agreements.

The book values of the receivables can be broken down as follows:

TEUR	Book value	Thereof: neither reduced in value nor in overdue on balance sheet date	Therof: not reduced in value on balance sheet date and overdue in the following time periods				Thereof: reduced in value
			Up to 30 days	30 to 60 days	60 to 90 days	Over 90 days	
December 31, 2011							
Trade accounts receivable	53,594	36,898	1,746	2,342	4,898	4,396	3,315
Other financial receivables (short-term and long-term)	8,464	8,169	267	0	0	28	0
Total	62,058	45,067	2,013	2,342	4,898	4,424	3,315
December 31, 2010							
Trade accounts receivable	57,257	39,158	5,912	2,774	5,918	460	3,034
Other financial receivables (short-term and long-term)	5,714	5,567	2	0	0	146	0
Total	62,971	44,725	5,914	2,774	5,918	606	3,034

Regarding the recognized financial trade and other receivables that are neither reduced in value nor in arrears, there are no signs on the balance sheet date that the debtors will not honor their payment obligations.

Liquidity Risks

A major aim of financial risk management in the KTM Group is to ensure liquidity and financial flexibility at all times. For this purpose, a liquidity reserve in the form of unused credit lines (cash and guaranteed credit) – and if required in the form of cash in hand – is held at banks with a high credit ranking. In view of the global financial crisis, which has also had an immediate effect on the commercial banks used by the KTM Group, securing short and medium-term liquidity is top priority. Moreover, an important regulating factor is the maximization of free cash flow through cost-cutting measures, proactive working capital management as well as reduced investment expenditures. From today's perspective, there are adequate assurances regarding the credit ratings of the group's strategic financial partners and therefore for securing short-term liquidity reserves.

The long-term liquidity requirements are met by issuing company shares and bonds and taking out bank loans. In the framework of a strategic financing concept with a banking consortium (lead arranger: Raiffeisen Zentralbank Österreich AG, Vienna), financial covenants were agreed upon. The financial covenants were determined based on the current medium-term planning taking into account a safety margin. An adverse deviation from one of the financial covenants on two consecutive quarterly key dates, would in principle entitle the banks to call for debt repayment. Due to the positive economic development the refinancing conditions could be improved in business year 2011.

Liquidity risks are, in particular, that receipt of payments from sales turn out to be below assumptions as a result of a decline in demand and that planned measures toward working capital optimization as well as fixed costs reduction are insufficiently implemented or else with delay.

The maturity periods of the financial debts can be broken down as follows:

TEUR	Book value	Maturity periods		
		Up to 1 year	1 to 5 years	Over 5 years
December 31, 2011				
Financial Liabilities at Amortized Cost				
Bank loans	139,922	7,024	121,358	11,540
Trade accounts payable	54,578	54,578	0	0
Trade accounts payable to affiliated comanies	11,062	11,062	0	0
Other financial liabilities (short-term and long-term)	22,363	22,363	0	0
Others				
Finance lease obligations	37	7	30	0
Other financial liabilities – derivatives with negative market value (fair value hedge)	2,024	2,024	0	0
Other financial liabilities – derivatives with negative market value (cash flow hedge)	4,506	4,506	0	0
Total	234,492	101,564	121,388	11,540
December 31, 2010				
Financial Liabilities at Amortized Cost				
Bank loans	146,104	16,147	128,392	1,585
Trade accounts payable	37,725	37,725	0	0
Trade accounts payable to affiliated comanies	7,979	7,979	0	0
Financial liabilities to affiliated companies	13,021	682	2,975	9,364
Other financial liabilities (short-term and long-term)	13,849	12,899	469	0

TEUR	Book value	Maturity periods		
		Up to 1 year	1 to 5 years	Over 5 years
(continuation)				
Others				
Other financial liabilities – derivatives with negative market value (fair value hedge)	3,658	3,658	0	0
Other financial liabilities – derivatives with negative market value (cash flow hedge)	16,073	16,073	0	0
Total	248,408	95,164	131,836	10,929

The contractually agreed (undiscounted) cash flows (interest and amortization payments) for the financial debts can be broken down as follows:

TEUR	Book value	Cash flows 2012			Cash flows 2013 to 2016			Cash flows from 2017		
		Fixed interest	Variable interest	Amorti- zation	Fixed interest	Variable interest	Amorti- zation	Fixed interest	Variable interest	Amorti- zation
December 31, 2011										
Financial Liabilities at Amortized Cost										
Bank loans	139,922	293	6,492	7,024	559	13,061	121,358	0	819	11,540
Trade accounts payable	54,578	0	0	54,578	0	0	0	0	0	0
Trade accounts payable to affiliated companies	11,062	0	0	11,062	0	0	0	0	0	0
Other financial liabilities (short-term and long-term)	22,363	0	0	22,363	0	0	0	0	0	0
Others										
Other financial liabilities – derivatives with negative market value (fair value hedge)	2,024	0	0	2,024	0	0	0	0	0	0
Other financial liabilities – derivatives with negative market value (cash flow hedge)	4,506	0	0	4,506	0	0	0	0	0	0
Total	234,455	293	6,492	101,557	559	13,061	121,358	0	819	11,540

TEUR	Book value	Cash flows 2012			Cash flows 2013 to 2016			Cash flows from 2017		
		Fixed interest	Variable interest	Amortization	Fixed interest	Variable interest	Amortization	Fixed interest	Variable interest	Amortization
December 31, 2010										
Financial Liabilities at Amortized Cost										
Bank loans	146,104	1,259	4,773	16,147	2,100	9,439	128,392	221	13	1,565
Trade accounts payable	37,725	0	0	37,725	0	0	0	0	0	0
Trade accounts payable to affiliated companies	7,979	0	0	7,979	0	0	0	0	0	0
Financial liabilities to affiliated companies	13,021	0	220	682	0	782	2,975	0	1,286	9,364
Other financial liabilities (short-term and long-term)	13,849	0	0	12,900	0	0	469	0	0	0
Others										
Other financial liabilities – derivatives with negative market value (fair value hedge)	3,658	0	0	3,658	0	0	0	0	0	0
Other financial liabilities – derivatives with negative market value (cash flow hedge)	16,073	0	0	16,073	0	0	0	0	0	0
Total	238,408	1,259	4,993	95,164	2,100	10,221	131,836	221	1,299	10,929

(27.4) Derivatives and Hedging

The group's derivative instruments (currency futures, interest swaps) are essentially implemented to hedge foreign currency.

The foreign currency risk results from future possible transactions (purchases and sales in foreign currency) or from already existing foreign currency borrowings and lendings. The interest risk results mainly from possible changes of interest rates on the money and capital market.

The derivative instruments are used as hedging instruments in the course of cash flow hedge relations. In addition, derivative instruments are used to provide security against fluctuations in future cash flows from recognized foreign currency liabilities, which are subject to uncertainty as a result of exchange rate and interest rate fluctuations.

The table below shows the agreed due dates for payments (nominal values) from the cash flow hedges, i.e. when the underlying transactions affect net income:

TEUR	Expected payments nominal value		
	In 6 months	In more than 6 months	Total
Hedging transactions			
Currency futures	57,385	47,608	104,993
Interest swaps	213	213	426
Total	57,598	47,821	105,419

The following derivative instruments were used as at December 31, 2011:

	Nominal value in 1,000 local currency	Fair value in TEUR	Maturity	
			Up to 1 year	1 to 5 years
December 31, 2011				
Currency futures				
USD	60,000	(2,613)	(2,613)	0
JPY	220,000	174	174	0
CAD	17,930	(353)	(353)	0
GBP	21,020	(734)	(734)	0
SEK	79,000	(144)	(144)	0
NZD	2,350	(92)	(92)	0
DKK	8,200	0	0	0
CZK	63,000	149	149	0
HUF	91,000	41	41	0
ZAR	81,100	330	330	0
Interest swaps	85,000	(2,565)	0	85,000
December 31, 2010				
Currency futures				
USD	124,200	(7,000)	(7,000)	0
AUD	62,457	(6,351)	(6,351)	0
CHF	5,950	(793)	(793)	0
CAD	12,530	(302)	(302)	0
GBP	11,870	149	149	0
SEK	80,600	(313)	(313)	0
NZD	2,228	(372)	(372)	0
CZK	39,780	0	0	0
HUF	234,460	(20)	(20)	0
ZAR	104,605	(3,843)	(3,843)	0

Currency Futures

The currency futures transactions carried out by the KTM Group are primarily intended to safeguard planned future foreign currency sales and material expenditures against the risk of exchange rate fluctuations.

Interest swaps

Fixed payer interest rate swaps to reduce the volatility of variable interest payments were negotiated in business year 2011. Underlying and hedging transactions are contracted to match all considerable critical terms. Hedging effects are tested regularly based on effectiveness tests.

Options

The KTM Group used call and put options at the same nominal value, maturity and exchange rate for USD, qualified as hedging instruments in accordance with IAS 39, whose changes in market value upon fair value hedge are recognized in the groups' income statement and upon cash flow hedge until realization of the underlying transaction are recognized in the groups' equity. These options expired in business year 2011. As per December 31, 2011 no open options existed.

Significant inefficiencies are recognized in the income statement.

The fair value of the contracted derivative instruments is exclusively determined by individual market-to-market valuations of banks.

(28) OPERATING LEASE AGREEMENTS

In addition to the finance lease agreements, there are rental and lease agreements in the KTM Group that can be classified as operating lease agreements on account of their economic content. Operating lease agreements for fixtures and furnishings are concluded for a basic lease term of up to five years. Operating lease agreements for buildings are concluded for a longer basic lease term. Leasing contracts include lease payments that are usually based on variable amounts.

Payments from minimum lease payments (expenses for lease or rent) recognized as expenses from operating leases, amount to TEUR 7,479 (previous year: TEUR 3,397) in the business year 2011. The reported expenses from operating leases neither include payments from subleases recognized as expenses nor significant contingent rental payments.

The use of lease assets not reported under tangible assets (mostly rent for parts distribution center, CNC machinery, vehicles and computer equipment) entails obligations to third parties totaling TEUR 42,103 (previous year: TEUR 37,543) that are payable as follows:

TEUR	12/31/2011	12/31/2010
Up to 1 year	9,022	7,254
2 to 5 years	32,845	28,760
Over 5 years	236	1,529
Total	42,103	37,543

(29) SEGMENT INFORMATION

The segment Information is given in the enclosure to the notes to the consolidated financial statements (see page 99).

(30) EVENTS AFTER THE BALANCE SHEET DATE

With the sales agreement of December 22, 2011 – effective January 1, 2012 – KTM-Sportmotorcycle AG sold the branch companies for exhaust pipe manufacturing and frame production to WP Radiator GmbH and WP Suspension Austria GmbH. Consequently the KTM staff was reduced by 186 employees.

The following assets and liabilities of the consolidated group statement per December 31, 2011 can be attributed to these companies.

TEUR	12/31/2011
Long-term assets	1,361
Inventories	4,082
Assets	5,443
Personnel provisions	(1,116)
Liabilities	(1,116)

Neither a decline in sales nor a considerable change of the cost structure in the income statement are expected.

The KTM Group intends to run a production for motorcycles with more than 450 cc in Brazil in cooperation with a partner as a joint venture. In business year 2012 the partner filed a suit for cancellation of the joint venture. Provisions for risks recognizable at balance sheet date are included in the consolidated financial statements of December 31, 2011.

Further events after December 31, 2011, that are important for the evaluation of assets and liabilities are either considered in the notes or not known.

(31) BUSINESS CONNECTIONS WITH RELATED COMPANIES AND PERSONS

CROSS Industries AG, Wels, which is indirectly controlled by Stefan Pierer and Rudolf Knünz, holds an interest of 50.2% of the voting rights in KTM Power Sports AG, Mattighofen, and is because of the factual situation controlling shareholder of KTM Power Sports AG, Mattighofen. Stefan Pierer and Rudolf Knünz (until July 5, 2010) are members of the Executive Board of CROSS Industries AG, Wels.

Stefan Pierer holds the following key board positions in the KTM Group:

- Chief Executive Officer of KTM Power Sports AG, Mattighofen
- Member of the Executive Board of KTM-Sportmotorcycle AG, Mattighofen

Rudolf Knünz holds the following key board positions in the KTM Group:

- Chairman of the Supervisory Board of KTM Power Sports AG, Mattighofen
- Chairman of the Supervisory Board of KTM-Sportmotorcycle AG, Mattighofen

Hans-Jörg Hofer, as a member of the Supervisory Board, holds an interest of over 5%, but less than 10% in KTM Power Sports AG.

Member of the Supervisory Board, Rajiv Bajaj, is Chief Executive Officer at Bajaj Auto Ltd., Pune, India, holding a share of 40.9% in KTM Power Sports AG as per the balance sheet date. As at December 31, 2011 the liability to Bajaj Auto Ltd. amounts to TEUR 443 (previous year: TEUR 46).

Since 2007 a cooperation with the Indian Bajaj Group exists. The Bajaj Group is the second biggest manufacturer in India and sold 2.85 million motorcycles and three-wheelers in the last business year (balance sheet date March 31, 2011). The focus of the cooperation lies on the joint development of street motorcycles in entry segment 125 to 350 cc that are produced in India and distributed under brand KTM by both companies in their home markets.

Ernst Chalupsky was a member of the Supervisory Board of KTM Power Sports AG, Mattighofen, and KTM-Sportmotorcycle AG, Mattighofen until April 26, 2011, and is partner in Saxinger, Chalupsky & Partner Rechtsanwälte GmbH, Wels. In the past business year the KTM Group reported expenses to Saxinger, Chalupsky und Partner Rechtsanwälte GmbH for services, accruals and services recognised in the group equity of TEUR 411.

Gerald Kiska is a member of the Supervisory Board of CROSS Industries AG, Wels and is managing partner at Kiska GmbH, Anif, in which KTM Power Sports AG holds a share of 24.9%. In the business year 2011 the group reported expenses amounting to TEUR 3,316 (previous year: TEUR 972) for services from Kiska GmbH, Anif. As at December 31, 2011 liabilities totalling TEUR 1,064 (previous year: TEUR 784) were due to Kiska GmbH, Anif.

Consulting services and other services from Saxinger, Chalupsky & Partner Rechtsanwälte GmbH, Wels, and Kiska GmbH, Anif, were used on standard terms and conditions and approved by the Supervisory Board.

The most important business transactions and outstanding balances with affiliated companies can be broken down as follows:

TEUR	Net sales	Other income	Cost of material	Cost of raw materials and supplies	Interest expenses	Receivables	Liabilities
December 31, 2011							
Various KTM sales subsidiaries	0	0	0	19,461	0	583	4,561
Shareholdings	2,373	61	0	0	0	2,509	68
Other non-consolidated subsidiaries	46	0	0	3	0	50	0
Cross Industries AG, Wels	0	0	378	1,457	0	0	316
Cross Lightweight Technologies Holding GmbH, Wels	0	95	0	0	0	95	0
WP Suspension Austria GmbH, Munderfing	0	35	34,306	656	0	0	4,936
WP Radiator GmbH, Mattighofen	0	56	3,640	60	0	0	410
“Die Wethje GmbH Kunststofftechnik”, Hengersberg, Germany	0	79	826	0	0	50	104
Kiska GmbH, Anif	0	188	0	3,316	0	0	1,064
Pankl Racing Systems AG, Kapfenberg	0	2	1,410	436	0	0	490
Bajaj Auto Ltd., Pune, India	1,271	91	3	0	0	0	443
Other companies	136	409	268	68	484	840	1,747
Total	3,827	1,016	40,832	25,456	484	4,128	14,140

TEUR	Net sales	Other income	Cost of material	Cost of raw materials and supplies	Interest expenses	Receivables	Liabilities
December 31, 2010							
Various KTM sales subsidiaries	0	0	0	6,929	0	826	3,023
Shareholdings	2,877	0	0	0	0	3,402	0
Cross Industries AG, Wels	2	0	0	298	0	0	87
KTM Immobilien GmbH, Wels	0	0	35	400	90	0	13,021
WP Suspension Austria GmbH, Munderfing	4	0	10,531	74	0	79	4,044
WP Suspension B.V., Malden, Netherlands	49	17	119	0	0	11	2
WP Radiator GmbH, Mattighofen	8	26	1,403	7	0	0	317
Wethje-Entwicklungs GmbH, Vilshofen-Pleinting, Germany	0	2	0	0	0	1	0
Die Wethje GmbH Kunststofftechnik, Hengersberg, Germany	37	0	865	0	0	37	191
KTM Financial Services GmbH, Kiefersfelden, Germany	0	0	0	0	0	9	2,086
Kiska GmbH, Anif	0	0	0	972	0	0	784
Saxinger, Chalupsky & Partner Rechtsanwälte GmbH, Wels	0	0	0	40	0	0	0
Other companies	116	1	99	167	0	5	160
Total	3,093	46	13,051	8,888	90	4,370	23,715

All the products and services are agreed at standard prices.

WP Suspension Austria GmbH, WP Suspension B.V., “Die Wethje GmbH Kunststofftechnik”, Wethje-Entwicklungs GmbH and WP Radiator GmbH act as suppliers of purchased parts for the KTM Group.

The liabilities to KTM Immobilien GmbH are related to a long-term sale & lease back agreement of TEUR 14,100 covering the sale of land and buildings on standard market terms. In addition, there is a rental agreement with KTM Immobilien AG, Wels, for the spare parts store in Munderfing. The contribution of KTM Immobilien AG, Wels, into KTM Power Sports AG in the course of the capital increase in June 2011 and its first-time consolidation at the same time in the KTM Power Sports AG Group resulted in a discontinuation of the sale & lease back transaction in the KTM Power Sports AG Group.

The liability to KTM Immobilien AG, Wels, is recognized in the consolidated balance sheet under the long-term liabilities to affiliated companies.

As per contract of sale and assignment of November 20, 2009 KTM Power Sports AG, Mattighofen, acquired 74% of the shares in KTM Technologies GmbH, Anif, from CROSS Motorsport Systems AG for TEUR 89. As stated in the contract of sale and assignment of September 30, 2011 KTM Power Sports AG, Mattighofen, sold 23.9% of shares in KTM Technologies GmbH, Anif to CROSS Lightweight Technologies Holding GmbH, Wels, at a purchase price of TEUR 95.

As per contract of sale and assignment of September 13, 2010 KTM Power Sports AG, Mattighofen, acquired 24.9% of the shares in Kiska GmbH, Anif, from CROSS Industries AG for TEUR 1,752.

(32) BOARD OF KTM POWER SPORTS AG

The following persons were appointed as authorized representatives of the **Supervisory Board** in business year 2011:

- Rudolf Knünz, Dornbirn, Chairman
- Hans-Jörg Hofer, Vaduz, Liechtenstein, Deputy Chairman
- Rajiv Bajaj, Akurdi/Pune, India
- Ernst Chalupsky, Wels (until June 2, 2011)
- Wolfgang Kappl, Vienna (since June 2, 2011)
- Friedrich Lackerbauer, Neukirchen an der Enknach (Board Employee Representative)
- Horst Resch, Schalchen (Board Employee Representative)

The following members of the **Executive Board** were appointed as collective representatives in business year 2011:

- Stefan Pierer, Wels, Chairman
- Harald Plöckinger, Wels
- Friedrich Roithner, Linz (since January 1, 2011)
- Hubert Trunkenpolz, Wels

Mattighofen, on February 20, 2012



Stefan Pierer
CEO



Harald Plöckinger
COO



Friedrich Roithner
CFO



Hubert Trunkenpolz
CSO

CONSOLIDATED FIXED ASSETS SCHEDULE

ENCLOSURE TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

TEUR	Acquisition and manufacturing cost							
	As at Jan 1, 2011	Currency conversion	Additions	Additions, reclassification from first consolidation	Reclassifi- cations	Disposals	As at Dec 31, 2011	
2011								
INTANGIBLE ASSETS								
Concessions, commercial patent rights and similar rights and interests, as well as any derived licenses	73,507	(83)	1,779	0	101	(1)	75,303	
Capitalized development costs	147,116	0	25,332	0	0	0	172,448	
Goodwill	95,765	(62)	0	351	0	0	96,054	
	316,388	(145)	27,111	351	101	(1)	343,805	
TANGIBLE ASSETS								
Land	999	3	2	8,820	0	(41)	9,783	
Buildings	42,244	146	139	17,962	0	(50)	60,441	
Machinery	18,850	(14)	1,038	0	112	(266)	19,720	
Fixtures and furnishings	118,495	182	5,303	1,814	3,598	(1,935)	127,457	
Advance payments made	3,078	(10)	4,110	0	(3,811)	(163)	3,204	
	183,668	307	10,592	28,596	(101)	(2,455)	220,605	
FINANCIAL ASSETS								
Investments in affiliated companies	4,370	0	1,218	0	0	0	5,588	
Investments in associated companies	1,857	0	137	0	0	0	1,994	
Securities	15	0	0	0	0	0	15	
	6,242	0	1,355	0	0	0	7,597	
TOTAL	506,297	162	39,058	28,947	0	(2,456)	572,007	

	Accumulated depreciation					Net value		
	As at Jan 1, 2011	Currency conversion	Additions	Additions, reclassification from first consolidation	Disposals	As at Dec 31, 2011	As at Dec 31, 2011	As at Dec 31, 2010
	9,711	(32)	1,279	0	(1)	10,957	64,346	63,796
	100,793	0	17,799	0	0	118,592	53,856	46,323
	17,273	(12)	0	0	0	17,261	78,793	78,492
	127,777	(44)	19,078	0	(1)	146,810	196,995	188,611
	19	1	0	0	0	20	9,763	979
	11,509	41	1,519	2,199	(6)	15,262	45,179	30,737
	16,809	0	1,408	0	(266)	17,951	1,769	2,043
	92,127	151	11,364	845	(1,371)	103,116	24,341	26,368
	0	0	0	0	0	0	3,204	3,077
	120,464	193	14,291	3,044	(1,643)	136,349	84,256	63,204
	0	0	100	0	0	100	5,488	4,370
	6	0	17	0	0	23	1,971	1,852
	15	0	0	0	0	15	0	0
	21	0	117	0	0	138	7,458	6,222
	248,262	149	33,486	3,044	(1,644)	283,297	288,709	258,036

TEUR	Acquisition and manufacturing cost						
	As at Sep 1, 2010	Currency conversion	Additions	Changes due to first/final consolidation	Reclassifi- cations	Disposals	As at Dec 31, 2010
09/01/2010 – 12/31/2010							
INTANGIBLE ASSETS							
Concessions, commercial patent rights and similar rights and interests, as well as any derived licenses	72,914	18	515	58	5	(3)	73,507
Capitalized development costs	140,598	0	6,518	0	0	0	147,116
Goodwill	95,356	20	389	0	0	0	95,765
	308,868	38	7,422	58	5	(3)	316,388
TANGIBLE ASSETS							
Land	1,004	(4)	(1)	0	0	0	999
Buildings	42,414	(227)	45	12	0	0	42,244
Machinery	18,704	0	196	10	0	(60)	18,850
Fixtures and furnishings	117,399	(256)	1,006	536	397	(587)	118,495
Advance payments made	1,498	1	1,980	0	(402)	1	3,078
	181,019	(486)	3,226	558	(5)	(646)	183,668
FINANCIAL ASSETS							
Investments in affiliated companies	4,084	0	286	0	0	0	4,370
Investments in associated companies	216	0	1,761	(120)	0	0	1,857
Other investments	0	0	0	0	0	0	0
Securities	15	0	0	0	0	0	15
	4,315	0	2,047	(120)	0	0	6,242
TOTAL	494,201	(448)	12,695	496	0	(649)	506,297

	Accumulated depreciation						Net value	
	As at Sep 1, 2010	Currency conversion	Additions	Changes due to first/final consolidation	Disposals	As at Dec 31, 2010	As at Dec 31, 2010	As at Aug 31, 2010
	9,170	11	472	58	0	9,711	63,796	63,744
	95,471	0	5,322	0	0	100,793	46,323	45,127
	17,271	2	0	0	0	17,273	78,492	78,085
	121,912	13	5,794	58	0	127,777	188,611	186,956
	20	(1)	0	0	0	19	979	984
	11,150	(45)	397	7	0	11,509	30,737	31,264
	16,348	0	517	3	(59)	16,809	2,043	2,356
	88,715	(195)	3,949	142	(484)	92,127	26,368	28,684
	0	0	0	0	0	0	3,077	1,498
	116,233	(241)	4,863	152	(543)	120,464	63,204	64,786
	0	0	0	0	0	0	4,370	4,084
	6	0	0	0	0	6	1,852	210
	0	0	0	0	0	0	0	0
	15	0	0	0	0	15	0	0
	21	0	0	0	0	21	6,222	4,294
	238,166	(228)	10,657	210	(543)	248,262	258,036	256,036

CONSOLIDATED PROVISIONS SCHEDULE

ENCLOSURE TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

TEUR	Provisions for warranties and accommodation warranties	Provisions for impending losses	Provisions for trials	Total
SHORT-TERM PROVISIONS				
As at August 31, 2010	3,816	443	419	4,678
Additions	3,646	0	195	3,841
Disposals	0	(279)	0	(279)
Use	(3,816)	(13)	(418)	(4,247)
As at December 31, 2010	3,646	151	196	3,993
Additions	3,823	0	415	4,238
Use	(3,646)	(151)	(196)	(3,993)
AS AT DECEMBER 31, 2011	3,823	0	415	4,238

SEGMENT INFORMATION

ENCLOSURE TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

TEUR	Europe		North America		Others	
	2011	09/01/2010– 12/31/2010	2011	09/01/2010– 12/31/2010	2011	09/01/2010– 12/31/2010
Net sales (including net sales within segments)	501,737	125,709	115,267	26,968	20,504	6,636
External net sales	329,073	86,883	106,537	24,182	91,191	20,519
EBIT	27,782	6,755	2,879	801	354	(98)
Assets	399,853	362,157	27,406	25,236	9,897	11,787
Liabilities	258,518	262,100	25,141	24,763	10,036	11,899
Investments	38,568	12,425	410	260	80	10
Depreciation	32,681	10,358	651	245	154	54

TEUR	Consolidation		Group	
	2011	09/01/2010– 12/31/2010	2011	09/01/2010– 12/31/2010
Net sales (including net sales within segments)	(110,707)	(27,729)	526,801	131,584
External net sales	0	0	526,801	131,584
EBIT	(6)	63	31,009	7,521
Assets	48,620	46,145	485,775	445,325
Liabilities	(27,694)	(30,225)	266,001	268,537
Investments	0	0	39,058	12,695
Depreciation	0	0	33,486	10,657

LIST OF EQUITY INTERESTS AS AT DECEMBER 31, 2011

ENCLOSURE TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Company	Initial consolidation date	Participation	Type of consolidation
AFFILIATED COMPANIES			
KTM-Sportmotorcycle AG, Mattighofen	09/01/1999	100.00%	FC
KTM North America, Inc., Amherst, Ohio, USA	09/01/1993	100.00%	FC
KTM-Motorsports, Inc., Amherst, Ohio, USA	09/01/2000	100.00%	FC
KTM-Sportmotorcycle Japan K.K., Tokyo, Japan	09/01/2002	100.00%	FC
KTM-Racing AG, Frauenfeld, Switzerland	01/28/2003	100.00%	FC
KTM-Sportcar Sales GmbH, Mattighofen	03/01/2005	100.00%	FC
KTM Events & Travel Service AG, Frauenfeld, Switzerland	09/01/2006	100.00%	FC
KTM Motorcycles S.A. Pty. Ltd., Paulshof, South Africa	03/01/2009	100.00%	FC
KTM Sportmotorcycle Mexico C.V. de S.A., Nuevo Leon, Mexico	06/01/2009	100.00%	FC
KTM South East Europe S.A., Elefsina, Greece	11/01/2010	100.00%	FC
KTM Technologies GmbH, Anif	12/01/2009	50.10%	FC
KTM Immobilien GmbH, Wels	06/01/2011	99.00%	FC
KTM Dealer & Financial Services GmbH, Mattighofen	05/01/2011	100.00%	FC
KTM-Sportmotorcycle GmbH, Ursensollen, Germany ¹	–	100.00%	AE
KTM Switzerland Ltd, Frauenfeld, Switzerland ¹	–	100.00%	AE
KTM-Sportmotorcycle UK Ltd., Brackley, Great Britain ¹	–	100.00%	AE
KTM-Sportmotorcycle Espana S.L., Terrassa, Spain ¹	–	100.00%	AE
KTM-Sportmotorcycle France SAS, Lyon, France ¹	–	100.00%	AE
KTM-Sportmotorcycle Italia s.r.l., Gorle, Italy ¹	–	100.00%	AE
KTM-Sportmotorcycle Nederland B.V., Malden, Netherlands ¹	–	100.00%	AE
KTM-Sportmotorcycle Scandinavia AB, Örebro, Sweden ¹	–	100.00%	AE
KTM-Sportmotorcycle Belgium S.A., Wavre, Belgium ¹	–	100.00%	AE
KTM Canada Inc., St-Bruno, Canada ¹	–	100.00%	AE
KTM Hungária Kft., Törökbálint, Hungary ¹	–	100.00%	AE
KTM Central East Europe s.r.o., Bratislava, Slovakia ¹	–	100.00%	AE
KTM-Österreich Vertriebs GmbH, Mattighofen ¹	–	100.00%	AE
KTM Nordic Oy, Vantaa, Finland ¹	–	100.00%	AE
KTM Sportmotorcycle d.o.o., Marburg, Slovenia ¹	–	100.00%	AE
KTM Czech Republic s.r.o., Pilsen, Czech Republic ¹	–	100.00%	AE
KTM-Sportcar Australia Pty Ltd., Perth, Australia ¹	–	100.00%	PC
KTM Finance GmbH, Frauenfeld, Switzerland ¹	–	100.00%	PC
KTM Wien GmbH, Mattighofen ²	–	100.00%	PC
KTM do Brasil Ltda., Sao Paulo, Brazil ²	–	100.00%	PC

¹ Due to immateriality immateriality not consolidated

² Due to insignificance not included at-equity

FC Full consolidation

AE At-equity

PC At purchase costs

Company	Initial consolidation date	Participation	Type of consolidation
OTHER SHAREHOLDINGS			
KTM New Zealand Ltd., Auckland, New Zealand	–	26.00%	AE
KTM Braumandl GmbH, Wels ²	–	26.00%	PC
KTM MIDDLE EAST AL SHAFAR LLC, Dubai, United Arab Emirates ²	–	25.00%	PC
KTM Financial Services GmbH, Kiefersfelden, Germany ²	–	25.00%	PC
Project Moto Rütter & Holte GmbH, Oberhausen, Germany ²	–	26.00%	PC
Kiska GmbH, Anif ²	–	24.90%	PC
MX – KTM Kini GmbH, Wiesing ²	–	26.00%	PC
KTM Regensburg GmbH, Regensburg, Germany ²	–	26.00%	PC

² Due to insignificance not included at-equity

FC Full consolidation

AE At-equity

PC At purchase costs

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of KTM Power Sports AG, Mattighofen, for the reporting period from January 1, 2011 to December 31, 2011. These consolidated financial statements comprise the balance sheet as at December 31, 2011, and the income statement, the consolidated statement of comprehensive income, the cash flow statement and the statement of changes in equity for the year then ended, and the notes.

Management's Responsibility for the Consolidated Financial Statements and Accounting System

Management is responsible for the accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control as management determines it necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and present fairly, in all material respects, the financial position of the group as at December 31, 2011 and its financial performance for the period from January 1, 2011 to December 31, 2011 in accordance with generally accepted accounting principles in the International Financial Reporting Standards (IFRSs) as adopted by the EU.

REPORT ON OTHER LEGAL REQUIREMENTS (GROUP MANAGEMENT REPORT)

Austrian legal requirements require us to verify whether the group management report is consistent with the financial statements and whether the other disclosures made in the group management report do not give rise to misconception of the position of the group. The auditor's report should also include a statement whether the group management report is consistent with the consolidated financial statements and whether the disclosures as required under article 243a Austrian Company Code (UGB) are adequate.

In our opinion, the group management report is consistent with the consolidated financial statements. The disclosures as required under article 243a Austrian Company Code (UGB) are adequate.

Linz, on February 20, 2012

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

Helge Löffler m. p.
Austrian Chartered Accountant

Cäcilia Gruber m. p.
Austrian Chartered Accountant

This report is a translation of the original report in German, which is solely valid. Publication of the consolidated financial statements together with our auditor's opinion may only be made if the consolidated financial statements and the group management report are identical with the audited version attached to this report. article 281 section 2 UGB applies.

STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial 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 separate 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.

Mattighofen, March 2012



Stefan Pierer
CEO



Harald Plöckinger
COO



Friedrich Roithner
CFO



Hubert Trunkenpolz
CSO

OTHER INFORMATION

FINANCIAL CALENDAR 2012

April 20, 2012	Annual General Meeting
April 30, 2012	Ex-Dividend-Day
April 30, 2012	Dividend Pay-Out
May 24, 2012	Publication First Quarter of 2012
August 29, 2012	Publication First Half of 2012
November 28, 2012	Publication First Three Quarters of 2012

INVESTOR RELATIONS

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KTM Power Sports AG
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Ried im Innkreis: FN 107673v

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marchesani_kreativstudio, 1080 Vienna

Photos: KTM archives

While every care was taken in compiling this Annual Report and checking that the data it contains is correct, slight differences in totals from adding up rounded amounts and percentages, typographical errors and misprints cannot be excluded.

This report and the forward-looking statements it contains were prepared on the basis of all the data and information available at the time of going to press. We wish to point out, however, that various factors may cause the actual results deviate from the forward-looking statements given in the report.

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