ANNUAL REPORT
2019

pankl RACING SYSTEMS

PANKL KEY FIGURES

PROFITABILITY RATIOS		2015	2016	2017	2018	2019	Change
Revenues	€k	173,638	185,991	195,388	217,192	233,129	7%
EBITDA	€k	23,641	26,222	25,942	28,277	31,987	13%
EBIT	€k	10,204	13,210	11,790	10,250	8,870	(14%)
Earnings before taxes (EBT)	€k	8,431	10,842	8,990	7,664	5,620	(27%)
Earnings after taxes	€k	7,931	9,985	5,731	7,878	4,737	(40%)
EBITDA margin		14%	14%	13%	13%	14%	–
EBIT margin		6%	7%	6%	5%	4%	–
BALANCE SHEET RATIOS							
Total assets	€k	180,663	195,628	220,231	244,911	266,077	9%
Net working capital[1]	€k	65,123	59,344	68,437	82,530	87,550	6%
Capital employed[2]	€k	151,979	153,616	179,931	206,888	228,965	11%
Shareholders' equity	€k	82,853	80,228	91,312	97,956	100,768	3%
Equity in % of total assets		46%	41%	42%	40%	38%	–
Net debt[3]	€k	69,126	73,388	88,619	108,932	128,197	18%
Gearing[4]		83%	91%	97%	111%	127%	–
CASH FLOW AND CAPEX							
Cash flow from operating activities	€k	16,541	23,916	13,024	11,729	27,763	137%
Free cash flow	€k	5,208	2,553	(22,206)	(13,698)	6,822	150%
Capital expenditure	€k	11,381	23,326	34,930	26,742	22,615	(15%)
EMPLOYEES							
Employees per 31 Dec		1,319	1,514	1,680	1,838	1,937	5%
VALUE CREATION							
ROCE (Return on capital employed)[5]		5%	8%	4%	5%	3%	–
ROE (Return on equity)[6]		10%	12%	7%	8%	5%	–
STOCK EXCHANGE RATIOS							
Share price per 31 Dec	€	27.50	34.00	41.00			
Number of shares issued	m share	3.15	3.15	3.15	3.15	3.15	0%
Market capitalisation	€m	86.63	107.10	129.15			
Earnings per share	€	2.43	3.22	1.93	2.52	1.51	(40%)
Book value per share	€	26,30	25,47	28,99	31,10	31,99	3%

1 Net working capital = Inventories + accounts receivable, other current receivables – accounts payable, current provisions, other provisions, other current liabilities
2 Capital employed = Shareholders' equity including minorities + financial liabilities (current, non-current) – cash and cash equivalents
3 Net debt = Financial liabilities (current, non-current) – cash and cash equivalents
4 Gearing = Net debt / shareholders' equity including minorities
5 ROCE (Return on capital employed) = NOPAT (Net operating profit after tax) / average capital employed
6 ROE (Return on equity) = Earnings after taxes / average shareholders' equity

PANKL

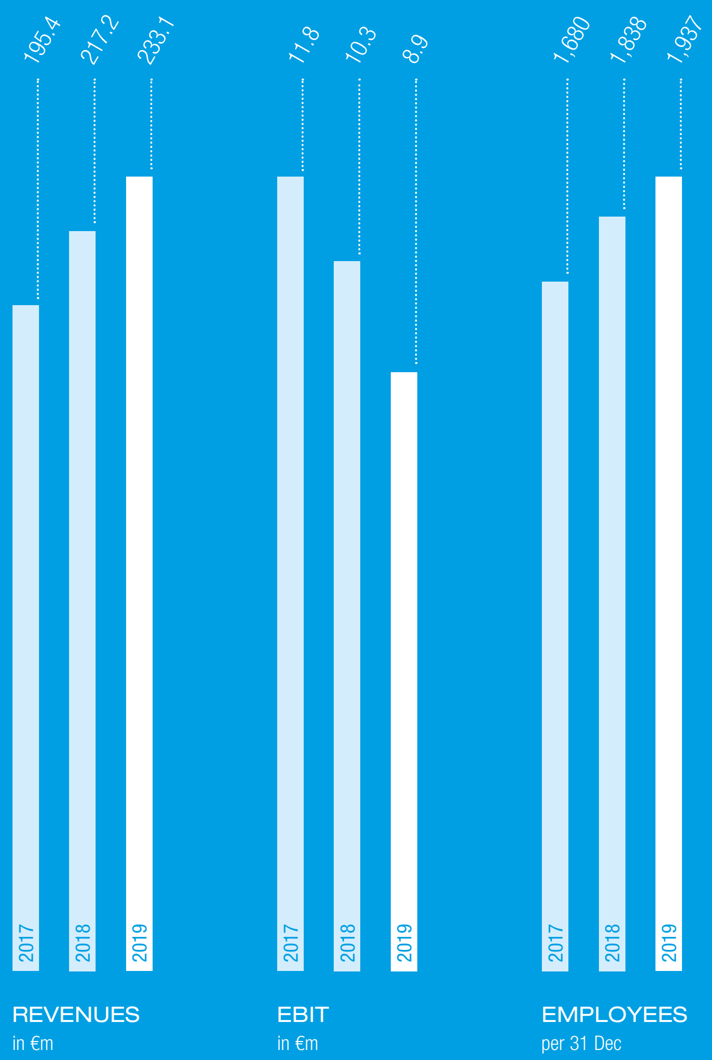
MOVES

THE

FUTURE

PANKL RACING SYSTEMS

2019 AT A GLANCE



GROUP STRUCTURE

PANKL SHW INDUSTRIES AG

PANKL RACING SYSTEMS AG
98.5%

SHW AG
50.2%

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ANNUAL REPORT **2019**

Our success is directly connected to the qualification and development of our staff. After a large-scale apprentice recruiting offensive, we have managed to reach an absolute peak in our industry area with around 100 young people presently in apprentice training at Pankl. To guarantee our high training standards, the Pankl apprentice workshop has been expanded including an increase in the number of trainers.

We are equipped for all eventualities from dual apprenticeships with higher educational degree to special mentoring for staff with immigration background or latecomers who want to reorient themselves. – Pankl moves the future!

pankl RACING SYSTEMS

LEADING SYSTEM SUPPLIER AND DEVELOPMENT PARTNER

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

PRODUCT DEVELOPMENT AND INNOVATION

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

TRANSFER OF KNOW-HOW

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

CUSTOMER SATISFACTION

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

SUCCESS FACTOR EMPLOYEES

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

CEO'S LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,
DEAR BUSINESS PARTNERS

In 2019, the automotive sector experienced another challenging year. The whole automotive industry was impacted by the aftermath of the diesel emissions scandal, the resulting tightening of emission standards and the new measuring procedures (WLTP) first introduced in September 2018 and further improved in 2019. Prospective customers faced high levels of uncertainty due to the public discussion and the actual introduction of driving bans in heavily polluted inner-city areas.

While our racing business was hardly impacted by this environment, we did experience very low visibility and high volatility in our high-performance business which caused a deterioration of earnings quality. Fortunately, we were successful in our efforts to improve efficiency especially in our high-performance drivetrain facility.

In the aerospace business we pushed forward with the industrialisation of the jet engine turbine shaft business both in the US and in Austria. We completed the planning stage for the new aerospace production facility in Kapfenberg, Austria.

We intensified co-operation within the Pankl SHW Group and were able to identify and realise first synergies in terms of costs, market penetration and technology.

In 2019, we started productivity and efficiency improvement programmes in nearly all of our business units both in our own production as well as in the processes of our external suppliers. We should be able to generate significant cost improvements to an extent already in the new fiscal year but primarily in the years beyond. This should strengthen our competitiveness and profitability going forward.

Our primary aim is also in future to be an innovative development partner and systems supplier of engine, drivetrain and chassis systems and lightweight components which help to improve performance and/or emissions.

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

Kapfenberg, on 20 February 2020

Wolfgang Plasser
CEO

EMPLOYEES AS OUR SUCCESS FACTOR

This principle in our mission statement is for us lived reality. Our efforts are rewarded each year with our numerous top graduates, who finish their apprenticeships with excellent results and receive the "Stars of Styria Award" from the WKO Steiermark. We are on the right path as late 2018 we have become a state certified training establishment, we have also won the fire brigade friendly employer award and have managed to finish within the first three at "Wertgeschätzt" – a styrian regional competition for family-friendly companies.

"We offer international careers that start with the apprenticeship. Of course, accordingly we also expect performance and keep our quality standards high as – for example – all applicants for an apprenticeship need to pass an entrance exam. Our apprentices can also gain international experience throughout their training period through the apprentice exchange program in cooperation with our affiliated company in Germany. The internal apprentice training is for Pankl the substantial argument to react against the shortage of skilled workers and we strive to keep all apprentice graduates within our organisation."
Harald Egger, Head of Pankl HR

Pankl is mostly dedicated to apprentice training. Momentarily, we have around 100 apprentices in training in the fields of metal technology, machining technology, industrial electrician, mechanical engineering, process technology, material technology, logistics, office administration and IT technology as well as one cook apprentice in the company cafeteria. Apart from an up-to-date apprentice workshop, we also offer weekly sport activities, health days and group excursions; outstanding performance does not remain unrewarded either. All these efforts catch the attention of young people and the word gets spread in social networks, through which – of course – Pankl also aims to recruit young talents.

A couple of years ago, Pankl started to actively support young people with immigration background, some of whom have by now successfully graduated in machining technology. Their engagement and open manners enrich our team and enhance the team spirit among our young employees. Based on these experiences, Pankl has signed the "We give future" training-charter of the Federal Ministry for Digitalisation and Economic Affairs with the future aim to continuously share our positive impressions with the society.

STAATLICH AUSGEZEICHNETER
AUSBILDUNGSBETRIEB

The vocational school in Knittelfeld has built a modern laboratory in 2019 where apprentices can obtain knowledge on measurement machines and measurement tools they will use in their future professions. As many of our apprentices are attending this institution, Pankl decided to contribute to the tuition plans and provided a new measurement table as well as a new height measurement tool. *Christoph Prattes (Pankl COO)* and *Christian Tesch (Head of the Pankl apprentice workshop)* proudly presented the new equipment to the representatives of Berufsschule Knittelfeld – *Gerhard Waidacher (Director) and Alexander Herk (Trainer)*.

As the pupils and students of today will become the skilled professionals of tomorrow, we also treasure our cooperation with various schools and universities. For example, in the last week before the school holidays, we organised a design workshop for pupils from the HTL Kapfenberg. This three-day event provides participants the opportunity to obtain experience in design know-how through the Siemens NX software. The workshop took place in our high-performance factory enabling us to organize shop floor tours for the participants and provide them with an insight into our quality processes in our state-of-the-art production facility.

For the development and training of our existing employees, we have founded the in-house "Pankl Academy". With this initiative we offer a broad variety of courses, also involve – along with internal trainers – external experts and are happy to offer a high amount of training days each year. Our portfolio includes foreign languages, communication seminars to help with soft skills, technical workshops, IT-trainings and trainings for managers. As qualified employees enable us to reach our company targets.

"It does not make a difference which area it is, one always needs to be able to leave the comfort zone behind, one needs discipline, commitment and hard work to achieve top performance. Whether it is in sports, in economics, in technology: one needs to be innovative, needs to continuously take unknown paths and will then be able to take the lead." *Wolfgang Plasser, Pankl CEO*

“WHAT I LIKE AT PANKL: AN EXCITING JOB AND NICE COLLEAGUES.”

JASMIN T.
LOGISTICS APPRENTICE

“PANKL MEANS TO ME: MOTORSPORT AND THE AIM TO BELONG TO THE WINNERS.”

SASCHA A.
MACHINING TECHNOLOGY APPRENTICE

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

LEGAL REPRESENTATIVES

MANAGEMENT BOARD

WOLFGANG PLASSER
Chief Executive Officer (CEO)

Responsible for the Aerospace segment
Appointed until 31 May 2022

Further Management Board mandates:
- CEO of SHW AG
- Member of Pankl SHW Industries AG
- Member of Pierer Industrie AG

THOMAS KARAZMANN
Chief Financial Officer (CFO)

Responsible for Finance, Personnel, Legal and IT
Appointed until 30 November 2021

Further Management Board mandates:
- CFO of SHW AG

CHRISTOPH PRATTES
Chief Operating Officer (COO)

Responsible for operations in the Racing/High Performance segment
Appointed until 31 July 2025

STEFAN SEIDEL
Chief Technical Officer (CTO)

Responsible for Sales and R&D in the Racing/High Performance segment
Appointed until 31 July 2025

SUPERVISORY BOARD

STEFAN PIERER
Chairman

Elected until the Annual General Meeting which votes on the discharge for the fiscal year 2023

JOSEF BLAZICEK
Deputy Chairman

Elected until the Annual General Meeting which votes on the discharge for the fiscal year 2023

ALFRED HÖRTENHUBER
Member

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

KLAUS RINNERBERGER
Member

Elected until the Annual General Meeting which votes on the discharge for the fiscal year 2023

FRIEDRICH ROITHNER
Member

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

PRODUCTION SITES

UNITED KINGDOM 45
Pankl Racing Systems UK

26 **GERMANY**
Pankl Turbosystems

125 **CHINA**
Pankl Cooling Systems

223

USA (CALIFORNIA)
CP-CARRILLO
Pankl Aerospace Systems

1095

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

426

SLOVAKIA
Pankl Automotive Slovakia

2

JAPAN
Pankl Japan

 Employees annual average 2019

PANKL RACING SYSTEMS AG

PANKL RACING

ENGINE

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

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

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

Pankl Japan
Tokyo (JP), 100%

Pankl Turbosystems
Mannheim (GE), 70%

DRIVETRAIN

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

PANKL HIGH PERFORMANCE

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

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

Pankl Automotive Slovakia
Topoľčany (SK), 100%

Pankl Cooling Systems[7]
Dalian (CN), 100%

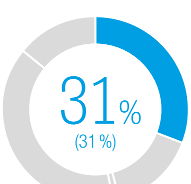
PANKL AEROSPACE

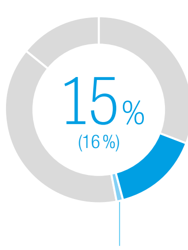
Pankl Aerospace Systems Europe
Kapfenberg (AT), 100%

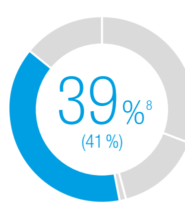
Pankl Aerospace Systems
Cerritos, CA (US), 100%

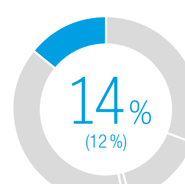
SHARE ON TOTAL REVENUE

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









[7] Formerly: KTM Components
[8] Including serial conrods and pistons

REPORT OF THE SUPERVISORY BOARD CHAIRMAN

OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2019

In the fiscal year 2019, the Supervisory Board carried out the tasks as required by law and the Articles of Association in its four formal meetings. In addition, the Management Board regularly briefed the Supervisory Board on business progress and the financial position of the Company and its subsidiaries. The chairman of the Supervisory Board entertained regular contact to the Management Board discussing strategy, business developments and risk management also outside formal supervisory board meetings.

In March 2020 and in December 2019, the audit committee held its meetings. On 18 December 2019, an audit committee meeting was held for the auditor to give an overview of the planned audit procedures and the main focus of the audit for the fiscal year 2019. In March 2020, the dividend distribution proposal, the proposal for the election of the auditor and all accounting and financial reporting issues of the Group were discussed. The members of the audit committee were Josef Blazicek and Friedrich Roithner.

On 25 March 2020, the audit committee discussed with the auditors all documentation regarding the financial statements and the auditors' reports (including the "additional report to the audit committee regarding the audit of the financial statements as of 31 December 2019" according to article 11 of the EU Directive 537/2014). These documents and reports were presented to the Supervisory Board in the subsequent meeting on 25 March 2020 together with the Management Board's status report and corporate governance report.

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

The auditor confirmed that the accounting systems and the financial statements as of 31 December 2019 are in compliance with all appropriate rules and regulations. The financial statements show a true and fair view of the financial situation of the Company in accordance with generally accepted accounting principles. The status report is consistent with the financial statements. The auditor also confirms that the consolidated financial statements are in accordance with all appropriate rules and regulations and show a true and fair view of the financial situation of the Group as of 31 December 2019 and that the profitability and cash flows are shown in accordance with International Financial Reporting Standards (IFRS). The Group status report is consistent with the consolidated financial statements.

The Supervisory Board approved the financial statements as of 31 December 2019 and the status report for the fiscal year 2019. The financial statements of the Company for the fiscal year 2019 were hence formally concluded in accordance with chapter 96 paragraph 4 of the Austrian Public Companies Act (§96 Abs. 4 AktG). The Supervisory Board acknowledges the consolidated financial statements and the Group status report for the fiscal year 2019 without objections and supports the Management Board proposal regarding the profit distribution.

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

Kapfenberg, on 25 March 2020

Stefan Pierer
Chairman of the Supervisory Board

“I CAN EXPRESS MY CREATIVITY HERE – I SEE MY FUTURE AT PANKL.”

JULIAN U.
MECHANICAL ENGINEERING APPRENTICE

GROUP STATUS REPORT
OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2019

1. BUSINESS DEVELOPMENT

1.1. MARKET ENVIRONMENT

The Pankl Group develops, manufactures, maintains and distributes high-tech mechanical systems for dynamic components in the global niche markets: motorsports, luxury/high-performance cars and aerospace.

The history of our **racing business** goes back to the year 1985 when the first connecting rods were produced for motorsports. Our racing division today is a world leading supplier of engine and drivetrain components.

Our **aerospace know-how** goes back to the year 1994, when we produced our first helicopter rear rotor driveshaft. Today, Pankl Aerospace Systems is a tier-one supplier in the global aerospace industry.

Our **high-performance division** specializes in the production of engine and drivetrain components for luxury cars and expanded in the past years continually.

1.2. RACING/HIGH PERFORMANCE SEGMENT

In motorsports, Pankl develops and produces engine components such as connecting rods, pistons, piston pins, bolts, crankshafts and turbo supercharger applications from high-strength steel and titanium alloys. In addition, Pankl provides complete solutions for drivetrain and suspension systems for all segments of motorsports.

Pankl will always aim at smart overall concepts with first-class technical support precisely adjusted to customer requirements. Pankl Racing has become a pioneering, global motorsport supplier through a combination of competence, know-how and experience as well as creativity in R&D, design and production. The core competences of the company are lightweight engine components and complete solutions for drivetrain and suspension systems designed for use in extreme conditions.

We guarantee highest quality for all our products and systems based on our in-house research and development, state-of-the-art engineering expertise, latest process and measurement technologies using the newest software tools and high-tech testing and production facilities from the first design sketch to construction and Finite Element Analysis (FEA) of the complete system to the eventual tough test in motorsport itself.

The base for our high-tech products is our modern machine park with its innovative production machines. We guarantee highest precision based on our state-of-the-art testing facilities, both in the materials sector (e.g. scanning electron microscopes, stereomicroscopes, tensile test machines) and in the test departments (e.g. component test benches, high frequency pulsers, engine test benches).

In the high-performance division, Pankl develops products in the areas engine/turbo supercharger systems, drivetrain/gearbox, forgings, industrial applications and cooling systems. Pankl offers a broad spectrum of sophisticated vehicle components which must withstand the toughest operating conditions through the development, design and production of components, groups of components and complete systems.

Pankl meets the continuously increasing demands for high engine power versus low vehicle weight with custom-made lightweight designs of all its components together with the intelligent use of steel, titanium and other high-strength alloys. High performance cars must fulfil further requirements in the areas of acceleration, handling, top speed and comparably low fuel consumption respectively CO_2 emissions.

1.3. AEROSPACE SEGMENT

Pankl Aerospace is a tier-one supplier in the aerospace industry and offers custom-made services for dynamic drivetrain components, such as design and development, construction, production, in-house material testing, calculations to measure material performance, stress and fatigue as well as complete safety and reliability analyses, prototype testing, qualification and certification.

Pankl Aerospace is a global top supplier of highly reliable lightweight drivetrain components and systems for the aerospace industry. Each product is developed based on customer requirements. We arrive at precise solutions with maximum quality, functionality and safety. Pankl Aerospace – taking existing solutions and developing them further – has become a reliable partner with decades of practical experience in the industry, sound technology expertise and a global market presence – locations in Kapfenberg, Austria and Cerritos, California. Their product portfolio contains lightweight drivetrain components and systems, jet engine driveshafts, main rotor driveshafts, gearboxes, inflight refuelling pipes and structural components for different types of engines, fixed wing aircraft and helicopters. Pankl products fulfil the strict requirements of the EU Aviation Safety Agency (EASA) to assure safe operation of aircraft equipped with these products. In addition, Pankl Aerospace is certified by major OEMs, which are the market leaders in the aerospace industry, as a supplier of Flight Safety Parts (safety critical components).

1.4. OTHER SEGMENT

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

2. DEVELOPMENT OF THE PANKL GROUP

2.1. REVENUES AND EARNINGS

EARNINGS RATIOS

€k	2017	2018	2019
Revenues	195,388	217,192	233,129
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	25,942	28,277	31,987
Earnings before interest and taxes (EBIT)	11,790	10,250	8,870
Earnings before taxes (EBT)	8,990	7,664	5,620
Earnings after taxes	5,731	7,878	4,737
EBITDA margin	13.3%	13.0%	13.7%
EBIT margin	6.0%	4.7%	3.8%

The entire automotive sector was impacted by the new emission testing procedures introduced in 2018 and tightened in 2019. Hence, the high-performance division of the Pankl Group suffered low visibility and high volatility, which caused a deterioration of profitability. The racing business was hardly affected. In the aerospace division we pushed ahead with the industrialisation of our jet engine driveshaft business in Austria and the USA.

In the fiscal year 2019, revenues of the Pankl Group increased by 7.3% to a record € 233.1m. In the Racing/High Performance segment as well as in the Aerospace segment, revenues increased versus the previous fiscal year.

The USA continued to be the largest single geographic market accounting for 21.9% of revenues. The largest European markets were Austria (20.7% of revenues), Germany (14.5% of revenues) and the United Kingdom (10.2% of revenues). Operating earnings of Pankl Group amounted to € 8.9m or 3.8% of revenues (2018: € 10.3m or 4.7% of revenues).

Adding back depreciation of € 23.1m resulted in EBITDA of € 32.0m or 13.7% of revenues versus € 28.3m or 13.0% of revenues in the previous year.

The net financial result amounted to € –3.3m (2018: € –2.6m). Group earnings after tax amounted to € 4.7m versus € 7.9m in the previous year. Consolidated net earnings after taxes and minorities decreased from € 7.9m or € 2.52 per share in 2018 to € 4.7m or € 1.51 per share in the fiscal year 2019.

2.2. CAPITAL EXPENDITURE

In the fiscal year 2019, capital expenditure in tangible (including rights of use) and intangible assets amounted to € 23.4m and was broken down in fixed assets categories as follows: intangible assets € 0.8m and tangible fixed assets € 22.6m.

2.3. CASH FLOW

CASH FLOW AND CAPITAL EXPENDITURE

€k	2017	2018	2019
Cash flow from operating activities	13,024	11,729	27,763
Free cash flow	(22,206)	(13,698)	6,822
Capital expenditure	34,930	26,742	22,615

In the fiscal year 2019, cash flow from results amounted to € 28.1m (2018: € 28.9m) and was hence at about the same level as 2018. Throughout the year, working capital increased by € 5.0m to € 87.5m (2018: € 82.5m). Considering other long-term assets and liabilities gives cash flow from operating activities of € 27.8m versus € 11.7m in 2018.

Cash flow from investing activities amounted to € –20.9m adjusted for non-cash investment transactions and was hence significantly lower than in the previous year (2018: € –25.4m). Operating free cash flow amounted to € 6.8m versus € –13.7m in 2018. This was due to lower capital expenditure and working capital optimisations in 2019.

Cash flow from financing activities amounted to € –5.2m (2018: € 10.5m). As of 31 December 2019, Pankl Group had cash and cash equivalents of € 8.2m (31 December 2018: € 6.7m).

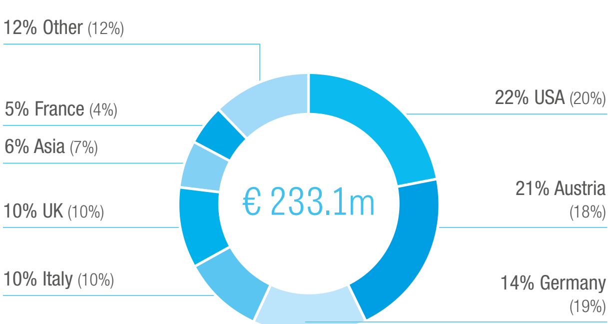
2.4. BALANCE SHEET AND FINANCIAL POSITION

BALANCE SHEET RATIOS

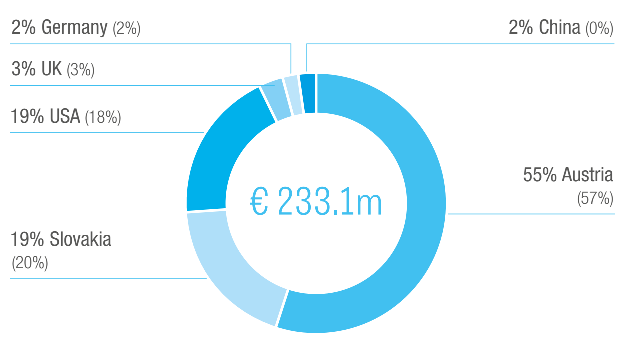
€k	2017	2018	2019
Total assets	220,231	244,911	266,077
Net working capital[9]	68,437	82,530	87,550
Capital employed[10]	179,931	206,888	228,965
Shareholders' equity	91,312	97,956	100,768
Equity in % of total assets	42.0%	40.0%	37.9%
Net debt[11]	88,619	108,932	128,197
Gearing[12]	97%	111%	127%

[9] Net working capital = Inventories + accounts receivable, other current receivables – accounts payable, current provisions, other provisions, other current liabilities
[10] Capital employed = Shareholders' equity including minorities + financial liabilities (current, non-current) – cash and cash equivalents
[11] Net debt = Financial liabilities (current, non-current) – cash and cash equivalents
[12] Gearing = Net debt / shareholders' equity including minorities

REVENUES BY COUNTRY/REGION
31 DEC 2019



REVENUES BY PRODUCTION SITE
31 DEC 2019



The number in parentheses indicates the value of the previous year

As of 31 December 2019, total assets amounted to € 266.1m and hence increased by € 21.2m versus the previous year (31 December 2018: € 244.9m).

Shareholders equity in percent of total assets decreased mainly due to the first application of IFRS 16 to 37.9% (31 December 2018: 40.0% of total assets). Net debt of the Group amounted to € 128.2m versus € 108.9m at the end of the fiscal year 2018.

2.5. ENVIRONMENT AND SUSTAINABILITY

Acting in an environmentally responsible und sustainable manner is of highest priority to the Pankl Group. In the fiscal year 2019, energy expenses amounted to 1.6% of revenues, which was the same level as in the previous year (2018: 1.6%). The Pankl Group did not incur any expenses in connection with the acquisition of CO_2 certificates and is not included in the National Allocation Plan (NAP). In the fiscal year 2014, the Pankl Group extended its environment management system by the ISO 14001 standard and since then further strengthened it on an ongoing basis.

2.6. MAJOR EVENTS DURING THE FISCAL YEAR

On 1 July 2019, the Pankl Racing Systems AG acquired 100% of the shares of KTM Components (Dalian) Co., Ltd. This company is specialised in the production of oil and water-based cooling systems for two-wheeler vehicles.

3. SEGMENT REPORTING

3.1. RACING/HIGH PERFORMANCE SEGMENT

In the fiscal year 2019, the Racing/High Performance segment revenues increased by 4.3% from € 191.8m to € 200.0m. Operating earnings (EBIT) decreased from € 10.8m or 5.7% of revenues in 2018 to € 8.8m or 4.4% of revenues in 2019. This was mainly due to the difficult market environment in the high-performance business.

3.2. AEROSPACE SEGMENT

The aerospace business showed a positive trend due to the starting jet engine driveshaft business. In the fiscal year 2019, aerospace revenues amounted to € 33.2m and were clearly above the level in the previous year (2018: € 25.6m). Also operating earnings (EBIT) increased from € 0.9m or 3.7% of revenues in 2018 to € 1.4m or 4.1% of revenues in 2019.

3.2. OTHER SEGMENT

Other segment revenues amounted to € 8.3m (2018: € 7.0m), EBIT amounted to € –1.3m (2018: € –1.5m).

“OUR INTERNAL WORKSHOPS ENHANCE THE PANKL TEAM SPIRIT.”

MARC B.
IT APPRENTICE

4. RESEARCH AND DEVELOPMENT, INNOVATION AND QUALITY

Technological leadership is one of the major success factors in the motorsport and high-performance businesses and in aerospace. Hence, research and development are of major importance for the companies of the Pankl Group. In the fiscal year 2019, expenses for intense research and development activities amounted to € 18.4m (2018: € 16.7m).

4.1. RACING/HIGH PERFORMANCE SEGMENT

The application of new or improved **materials** leading to more efficient operation of components is essential for successful development work and hence for future progress. We applied new innovative heat treatment processes for aluminum alloys. In addition, we were able to acquire new knowledge about the dynamic performance of high-strength aluminum alloys taking into account corrosion aspects. We successfully applied a newly developed steel material in pistons.

In the **product development** area, we continue to focus on additive manufacturing with the potential to optimize lightweight and performance. We developed, produced and deployed engine components and wheel carriers using additive manufacturing. We developed motorsport wheel bearings for production cars as well as a driveshaft for the Formula E market.

Process improvements are a further essential component of our R&D activities. We applied new methods for the toolless deburring of forged parts in first prototype series. In test bench technology, we extended endurance testing for chassis corners to be able to validate wheel bearing systems more accurately.

In the area additive manufacturing, we successfully completed the EN 9100 aerospace certification. We optimised existing processes significantly within the development partnership with EOS, Böhler Edelstahl and Quintus. In addition, we extended the portfolio of materials in many areas. We adjust current processes to the new generation of machines and further optimize 3D printing parameters within a project funded by the FFG.

In Formula 1 technology, we were able to transfer the I-Hub product line into serial applications and launched on the market a super high-strength steel for lightweight applications. We were also able to finalize the design phase for a F1 mono engine.

4.2. AEROSPACE SEGMENT

There was also continuous development work in the Aerospace segment. We successfully completed the NADCAP accreditation for the Magnetic Particle Inspection Process (MPI). Further accreditations are in process.

Pankl developed a dedicated rear rotor driveshaft for Unmanned Aerial Vehicles (UAV), which was successfully tested in a drone. We internalised all special processes in the jet engine driveshaft area. In the area gearbox development, we successfully tested first Power Gearbox prototypes.

4.3. QUALITY

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

Registrations and certifications guarantee customers highest product quality. Annual compliance audits are required to maintain the certified status. Pankl Group has the following certifications complying with the appropriate requirements of the automotive and aerospace industries: ISO 9001, ISO 14001, ISO/TS 16949, VDA 6.1 and AS/EN 9100. In addition, in the Aerospace segment there are certifications of the EU Aviation Safety Agency (EASA) and Austro Control (Part 21G POA and Part 21J DOA). At Pankl Aerospace Europe we received industry standard NADCAP accreditation (AC7108 and AC7114) for the special production process coating as well as for the non-destructive testing methods eddy current testing, magnetic crack testing and fluorescent penetration testing.

5. HUMAN RESOURCES REPORT

In the fiscal year 2019, the Pankl Group employed 1,942 persons (2018: 1,776 persons) on average; thereof 1,095 persons in Austria (2018: 1,038 persons) and 847 persons in the international group companies (2018: 738 persons).

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

- Racing/High Performance 1.663 persons (2018: 1.528 persons)
- Aerospace segment 168 persons (2018: 152 persons)
- Other segment 111 persons (2018: 96 persons)

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

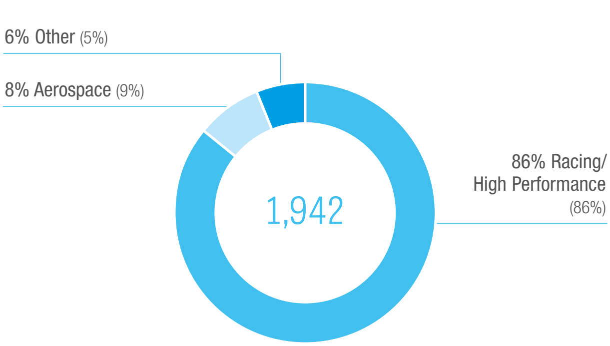
5.1. WORKPLACE HEALTH AND SAFETY

In the fiscal year 2019, as in previous years, Pankl put substantial emphasis on the health and safety of its employees. Many employees made use of offered medical check-ups to improve their own health. The annual spring and flue immunisation programs which we carry out in co-operation with Medicon are an important event for Pankl. In 2019, we focused on "healthy eyes". We carried out workshops on this topic, which participants considered to be positive and helpful.

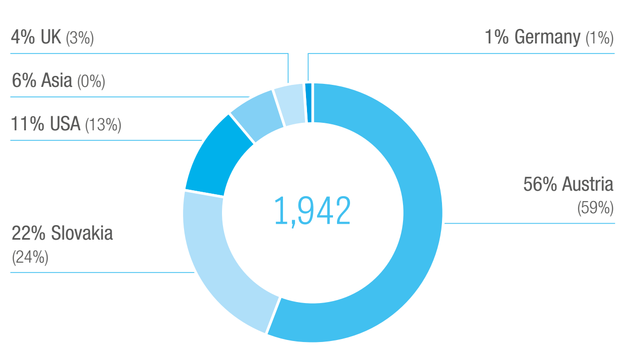
The safety officer carries out presentations on safety at the workplace for all new employees as part of the Pankl onboarding process. Also, fire-fighting exercises were carried out in the Bruck and Kapfenberg facilities in the fiscal year 2019.

In November 2019, we carried out our first health day dedicated for our apprentices. We presented different topics, such as addiction prevention, handling of social media and consciousness for healthy nutrition to the Pankl apprentices. Our safety officer delivered introductory presentations on safety at the workplace and occupational health to all new apprentices.

EMPLOYEES BY SEGMENT
2019



EMPLOYEES BY COUNTRY/REGION
2019



The number in parentheses indicates the value of the previous year

PANKL IN MOTION

Our health program "Pankl in motion" focusing on the areas relaxation, physical exercise and nutrition is being continued due to the enthusiasm and interest from our employees.

In the first half of the the fiscal year 2019, we started a Pankl-SHW exercise challenge with 601 participants. In teams of six, Pankl and SHW employees covered 2,500 kilometers in 63 days on foot.

In the second half of 2019, we focused on the topic "healthy eyes". In the Austrian facilities there was an interactive exhibition under the motto "see like an eagle". For six weeks, together with IGE, we provided exercise for special issues such as dealing with dry eyes or eyes gymnastics for in-between. Employees with a special interest were able to attend a presentation on these topics. The program was rounded off with coaching to strengthen the heart.

5.2. TRAINING AND PERSONNEL DEVELOPMENT

We support and promote the continuous development of all groups of employees. In the fiscal year 2019, we provided 19,458 training hours at our Austrian premises. For this cause, managers and employees can choose from a pool of internal and external training courses. The areas covered range from specific relevant subjects to methods and social competence and personality development, teambuilding and coaching. Since July 2019, we present all available training programs clearly in our "Pankl Academy Training Catalogue", which is available to all employees in print and online.

Our new management seminar "SLP – Strategic Leadership Program" consisting of six modules and a final presentation was successfully completed by 16 employees. The contents of the six modules were principles of communication, rhetorical and presentation skills, conflicts and crisis communication, time and self-management, personnel selection and development, leadership and teambuilding. In their future, the successful graduates will be accompanied by a dedicated mentor. This internal mentor program was started at the end of January 2020.

The aim of our manager academy is to make partners out of employees through effective leadership. The academy develops managers who have a basic understanding of leadership, apply it, think strategically, recognize and teach values and use the team as a central resource.

5.3. CAREER THROUGH APPRENTICESHIP

Internal apprenticeships are a significant component of our personnel policies as employees contribute substantially to the success of the company. This year's apprentice excursion took the apprentices to the KTM Motohall, where they were given an exciting insight into the KTM world. In addition, there was an apprentice hiking trip to Rennfeld, which improved team spirit in a sporty manner.

In the fiscal year 2019, a record number of new apprentices started at Pankl. 36 young women and men started an apprenticeship at one of the Austrian premises. In total, 98 apprentices were trained in Austria.

In 2019, Pankl continued its three-way education system in which apprentices attend Pankl Apprentice Colleges in addition to the specific vocational education at Pankl and appropriate schools. This provides comprehensive professional training which supports and strengthens personal and social competencies of each apprentice.

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

5.4. RECRUITING

In the fiscal year 2019, Pankl employed 108 new employees, consisting of replacements and additions. We received 2,475 job applications, 17% of which were unsolicited. We carried out 402 job interviews.

We continue to co-operate with schools, colleges and universities and provide master, bachelor and PHD thesis and internships to tie students to the company early on. In 2019, Pankl took part in 23 career fairs to present itself as an attractive employer. In addition, we extended our offer of on-site visits, which was met with significant interest.

In the fiscal year 2019, we continued to optimize our internal recruiting software eRecruiter. The share of online job applications increased from 40% in 2018 to 77% in 2019. We aim to structure the online job application process as simple as possible to increase this share further.

We have a solid presence on online career platforms such as karriere.at, Stepstone, TECjobs and Talto. Our most effective recruitment tool, however, continues to be our own homepage.

In 2019, we put a particular focus on the onboarding of new employees to make sure that they have a good start in the company.

5.5. SOCIAL MEDIA & SEARCH

In 2019, we continued to extend our online communications. We regularly published contents on social networks such as Facebook, LinkedIn, Instagram and YouTube to position Pankl as a successful company and an attractive employer. On 31 December 2019 we had more than 10,000 followers and fans on our channels. In 2019, we generated more than one million page views on all channels with little financial cost. We established company specific hashtags, such as #wefuelpankl or #jointhepanklteam to make it easier to find company articles in the social web as these are a major component of our employer branding communication.

We implemented the social media management tool “swat.io” in our processes to be able to manage and plan our digital page profiles in a central and comprehensive manner.

In addition to the online editorial content, we also developed an advertising strategy to reach more people via social networks or Google with the right contents in a cost-effective manner. These platforms provide precise segmentation of target groups allowing us to reach persons, for whom our advertising messages do have relevance.

5.6. FAMILY AND WORK

Combining work and family life is a major topic. Therefore, Pankl tries to actively take part, support and advise employees in the times before and after childbirth and the time after parental leave. Flexi-time solutions for parents are defined individually and after extensive consultation. Working hours can be defined in a flexible manner within the framework. Pankl conducts special interviews with parents to facilitate their return to Pankl after parental leave. In these conversations, special emphasis is put on individual wishes and requirements. Pankl employees in the Austrian facilities receive financial grants for childcare, childbirth and marriage. In 2019, Pankl was awarded to be one of the top three most family friendly employers in Styria which confirms that the path we adopted leads to sustained success.

5.7. DIVERSITY

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

6. RISK AND OPPORTUNITIES MANAGEMENT

6.1. MAJOR RISKS, UNCERTAINTIES AND OPPORTUNITIES

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

COVID-19

The Pankl Management Board is continuously monitoring the effects the Covid-19 pandemic is causing on the global economy. The consequential risks for the Pankl Group, particularly as to key markets and supply chains are being closely tracked. Owing to the circumstances, risks for the Pankl Group may arise through temporary shutdowns of customer premises and supplier factories as these result in postponed order placement as well as production delays. At this stage, the exact impact of the global crisis is not predictable.

6.2. RISK REPORT

The major risks of the company are outlined in the Notes to the consolidated financial statements in Chapter VII “Risk report”.

BREXIT

On 23 June 2016, a majority in the United Kingdom voted for Great Britain to leave the EU (“Brexit”). A withdrawal agreement which was completed by the EU-27 and Great Britain allowing for an orderly United Kingdom exit from the EU was approved by a majority of the British House of Commons on 9 January 2020 after numerous rejections during 2019. Hence, Great Britain left the European Union on 31 January 2020 There is still the risk of a disorderly exit as the future relationship between Great Britain and the European Union still needs to be negotiated. International companies fear that the movement of goods and services between the EU and the United Kingdom may be restricted. In the Pankl Group we continuously evaluate the situation and execute measures depending about the respective Pankl subsidiary to reduce the risks.

6.3. INTERNAL CONTROL SYSTEM

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

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

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

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

7. SUPPLEMENTARY AND FORECAST REPORT (OUTLOOK)

7.1. FUTURE DEVELOPMENT

During the fiscal year 2019, we started programs to improve productivity and efficiency in our own production facilities as well as in the procurement area. Already in the fiscal year 2020, but more so the years following we expect to realize significant savings from these programs which should both strengthen our competitiveness and our profitability.

Kapfenberg, on 20 February 2020

The Management Board of Pankl Racing Systems AG

Wolfgang Plasser	Thomas Karazmann	Christoph Prattes	Stefan Seidel
CEO	CFO	COO	CTO

“TEAMWORK IS EXCELLENT AT PANKL – WE ALL WORK FOR THE SAME TARGET.”

ELIAS G.
ERP APPRENTICE

CONSOLIDATED FINANCIAL STATEMENTS 2019
OF PANKL RACING SYSTEMS AG ACC. TO IFRS

CONSOLIDATED PROFIT AND LOSS ACCOUNT
OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2019

	Notes	1 Jan 2019 – 31 Dec 2019 €k	%	1 Jan 2018 – 31 Dec 2018 €k	%
REVENUES	8	233,129	100.0	217,192	100.0
Cost of goods sold	9	(182,979)	(78.5)	(168,679)	(77.7)
Gross profit		50,150	21.5	48,513	22.3
Distribution expenses	10	(14,161)	(6.1)	(13,793)	(6.4)
Administration expenses	12	(32,486)	(13.9)	(30,151)	(13.9)
Other (operating) income	14	5,506	2.4	6,455	3.0
Other (operating) expenses	13	(139)	(0.1)	(774)	(0.4)
Operating earnings (EBIT)		8,870	3.8	10,250	4.7
Financial income		27	0.0	70	0.0
Financial expenses		(3,277)	(1.4)	(2,656)	(1.2)
Financial result	15	(3,250)	(1.4)	(2,586)	(1.2)
Earnings before income taxes (EBT)		5,620	2.4	7,664	3.5
Income taxes	16	(883)	(0.4)	214	0.1
EARNINGS AFTER TAXES		4,737	2.0	7,878	3.6
Attributable to shareholders of parent company		*4,746*	*2.0*	*7,926*	*3.6*
Attributable to minorities		*(9)*	*0.0*	*(48)*	*0.0*
EARNINGS PER SHARE					
Undiluted = fully diluted earnings per share	17	€ 1.51		€ 2.52	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2019

	Notes	1 Jan 2019 – 31 Dec 2019 €k	1 Jan 2018 – 31 Dec 2018 €k
Earnings after income taxes		4,737	7,878
Items which are not shown in the profit and loss account:			
Actuarial profits/losses from pension plans and similar schemes	31	(524)	(102)
Deferred taxes from actuarial profits/losses from pension plans and similar schemes	31	131	25
Entry of IFRS 9 and IFRS 15 opening balances	3	0	260
Items which were or may be shown in the profit and loss account:			
Foreign exchange differences from net investments in foreign businesses		1,401	803
Foreign exchange differences from foreign subsidiaries		(555)	170
Other results of the period		453	1,156
TOTAL COMPREHENSIVE INCOME		5,190	9,034
Attributable to shareholders of the parent company		*5,199*	*9,078*
Attributable to minorities		*(9)*	*(44)*

CONSOLIDATED BALANCE SHEET

OF PANKL RACING SYSTEMS AG AS OF 31 DECEMBER 2019

ASSETS	Notes	31 Dec 2019 €k	%	31 Dec 2018 €k	%
NON-CURRENT ASSETS					
Goodwill	22	12,430	4.7	12,229	5.0
Other intangible assets	21	2,379	0.9	2,070	0.8
Tangible fixed assets	20	109,037	41.0	107,223	43.8
Rights of use	20	18,258	6.8	0	0.0
Financial fixed assets	24	6	0.0	1,541	0.6
Deferred tax assets	23	3,380	1.3	3,656	1.5
Total non-current assets		**145,490**	**54.7**	**126,719**	**51.7**
CURRENT ASSETS					
Inventories	25	71,300	26.8	74,310	30.3
Trade accounts receivable	26	26,024	9.8	25,775	10.5
Other current receivables and assets	27	13,830	5.2	10,115	4.1
Current tax assets		1,196	0.4	1,336	0.5
Cash and cash equivalents	28	8,237	3.1	6,656	2.7
Total current assets		**120,587**	**45.3**	**118,192**	**48.3**
TOTAL ASSETS		266,077	100.0	244,911	100.0

LIABILITIES	Notes	31 Dec 2019 €k	%	31 Dec 2018 €k	%
SHAREHOLDERS' EQUITY					
Share capital	29	3,150	1.2	3,150	1.3
Capital reserves	29	37,784	14.2	37,784	15.4
Perpetual bond	29	10,000	3.8	10,000	4.1
Retained earnings	29	49,226	18.5	46,405	18.9
Equity of parent's shareholders		**100,160**	**37.6**	**97,339**	**39.7**
Minorities	29	608	0.2	617	0.3
Total shareholder's equity		**100,768**	**37.9**	**97,956**	**40.0**
NON-CURRENT LIABILITIES					
Non-current loans	30	97,508	36.6	94,483	38.6
Non-current finance lease liabilities	30	14,729	5.5	1,609	0.7
Personnel related provisions	31	3,138	1.2	1,983	0.8
Non-current provisions	33	684	0.3	225	0.1
Other non-current liabilities	32	102	0.0	81	0.0
Deferred tax liabilities	23	151	0.1	72	0.0
Total non-current liabilities		**116,312**	**43.7**	**98,453**	**40.2**
CURRENT LIABILITIES					
Current loans and short-term portion of non-current loans	30	20,336	7.6	19,044	7.8
Current finance lease liabilities	30	3,861	1.5	452	0.2
Other current liabilities	32	11,477	4.3	15,192	6.2
Trade accounts payable		13,217	5.0	13,594	5.6
Other provisions	33	106	0.0	220	0.1
Total current liabilities		**48,997**	**18.4**	**48,502**	**19.8**
Total liabilities		**165,309**	**62.1**	**146,955**	**60.0**
TOTAL LIABILITIES		266,077	100.0	244,911	100.0

CONSOLIDATED CASH FLOW STATEMENT

OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2019

	Notes	1 Jan 2019– 31 Dec 2019 €k	1 Jan 2018– 31 Dec 2018 €k
EARNINGS AFTER INCOME TAXES		4,737	7,878
Cash flow from operating activities derived from earnings after income taxes			
Depreciation and amortisation		23,117	18,027
Profit/loss from the sale of fixed assets		19	632
Other non-cash items		2,101	3,864
Income taxes paid		(303)	(1,881)
Interest paid		(2,415)	0
Interest received		28	0
Change of non-current provisions	33	849	375
CASH FLOW FROM EARNINGS		28,133	28,895
Change of trade accounts receivable		677	481
Change of other receivables and assets		(2,406)	(5,670)
Change of inventories	25	4,520	(12,492)
Change of current assets		2,791	(17,681)
Change of trade accounts payable		(1,297)	2,681
Change of provisions		(251)	0
Change of income tax and other current liabilities		(2,211)	1,412
Change of current liabilities		(3,759)	4,093
Change of deferred taxes	23	517	(1,080)
Change of foreign exchange differences		60	631
Change of other non-current assets/liabilities		21	(3,129)
Change of non-current assets/liabilities		598	(3,578)
CASH FLOW FROM OPERATING ACTIVITIES		27,763	11,729
Capital expenditure in tangible fixed assets	20	(19,700)	(25,036)
Proceeds from the sale of fixed assets		417	593
Capital expenditure in intangible assets	21	(812)	(994)
Capital expenditure in financial assets	24	(4)	(60)
Interest received		0	70
Capital expenditure for acquisition of subsidiaries		(842)	0
CASH FLOW FROM INVESTING ACTIVITIES		(20,941)	(25,427)

	Notes	1 Jan 2019 – 31 Dec 2019 €k	1 Jan 2018 – 31 Dec 2018 €k
Loan increases	VI	23,114	27,084
Loan repayments	VI	(20,983)	(11,541)
Change of current bank account balances	VI	(1,195)	(604)
Dividend payments		(2,378)	(2,390)
Interest paid		0	(1,710)
Repayment of leasing liabilities		(3,822)	(293)
Other financing activities		43	(33)
CASH FLOW FROM FINANCING ACTIVITIES		(5,221)	10,513
CHANGE OF CASH AND CASH EQUIVALENTS		1,601	(3,185)
Cash and cash equivalents per 1 Jan	28	6,656	9,771
Cash impact of foreign exchange differences		(19)	70
Change of cash and cash equivalents		1,600	(3,185)
CASH AND CASH EQUIVALENTS PER 31 DEC		8,237	6,656

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

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

SCHEDULE OF CONSOLIDATED SHAREHOLDERS' EQUITY

OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2019

€k	Notes	Share capital	Capital reserves	Perpetual bond
Balance per 31 Dec 2018 (= 1 Jan 2019)		3,150	37,784	10,000
Earnings after taxes		0	0	0
Results directly accounted for in equity		0	0	0
Total results		0	0	0
Transactions with equity holders				
Dividend payments	20	0	0	0
BALANCE PER 31 DEC 2019		3,150	37,784	10,000
Balance per 31 Dec 2017 (= 1 Jan 2018)		3,150	37,784	10,000
Adjustments[13]		0	0	0
Balance per 1 Jan 2018 after adjustments		3,150	37,784	10,000
Total results				
Earnings after taxes		0	0	0
Results directly accounted for in equity		0	0	0
Total results		0	0	0
Transactions with equity holders				
Dividend payments	20	0	0	0
BALANCE PER 31 DEC 2018		3,150	37,784	10,000

[13] The opening balance was adjusted due to the first-time application of IFRS 9 and IFRS 15

Retained earnings: Reserves for foreign exchange differences	Retained earnings: IAS 19 reserve for actuarial losses	Retained earnings: Other retained earnings	Equity attributable to shareholders of parent company	Share of minorities	Total
(4,967)	(328)	51,700	97,339	617	97,956
0	0	4,746	4,746	(9)	4,737
848	(395)	0	453	0	453
848	(395)	4,746	5,199	(9)	5,190
0	0	(2,378)	(2,378)	0	(2,378)
(4,119)	(723)	54,068	100,160	608	100,768
(5,940)	(251)	45,908	90,651	661	91,312
0	0	256	256	4	260
(5,940)	(251)	46,164	90,907	665	91,572
0	0	7,926	7,926	(48)	7,878
973	(77)	0	896	0	896
973	(77)	7,926	8,822	(48)	8,774
0	0	(2,390)	(2,390)	0	(2,390)
(4,967)	(328)	51,700	97,339	617	97,956

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OF PANKL RACING SYSTEMS AG FOR THE FISCAL YEAR 2019

I. GENERAL NOTES

1. THE COMPANY

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

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

2. REPORTING RULES

The consolidated financial statements for the period from 1 January until 31 December 2019 were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in accordance with interpretations of the International Reporting Interpretations Committee (IFRIC) to the extent used in the EU. The consolidated financial statements per 31 December 2019 also fulfil the additional requirements of Chapter 245a, Paragraph 1 of the Austrian Companies Act (§ 245a Abs. 1 UGB).

The financial statements of the companies which are included in the consolidated financial statements are based on the same reporting rules. All companies included in the consolidated financial statements applied these rules. Except for Pankl Japan, Inc., all companies which are included in the consolidated financial statements have their balance sheet date on 31 December. The balance sheet date of Pankl Japan, Inc. is 30 September.

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

Due to the IASB disclosure initiative for the Notes, some items in the consolidated financial statements are broken down differently, the sequence of the Notes is partly new and the descriptions in the Notes are adjusted and supplemented. These changes were applied for the fiscal year 2019 and the previous fiscal year.

3. NEW STANDARDS AND INTERPRETATIONS TO BE APPLIED

IASB issued the following amendments for existing IFRS and some new IFRS and IFRIC, which were adopted by the EU Commission and are hence obligatory to be applied from 1 January 2019:

- IFRS 16 Leases
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- IFRIC 23: Uncertainty over Income Tax Treatments
- Amendments to IAS 28: Long-term interests in Associates and Joint Ventures
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Annual Improvements to IFRS Standards 2015–2017

3.1. IFRS 16 LEASES

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value.

In the Pankl Group, the standard was applied for the first time using the Modified Retrospective Method per 1 January 2019. We calculate the present value of the remaining lease payments per 1 January 2019 and capitalize it in the balance sheet. This amount of the capitalised Right-of-Use assets corresponds to the additional lease payment obligation which is shown in the balance sheet as a liability. Leasing relationships which end within twelve months from the first application of the accounting standard may be recorded as current leasing relationships. Expenses from such current leasing relationships may be accounted for as lease expenses. Pankl has chosen to use this accounting treatment for current leasing relationships. The first valuation of the Right-of-Use assets does not include any initial direct expenses and is derived at using Pankl's incremental borrowing rate except the lease contract requires the use of another interest rate. In the first application of this standard, we used an average incremental borrowing rate of 2.8%.

3.2. IMPACT OF IFRS 16 ON THE OPENING BALANCE SHEET

Per 1 January 2019 there were the following group balance sheet impacts from the first application of IFRS 16:

€k	Balance sheet 31 Dec 2018	Application of IFRS 16	Amended opening balance sheet 1 Jan 2019
Fixed assets	107,223	16,927	124,150
Non-current assets		**16,927**	
Non-current leasing liabilities	1,609	13,692	15,301
Non-current liabilities		**13,692**	
Current leasing liabilities	452	3,235	3,687
Current liabilities		**3,235**	

The first application of this standard has no impact on shareholders' equity and on deferred taxes, because the Right-of-Use assets are recorded in the same amount as the leasing liabilities.

The other new standards or interpretations to be applied had no major impacts.

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

4.1. APPLICATION OF NEW STANDARDS AND INTERPRETATIONS FROM 2020

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

New standards and interpretation	To be applied from by IASB	Endorsement by EU?	To be applied from in EU
Amendments to IFRS 9, IAS 39 and IFRS 7: interest Rate Benchmark Reform	1 Jan 2020	Yes	1 Jan 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 Jan 2020	Yes	1 Jan 2020
Amendments to References to the Conceptual Framework in IFRS Standards	1 Jan 2020	Yes	1 Jan 2020
Amendments to IFRS 3: Business Combinations	1 Jan 2020	No	–

IASB and IFRIC issued further standards and interpretations, which do not yet have to be applied in the fiscal year 2020 or which have not yet been adopted by the EU-Commission. These are the following standards and interpretations:

New standards and interpretation	To be applied from by IASB	Endorsement by EU?	To be applied from in EU
IFRS 17 Insurance Contracts	1 Jan 2021	No	–
Amendments to IAS 1: Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current	–	No	–

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

5. ESTIMATES AND UNCERTAINTIES IN DISCRETIONARY DECISIONS AND ASSUMPTIONS

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

- Assumptions are used to value goodwill and intangible assets without defined useful life. At the balance sheet date, goodwill amounted to € 12,430k (2018: € 12,229k). Note 22 “Goodwill” contains further information on impairment tests.

- Deferred tax assets are stated to the extent to which it is likely that they will be used. The assessment of such future usability is based on factors like past profitability, operating plans, expiry period of tax losses carried forward and tax planning strategies. If actual results come in below estimates, write-offs of deferred tax assets may be required affecting the profit and loss account. Per 31 December 2019, deferred tax assets from tax loss carry-forwards amounted to € 3,015k (2018: € 3,115k). Note 23 “Deferred tax assets” contains further details on deferred tax assets.

- Valuation of inventories is influenced by estimates regarding future sales potential and probability that available stock can be used in production processes. Per 31 December 2019, inventories amounted to € 71,300k (2018: € 74,310k).

- There are uncertainties regarding estimates for the valuation of personnel-related obligations. Assumptions are used for the following factors: demographics such as pension age and employee fluctuation, financial estimates such as actuarial interest rate and future development of wages and salaries. At the balance sheet date, personnel-related obligations amounted to € 3,138k (2018: € 1,983k). Note 31 “Liabilities for employee benefits” contains further information.

- For accounts receivable there are uncertainties regarding estimates for impairments according to IFRS 9 as well as for the fair value to be used. Per 31 December 2019, trade accounts receivable amounted to € 26,024k (2018: € 25,775k), € 163k of which were valued at fair value (2018: € 582k).

II. SCOPE OF CONSOLIDATION

6. CONSOLIDATION PRINCIPLES AND METHODS

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

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

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

The following foreign exchange rates for currencies which are material for Pankl Group were used for the currency translation into Euros:

	Year-end rate		Average rate	
€	31 Dec 2019	31 Dec 2018	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018
US Dollar	1.1234	1.1450	1.1195	1.1793
British Pound	0.8508	0.8945	0.8759	0.8860
Japanese Yen	121.9400	125.8500	121.9592	130.0058
Chinese Renminbi Yuan	7.8205	–	7.8008[14]	–

7. CHANGES IN THE SCOPE OF CONSOLIDATION

In the fiscal year 2019, the number of consolidated companies developed as follows:

	Fully consolidated companies
Balance per 31 Dec 2018	9
Additions in the scope of consolidation	1
Deductions in the scope of consolidation	0
Deductions by contributions in kind	0
Deductions by mergers	0
Balance per 31 Dec 2019	10
thereof foreign companies	*8*

On 1 July 2019, Pankl Racing Systems AG assumed control of KTM Components (Dalian) Co., Ltd. via the acquisition of 100% of the shares of the company.

[14] 1 Jul 2019 – 31 Dec 2019

We established the following fair values of the acquired assets and assumed liabilities at the time of acquisition:

€k	30 Jun 2019
ASSETS	
Non-current assets	
Other intangible assets	451
Tangible fixed assets	2,234
Rights of use	738
Deferred tax assets	162
Total non-current assets	**3,585**
Current assets	
Inventories	1,510
Trade accounts receivable	926
Other current receivables and assets	1,169
Cash and cash equivalents	633
Total current assets	**4,238**
Acquired assets	**7,823**
LIABILITIES	
Non-current liabilities	
Non-current loans	3,269
Non-current lease liabilities	749
Non-current provisions	765
Total non-current liabilities	**4,783**
Current liabilities	
Other current liabilities	204
Trade accounts payable	704
Total current liabilities	**908**
Assumed liabilities	**5,691**

The actual cash outflow from the acquisition was as follows:

€k	
Purchase price	1,475
– Acquired cash and cash equivalents	(633)
Net cash outflow from the acquisition	**842**

KTM Components (Dalian) Co., Ltd. generated revenues of € 4,263k and a profit after tax of € 288k in the fiscal year 2019 from the time it was added to the scope of consolidation.

The Pankl Racing Systems AG is not able to reliably determine hypothetical revenues and profit for the fiscal year 2019 based on the assumption that the acquisition had happened already at the start of the fiscal year, because there are no comparable IFRS figures available.

The purchase price allocation of the KTM Components (Dalian) Co., Ltd. results in a negative difference in the amount of € 657k, which is shown in the profit and loss account in the operating results. After carrying out the purchase price allocation the negative difference was subject to a critical plausibility test via a DCF analysis and was confirmed.

III. SEGMENT REPORTING

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

RACING/HIGH PERFORMANCE

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

AEROSPACE

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

OTHER

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

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

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

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

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

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

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

Revenues within a segment are consolidated.

In the fiscal year 2019, segment information for the described segments was as follows:

€k	Racing/High Performance	Aerospace	Other	Total	Reconciliation	Group
1 Jan 2019–31 Dec 2019						
Segment revenues	199,973	33,216	8,287	241,476	(8,347)	233,129
thereof intra-group sales	*265*	*39*	*8,043*			
thereof external revenues	*199,708*	*33,177*	*244*			
Operating earnings (EBIT)	8,850	1,364	(1,344)	8,870	0	8,870
EBIT in % of segment revenues	4.4%	4.1%	(16.2%)	3.7%		3.8%
Interest expenses	(2,463)	(892)	(1,828)	(5,183)	2,751	(2,432)
Interest income	12	3	2,763	2,778	(2,751)	27
Segment assets	195,617	38,196	15,702	249,515	16,562	266,077
Segment liabilities	22,414	4,991	3,429	30,834	134,475	165,309
Segment capital expenditure	25,481	9,398	5,502	40,381	0	40,381
Segment depreciation	(17,888)	(2,391)	(2,838)	(23,117)	0	(23,117)
thereof impairments	*0*	*0*	*0*	*0*	*0*	*0*
1 Jan 2018–31 Dec 2018						
Segment revenues	191,821	25,634	6,966	224,421	(7,229)	217,192
thereof intra-group sales	*272*	*37*	*6,921*			
thereof external revenues	*191,549*	*25,597*	*45*			
Operating earnings (EBIT)	10,842	945	(1,537)	10,250	0	10,250
EBIT in % of segment revenues	5.7%	3.7%	(22.1%)	4.6%		4.7%
Interest expenses	(1,988)	(430)	(1,595)	(4,013)	2,222	(1,791)
Interest income	5	2	2,285	2,292	(2,222)	70
Segment assets	189,192	30,821	13,556	233,569	11,342	244,911
Segment liabilities	20,797	5,188	6,661	32,646	114,309	146,955
Segment capital expenditure	21,124	3,794	2,908	27,827	0	27,827
Segment depreciation	(14,728)	(1,633)	(1,666)	(18,027)	0	(18,027)
thereof impairments	*0*	*0*	*0*	*0*	*0*	*0*

IV. NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

8. REVENUES

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

	1 Jan 2019 – 31 Dec 2019		1 Jan 2018 – 31 Dec 2018	
€k	Revenues	Share	Revenues	Share
Austria	48,293	20.7%	39,907	18.4%
USA	51,166	21.9%	43,743	20.1%
Germany	33,711	14.5%	41,239	19.0%
Others	28,522	12.2%	26,433	12.1%
Italy	23,277	10.0%	21,898	10.1%
United Kingdom	23,680	10.2%	20,878	9.6%
Asia	13,454	5.8%	14,482	6.7%
France	11,026	4.7%	8,612	4.0%
Total	233,129	100.0%	217,192	100.0%

Expected revenues from customer contracts, which were concluded as an obligation in 2019 or earlier periods and which were not or only partly completed amounted to € 0k for the fiscal year 2019 (2018: € 5,981k). The Pankl Group applies the exception of IFRS 15.121 which allows not to show expected revenues from customer contracts as long as these contracts have a maturity of up to one year.

9. COST OF GOODS SOLD

€k	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018
Material expenses and expenses for external services	84,227	74,684
Personnel expenses	67,612	64,157
Depreciation of intangible assets and tangible fixed assets	18,174	14,175
Other operating expenses	12,966	15,663
Total	182,979	168,679

10. DISTRIBUTION EXPENSES

€k	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018
Personnel expenses	9,124	8,341
Depreciation of intangible assets and tangible fixed assets	559	435
Other operating expenses	4,478	5,017
Total	14,161	13,793

11. RESEARCH AND DEVELOPMENT EXPENSES

In the fiscal year 2019, the research and development expenses shown in the profit and loss account amounted to € 18,350k (2018: € 16,737k).

12. ADMINISTRATION EXPENSES

€k	1 Jan 2019– 31 Dec 2019	1 Jan 2018– 31 Dec 2018
Personnel expenses	18,190	16,553
Depreciation of intangible assets and tangible fixed assets	4,383	3,417
Other operating expenses	9,913	10,181
Total	32,486	30,151

13. OTHER (OPERATING) EXPENSES

Other operating expenses amounted to € 139k (2018: € 774k) and contained primarily expenses from customer complaints in the amount of € 105k and losses from the disposal of fixed assets of € 19k (2018: losses from the disposal of fixed assets € 631k).

14. OTHER (OPERATING) INCOME

Other operating income amounted to € 5,506k (2018: € 6,455k) and contained primarily subsidies and other contributions amounting to € 3,740k (2018: subsidies and other contributions € 3,121k), which referred primarily to R&D grants for Austrian companies.

15. FINANCIAL RESULT AND INCOME FROM EQUITY INVESTMENTS

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

€k	1 Jan 2019– 31 Dec 2019	1 Jan 2018– 31 Dec 2018
Interest and similar income	27	70
Financial income	27	70
Interest and similar expenses	(2,432)	(1,791)
Foreign exchange differences	(37)	(120)
Other financial expenses	(808)	(745)
Financial expenses	(3,277)	(2,656)
Financial result	(3,250)	(2,586)

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

16. INCOME TAXES

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

€k	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018
Current tax expenses	(210)	(846)
Deferred taxes	(673)	1,060
Income taxes	**(883)**	**214**

The companies of the Pankl Group were included in the Pierer Konzerngesellschaft mbH Group from the 2014 tax assessment onwards. The appropriate tax rate according to Austrian law is 25% (2018: 25%). The corporation tax rates of foreign subsidiaries range from 19% to 30%.

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

€k	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018
Earnings before income taxes	5,620	7,664
thereof implied 25% income taxes	*1,405*	*1,916*
Impact of foreign tax rates	(142)	(96)
Permanent differences and adjustments from the tax calculation	(939)	(650)
Taxes from previous years	586	118
Change of capitalised tax loss carry-forwards	0	(181)
Not capitalised tax loss carry-forwards of foreign subsidiaries	(69)	43
Impact of investment incentives	0	(1,306)
Other impacts	42	(58)
Effective tax expenses	**883**	**(214)**

17. EARNINGS PER SHARE AND DIVIDEND PROPOSAL

The number of shares of the Pankl Racing Systems AG issued amounts to 3,150,000. As of 31 December 2019, the company did not hold any own shares. In the fiscal year 2019, earnings per share amounted to € 1.51.

		1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018
Earnings after taxes	€k	4,737	7,878
Earnings after taxes attributable to the shareholders of the parent	€k	4,746	7,926
Average number of shares in issue	Shares	3,150,000	3,150,000
Undiluted = fully diluted earnings per share	€ per share	1.51	2.52

Austrian public companies law requires the unconsolidated financial statements of the Pankl Racing Systems AG as of 31 December 2019 prepared in accordance with the Austrian accounting regulations to be the basis of the dividend distribution.

It is proposed for the fiscal year 2019, that the Pankl Racing Systems AG pays out of a balance sheet profit of € 36,150k a dividend of € 0.60 per share (amounts to € 1,890k in total) and to carry the remainder forward for new account. The company paid a dividend of € 0.60 per share from the balance sheet profit 2018.

18. AUDIT EXPENSES

In the reporting period, the expenses incurred by the auditor, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft amounted to € 179k (2018: € 187k) for the annual and group audit and € 18k (2018: € 23k) for advisory and other services.

19. EMPLOYEES

The average number of employees on a per capita basis developed in the year as follows:

Average for the year, headcount	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018
Employees by segment		
Racing/High Performance	1,663	1,528
Aerospace	168	152
Other	111	96
Employees by country/geographic region		
Austria	1,095	1,038
Slovakia	426	430
USA	223	229
United Kingdom	45	51
Germany	26	26
Asia	127	2
Employees by type of employment		
Blue-collar workers	1,207	1,129
White-collar employees	735	647
Total	1,942	1,776

In the fiscal year 2019, personnel expenses amounted to € 94,926k (2018: € 89,051k).

V. NOTES TO THE CONSOLIDATED BALANCE SHEET

20. FIXED ASSETS

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

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

Rights of use are accounted for using their fair value or the lower net present value of future minimum leasing payments. These assets are amortised evenly over their economic life or, if shorter, over the term of the leasing contract. Leasing payments are broken down in an interest and a repayment component. Such assets are shown under fixed assets, the appropriate payment obligations under financial liabilities. The interest component of the leasing payment is shown directly in the consolidated profit and loss account.

The breakdown of fixed assets and their development during the fiscal years 2019 and 2018 is shown in the tables below:

€k	Land and buildings	Plants and machinery	Other fixed assets and prepayments	Rights of use	Non-current receivables from leasing	Total
1 Jan 2019–31 Dec 2019						
Historic cost per 1 Jan	54,724	151,634	29,260	0	0	235,618
Impact from first application of IFRS 16	0	0	0	16,927	0	16,927
Foreign exchange differences	39	466	146	0	0	651
Change of scope of consolidation	0	2,203	1,311	779	0	4,293
Additions	1,056	7,796	10,754	2,721	288	22,615
Deductions	(43)	(1,082)	(645)	(69)	(128)	(1,967)
Reclassifications	3,261	(336)	(8,333)	5,125	280	(3)
Historic cost per 31 Dec	**59,037**	**160,681**	**32,493**	**25,483**	**440**	**278,134**
Cumulated depreciation per 1 Jan	(22,135)	(90,222)	(16,038)	0	0	(128,395)
Foreign exchange differences	(29)	(355)	(75)	3	0	(456)
Change of scope of consolidation	0	(827)	(469)	(47)	0	(1,343)
Additions	(2,521)	(13,082)	(2,850)	(3,677)	0	(22,130)
Deductions	19	926	517	23	0	1,485
Reclassifications	0	3,524	3	(3,527)	0	0
Cumulated depreciation per 31 Dec	**(24,666)**	**(100,036)**	**(18,912)**	**(7,225)**	**0**	**(150,839)**
Book value per 31 Dec	**34,371**	**60,645**	**13,581**	**18,258**	**440**	**127,295**

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

In the fiscal year 2019, additions to rights of use contained an amount of € 2,721k which had no cash impact on the balance sheet date. Note 43 “Lessee in leasing contracts” contains further details.

Additions to other fixed assets and prepayments include capital expenditure of € 424k (2018: € 230k) with no cash impact on the balance sheet date. In the consolidated cash flow statement, there is a positive impact of € 193k in the cash flow from investment activities because of capital expenditure with no cash impact at the balance sheet date.

At the balance sheet date, fixed assets amounting to € 14,287k (2018: € 12,061k) are recorded in land registries or are used as collateral or for deposited pledge certificates primarily for liabilities against banks and leasing companies.

In the fiscal year 2019, public subsidies for capital expenditure in the amount of € 420k (2018: € 453k) were recorded in the profit and loss account via a reduction in depreciation.

There are future payment obligations amounting to € 2,661k (2018: € 9,812k) for the purchase of fixed assets.

21. INTANGIBLE ASSETS

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

Depreciation	Useful life
Intangible assets	2 to 4 years

As of 31 December 2019, impairment tests were calculated using the current three-year plan (2018: five-year plan) and a discount rate (asset specific cost of capital) of 9.2% (2018: 10.2%).

The breakdown of intangible assets and their development during the fiscal years 2019 and 2018 is shown in the tables below:

€k	Goodwill	Customer base	Other intangible assets	Total
1 Jan 2019 – 31 Dec 2019				
Historic cost per 1 Jan	15,305	2,041	6,689	24,035
Foreign exchange differences	198	19	18	235
Changes of scope of consolidation	0	0	944	944
Additions	0	0	835	835
Deductions	0	0	(148)	(148)
Reclassifications	0	0	3	3
Historic cost per 31 Dec	15,503	2,060	8,341	25,904
Cumulated depreciation per 1 Jan	(3,076)	(2,041)	(4,620)	(9,737)
Foreign exchange differences	3	(19)	(6)	(22)
Changes of scope of consolidation	0	0	(496)	(496)
Additions	0	0	(987)	(987)
Deductions	0	0	147	147
Cumulated depreciation per 31 Dec	(3,073)	(2,060)	(5,962)	(11,095)
Book value per 31 Dec	12,430	0	2,379	14,809
1 Jan 2018 – 31 Dec 2018				
Historic cost per 1 Jan	15,162	2,044	6,470	23,676
Foreign exchange differences	143	(3)	76	216
Additions	0	0	1,025	1,025
Deductions	0	0	(900)	(900)
Reclassifications	0	0	18	18
Historic cost per 31 Dec	15,305	2,041	6,689	24,035
Cumulated depreciation per 1 Jan	(3,081)	(2,044)	(4,660)	(9,785)
Foreign exchange differences	6	3	(53)	(44)
Additions	0	0	(807)	(807)
Deductions	0	0	900	900
Cumulated depreciation per 31 Dec	(3,075)	(2,041)	(4,620)	(9,736)
Book value per 31 Dec	12,230	0	2,069	14,299

Additions to intangible assets include capital expenditure of € 54k (2018: € 31k) with no cash impact on the balance sheet date.

22. GOODWILL

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

Cash flows used for impairment tests are based on the current three-year medium-term plan (2018: five-year plan). After the detailed planning period, the cash flow planned for the last year of the planning period is used as the basis for the calculation of a perpetuity. For this terminal value calculation, we assume no growth rate. The discount rate is derived from external capital markets data and represents the weighted average cost of capital (WACC). The mid-term plan is based on internal assumptions regarding future revenues, prices and expenses, future access to new markets and product mix. Such assumptions are based on long-term experience and management expectations.

The discount rate before taxes amounted to 9.2% (2018: 10.2%).

In the fiscal year 2019 as in the previous year, there were no impairments on goodwill.

The capital cost rate and the future planned free cash flows are used to analyse the sensitivity of the planning parameters. The following increases of WACC before tax or the following decreases of future planned free cash flows can be absorbed and the results for the cash flow generating units still equal their book value:

	31 Dec 2019		31 Dec 2018	
	WACC	Free cash flow	WACC	Free cash flow
Cash flow generating unit				
Racing – Drivetrain	2.9%	(26.4%)	5.8%	(44.3%)
Racing – Engine Europa	4.0%	(35.8%)	5.5%	(67.3%)
Racing – Engine USA	2.3%	(21.7%)	7.9%	(49.4%)
High Performance	0.7%	(7.9%)	2.7%	(26.3%)
Aerospace	0.9%	(10.3%)	2.2%	(22.8%)

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

€k	31 Dec 2019	31 Dec 2018
Racing – Engine Europa	4,553	4,421
Racing – Engine USA	4,392	4,322
High Performance	1,463	1,463
Aerospace	2,022	2,023
Total	12,430	12,229

23. DEFERRED TAX ASSETS

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

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

€k	31 Dec 2019	31 Dec 2018
Deferred tax assets		
Current assets	1,362	669
Non-current assets		
Plants and machinery	177	823
Tax loss carry-forwards	3,015	3,115
Current liabilities	97	39
Non-current liabilities	1,833	259
Total	6,484	4,905
Netting due to same tax regime	(3,104)	(1,249)
Deferred tax assets according to balance sheet	3,380	3,656
Deferred tax liabilities		
Current assets	(2,378)	(1,185)
Non-current assets		
Plants and machinery	(877)	(126)
Current liabilities	0	(10)
Total	(3,255)	(1,321)
Netting due to same tax regime	3,104	1,249
Deferred tax liabilities according to balance sheet	(151)	(72)

As of 31 December 2019, there was a deferred tax liability of € 2,829k (2018: € 2,008k) in connection with shares held in subsidiaries. This liability was not recognised because the Group is able to define dividend policies of subsidiaries. The Group hence controls when such temporary differences are reversed. The Management Board does not expect any reversals in the foreseeable future.

In the fiscal year 2019, deferred taxes developed as follows:

€k	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018
Net deferred taxes per 1 Jan	3,584	2,505
Deferred taxes recorded in the profit and loss account	(673)	1,059
Deferred taxes not recorded in the profit and loss account	318	20
thereof from foreign exchange differences	*26*	*78*
Net deferred taxes per 31 Dec	3,229	3,584

In the fiscal year 2019, the Pankl Group had the following capitalised tax loss carry-forwards:

	31 Dec 2019			31 Dec 2018		
€k	Tax loss carry-forward	Potential deferred tax assets	Recorded deferred tax assets	Tax loss carry-forward	Potential deferred tax assets	Recorded deferred tax assets
Tax group Austria	2,410	603	603	976	244	244
Tax group USA	8,056	2,189	1,275	6,576	1,565	1,565
Total	10,466	2,792	1,878	7,552	1,809	1,809

Deferred tax assets were recognised where utilisation is expected within the current planning period 2020 until 2022 for the Austrian tax loss carry-forwards and for parts of the US tax loss carry-forwards.

In the fiscal year 2019, the Slovakian investment subsidy developed as follows:

	31 Dec 2019			31 Dec 2018		
€k	Tax subsidy	Potential deferred tax assets	Recorded deferred tax assets	Tax subsidy	Potential deferred tax assets	Recorded deferred tax assets
Slovakia	5,416	1,137	1,137	6,221	1,306	1,306

Recorded deferred tax assets from tax loss carry-forwards or granted public subsidies are calculated based on the current three-year plan. This plan is presented to and acknowledged by the supervisory board. Impairments shall be required in the future if there are deviations from the plan and part of the tax loss carry-forwards or public subsidies cannot be utilised.

Apart from the positions mentioned, there are no uncertainties regarding income taxes. Per 31 December 2019, there are no contingent assets or liabilities with regards to taxes.

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

The other non-current assets developed as follows:

Granted loans €k	1 Jan 2019– 31 Dec 2019	1 Jan 2018– 31 Dec 2018
Historic cost per 1 Jan	1,541	1,606
Foreign exchange differences	30	76
Additions	4	60
Deductions	(1,569)	(201)
Historic cost per 31 Dec	6	1,541
Book value per 31 Dec	6	1,541

25. INVENTORIES

On the balance sheet date, inventories are valued at the lower of historic or production cost or net selling price (Lower of Cost or Net Realizable Value). Net selling price is the expected selling price minus expected distribution expenses. Inventories are valued using the Weighted Average Pricing Procedure, which uses a days-of-inventory analysis where impairments are carried out for restricted usability, and the Identity Price Method. On a case-by-case basis, inventories are also analysed regarding their economic usefulness and additional impairments are applied for long storage periods or limited sales prospects.

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

Inventories developed as follows:

€k	31 Dec 2019	31 Dec 2018	Change
Raw and process materials	33,379	36,486	(8.5%)
Semi-finished products	23,968	22,956	4.4%
Finished products	13,953	14,868	(6.2%)
Total	71,300	74,310	(4.1%)

In the fiscal year 2019, inventory write-offs of € 4,565k (2018: € 4,402k) were recorded for products where the net selling value is lower than historic or production cost. As of 31 December 2019, the book value of inventories valued at net selling price amounted to € 6,702k (2018: € 2,946k).

At the balance sheet date, inventories in the amount of € 0k (2018: € 666k) were pledged or restricted in their availability.

26. TRADE ACCOUNTS RECEIVABLE

As of 31 December 2019, trade accounts receivable amounted to, as follows:

€k	31 Dec 2019	31 Dec 2018
Trade accounts receivable	26,024	25,775
thereof against associated companies	*0*	*0*
Total	26,024	25,775

General and specific value adjustments to receivables developed as follows:

€k	Trade accounts receivable including contract assets
Balance per 1 Jan 2018	700
Foreign exchange differences	30
Additions	132
Utilisations	(19)
Reversals	(209)
Balance per 31 Dec 2018	**634**
Foreign exchange differences	7
Additions	80
Utilisations	(68)
Reversals	(145)
Balance per 31 Dec 2019	**508**

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

As of 31 December 2019, there were specific value adjustments for trade accounts receivable of € 320k (2018: € 382k).

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

27. CURRENT RECEIVABLES AND OTHER ASSETS

Current receivables and other assets developed as follows:

€k	31 Dec 2019	31 Dec 2018
Other receivables and assets	5,049	5,959
Deferred assets	1,327	1,291
Contract assets	7,454	2,865
Total	**13,830**	**10,115**

Contract assets can be reconciled as follows:

€k	Contract assets
Balance per 1 Jan 2019	2,865
Reclassification to trade accounts receivable	(3,206)
Contract assets additions	6,961
Changes in the scope of consolidation	854
Impairment changes	(27)
Foreign exchange differences	7
Balance per 31 Dec 2019	**7,454**

28. CASH AND CASH EQUIVALENTS

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

In the cash flow statement in Chapter VI of the Notes to the consolidated financial statements, there are further details regarding the development of cash and cash equivalents.

29. CONSOLIDATED SHAREHOLDERS' EQUITY

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

As of 31 December 2019, the **share capital** of the Company amounted to € 3,150k and was represented by 3,150,000 shares without nominal value. All shares are fully paid in. The share capital shown in the consolidated financial statements corresponds to the share capital in the non-consolidated financial statements of Pankl Racing Systems AG.

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

In October 2017, Pankl Racing Systems AG issued a subordinated **perpetual bond** with a nominal value of € 10,000k and a coupon of 5.0% p.a. to strengthen its capital position and to finance acquisitions in its core holdings which were carried out in 2017. This bond is shown as shareholders' equity because its proceeds are available to Pankl Racing Systems AG without restrictions and there are no termination rights for the bond holders. In accordance with IAS 32.20 there is no effective repayment obligation.

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

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

	Loan amount		
	31 Dec 2019	31 Dec 2018	Currency
Pankl Racing Systems UK Ltd.	1,614,923	1,614,923	GBP
CP-CARRILLO, Inc.	1,000,000	1,000,000	USD
Pankl Holdings, Inc.	29,140,000	29,140,000	USD

The **IAS 19 reserve** contains actuarial losses from provisions for severance payments. As of 31 December 2019, the IAS 19 reserve amounted to € –720k (2018: € –327k) including the share of minorities.

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

30. FINANCIAL LIABILITIES

€k	31 Dec 2019	31 Dec 2018
Non-current loans	97,508	94,483
Non-current finance lease liabilities	14,729	1,609
Current loans and short-term portion of non-current loans	20,336	19,044
Current finance lease liabilities	3,861	452
Financial liabilities	**136,434**	**115,588**

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

31. LIABILITIES FOR EMPLOYEE BENEFITS

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

Austrian law requires companies to pay employees that started employment before 1 January 2003 a one-off severance payment in the case of redundancy or retirement. The amount of such payment depends on the number of years served in the company and the appropriate salary. For all employees who entered service after 31 December 2002, the company pays a monthly amount of 1.53% of the salary into a retirement fund. These amounts are invested in an account belonging to the respective employee. When the employment ends the amount is paid to the employee or the entitlement is passed on. The company is only required to pay the monthly amounts which are shown as expenses in the profit and loss account in the year to which the payments refer (Defined Contribution Obligation). For employees of the austrian Group companies, who started service from 1 January 2003 defined contributions amounting to 1.53% of wages and salaries were paid into a state approved employee pension fund. In the fiscal year 2019 an amount of € 702k (2018: € 642k) was paid.

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

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

€k	1 Jan 2019– 31 Dec 2019	1 Jan 2018– 31 Dec 2018
Net present value of obligation (DBO) = provision for severance payments per 1 Jan	1,983	1,809
+ Current service cost	148	102
+ Interest expense	48	36
– Actual severance payments in the fiscal year	(6)	(47)
– Profit/loss DBO for past service cost	0	(19)
± Transfer	441	0
± Actuarial profits/losses	524	102
= Provision for severance payments per 31 Dec	**3,138**	**1,983**

As of 31 December 2019, the provision for severance payments contains a voluntary portion in the amount of € 622k.

As of 31 December 2019, duration amounted to 16.87 years (2018: 16.96 years).

Actuarial profits/losses consisted of the following:

€k	2019	2018
Change of expected values	37	42
+ Change of demographic assumptions	44	(18)
± Change of financial assumptions	443	78
= **Actuarial profits/losses**	**524**	**102**

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

	2019	2018
Actuarial interest rate	1.10%	2.00%
Increases of wages/salaries	2.75%	2.75%
Pension age for women/men	56.5 – 65 years	56.5 – 65 years

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

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

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

	Net present value of obligation	
	–0.5 percentage points	+0.5 percentage points
Actuarial interest rate	8.8%	8.8%
Expected wages/salaries increases	(7.9%)	(7.9%)

For the fiscal year 2020, we expect current service cost of € 144k. The expected duration will be 16.32 years.

32. OTHER CURRENT AND NON-CURRENT LIABILITIES

Other current liabilities amounted to € 102k (2018: € 81k) and contained retainers for machinery investments.

The other current liabilities consisted of the following:

€k	31 Dec 2019	31 Dec 2018
Liabilities from unconsumed holiday entitlements	2,609	2,666
Liabilities from the accrual of outstanding invoices	2,453	2,557
Liabilities for payments to employees	2,453	1,905
Liabilities from income taxes	30	136
Contract liabilities	417	710
Other	3,515	7,218
Total	11,477	15,192

The position “Other” contains, in particular, liabilities from outstanding salaries and social security contributions.

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

€k	Contract liabilities
Balance per 1 Jan 2019	710
Realised revenues, which were included in the balance of contract liabilities at the start of the period	(501)
Deductions through payment of customer bonuses	(308)
Additions through received customer prepayments	263
Additions through providing for expected future customer bonus payments	257
Other impacts	(4)
Balance per 31 Dec 2019	**417**

33. PROVISIONS

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

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

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

In the fiscal years 2019 and 2018, provisions developed as follows:

€k	31 Dec 2018	Additions	Reversals/ utilisations	Currency translation	31 Dec 2019
Warranties and guarantees	220	153	(268)	1	106
Obligations for remedial actions	25	0	0	1	26
Other non-current provisions	200	760	(302)	0	658
Total	445	913	(570)	2	790

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

IV. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Changes of balance sheet items which are shown in the cash flow statement cannot be directly derived from the balance sheet because non-cash impacts are neutralised. Change of scope of consolidation contains the assumed liabilities of the company acquired in 2019.

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

	Loans			Lease
€k	Non-current	Current	Total	liabilities
Balance per 1 Jan 2019	94,483	19,044	113,527	2,061
Changes with cash impact				
+ Increases	23,114	0	23,114	0
– Repayments	0	(20,983)	(20,983)	(3,822)
± Reclassifications	(23,470)	23,470	0	0
± Changes of current account balances	0	(1,195)	(1,195)	0
± Others	42	0	42	0
Changes without cash impact				
+ Increases and first application of IFRS 16	0	0	0	19,321
± Changes of scope of consolidation, others	3,268	0	3,268	792
± Bewertung	70	0	70	238
Valuation per 31 Dec 2019	97,507	20,336	117,843	18,590

VII. RISK REPORT

34. RISK MANAGEMENT

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

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

The ongoing company growth depends on factors such as demand behavior, product development, foreign exchange developments, economic environment in individual sales markets, purchase prices of supplier parts or employee development.

35. MARKET RISKS

35.1. ECONOMIC RISKS

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

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

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

35.2. COMPETITION AND PRICE PRESSURES

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

36. SECTOR-SPECIFIC RISKS

36.1. CHANGES IN THE SUPPLY MARKET

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

36.2. RESEARCH AND DEVELOPMENT

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

37. IT-RISKS

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

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

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

38. FINANCIAL RISKS

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

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

38.1. CURRENCY RISKS

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

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

Based on the assumptions mentioned above, an increase (decrease) in the value of the Euro by 10% compared to all other currencies would have resulted in a decrease (increase) in net income (after taxes) and equity in the amount of € –128k or € +128k respectively (2018: € –9k or € +9k respectively). In this analysis, the sensitivity of equity was only influenced by the sensitivity of the net income (after taxes).

38.2. INTEREST RATE RISKS

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

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

Based on the assumptions mentioned above, an increase (decrease) in market interest rates by 50 basis points at the balance sheet date would have resulted in a decrease (increase) of the net income (after taxes) and equity by € –79k or € +79k respectively (2018: € –70k or € +70k respectively). The sensitivity of equity was only influenced by the sensitivity of the net income (after taxes).

38.3. CREDIT RISKS

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

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

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

	31 Dec 2019	31 Dec 2019
Racing/High Performance	0.10%	0.35%
Aerospace	2.30%	2.90%

Applying these parameters for trade accounts receivable and contract assets resulted in the following general value adjustments for the fiscal year 2019:

€k	Racing/High Performance	Aerospace	Total
Balance per 1 Jan 2019	79	173	252
Recognition through profit and loss account	(36)	(27)	(63)
Balance per 31 Dec 2019	**43**	**146**	**189**

38.4. LIQUIDITY RISKS

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

The maturities of financial liabilities were as follows:

			Maturities		
€k	Valuation category acc. to IFRS 9	Book value	Up to 1 year	From 1 to 5 years	More than 5 years
31 Dec 2019					
Current loans and short-term portion of non-current loans	Financial Liabilities at Amortised Cost	20,336	20,336	0	0
Trade accounts payable	Financial Liabilities at Amortised Cost	13,217	13,217	0	0
Other current financial liabilities – finance lease liabilities	Not applicable	3,861	3,861	0	0
Other financial current liabilities	Financial Liabilities at Amortised Cost	5,201	5,201	0	0
Non-current finance lease liabilities	Not applicable	14,729	0	10,384	4,345
Non-current loans	Financial Liabilities at Amortised Cost	97,508	0	83,000	14,508
Total		154,852	42,615	93,384	18,853
31 Dec 2018					
Current loans and short-term portion of non-current loans	Financial Liabilities at Amortised Cost	19,044	19,044	0	0
Trade accounts payable	Financial Liabilities at Amortised Cost	13,594	13,594	0	0
Other current financial liabilities – finance lease liabilities	Not applicable	452	452	0	0
Other financial current liabilities	Financial Liabilities at Amortised Cost	4,718	4,718	0	0
Non-current finance lease liabilities	Not applicable	1,609	0	1,609	0
Non-current loans	Financial Liabilities at Amortised Cost	94,483	0	77,528	16,955
Total		133,900	37,808	79,137	16,955

The contractually agreed (not discounted) cash flow (interest and repayments) of financial liabilities will be as follows:

		Cash flows 2020			Cash flows 2021 to 2024			Cash flows from 2025		
€k	Book value	Interest fixed	Interest variable	Repay-ment	Interest fixed	Interest variable	Repay-ment	Interest fixed	Interest variable	Repay-ment
31 Dec 2019										
Loans	117,844	(1,519)	(103)	(20,336)	(2,445)	(279)	(83,000)	(101)	(371)	(14,508)
Trade accounts payable	13,217	0	0	(13,217)	0	0	0	0	0	0
Current finance lease liabilities	3,861	(457)	0	(3,861)	0	0	0	0	0	0
Non-current finance lease liabilities	14,729	(10)	0	0	(1,182)	0	(10,384)	(283)	0	(4,345)
Other current financial liabilities	5,201	(3)	0	(5,201)	0	0	0	0	0	0
Total	154,852	(1,989)	(103)	(42,615)	(3,627)	(279)	(93,384)	(384)	(371)	(18,853)

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

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

39. OTHER RISKS

39.1. LEGAL RISKS

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

39.2. OPERATIONAL AND ENVIRONMENTAL RISKS

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

39.3. PERSONNEL RISKS

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

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

39.4. INFORMATION SECURITY AND DATA PROTECTION

Pankl considers it its duty to secure and protect the availability, confidentiality, integrity and legal security of information. For this purpose, Pankl operates an information security management system and a data protection management system with the aim to identify and mitigate company relevant risks in the areas information security and data protection.

Pankl further provides and documents evidence for the correctness and compliance with duty of care principles when it uses or handles information. The company identifies risks and minimizes them to acceptable risk tolerance levels.

The company secures protection of personal data by complying with the EU General Data Protection Regulation and any national data protection rules.

VIII. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

40. BASIC PRINCIPLES

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

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

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

41. CLASSIFICATION AND FAIR VALUES

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

Trade accounts receivable valued at Fair Value Through Profit and Loss (FVTPL) contain primarily receivables which were sold to financial institutions via reverse factoring agreements.

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

					Valuation acc. to IFRS 9		
€k	Valuation category acc. to IFRS 9	Book value	Fair value	Amortised historic cost	FVTPL	FVOCI[15] (with re-classi-fication)	FVOCI[15] (without re-classi-fication)
31 Dec 2019							
Cash and cash equivalents	Hold	8,237	8,237	8,237	0	0	0
Trade accounts receivable	Hold (Sell)	26,024	26,024	25,861	163	0	0
Financial fixed assets – non-current loans granted	Hold	6	6	6	0	0	0
Total		34,267	34,267	34,104	163	0	0
31 Dec 2018							
Cash and cash equivalents	Hold	6,656	6,656	6,656	0	0	0
Trade accounts receivable	Hold (Sell)	25,775	25,775	25,193	582	0	0
Financial fixed assets – non-current loans granted	Hold	1,541	1,541	1,541	0	0	0
Total		33,972	33,972	33,390	582	0	0

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

[15] Fair Value through Other Comprehensive Income

€k	Valuation category acc. to IFRS 9	Book value	Fair value	Valuation acc. to IFRS 9: Amortised historic cost	Valuation acc. to IFRS 9: FVTPL	Valuation acc. to IFRS 9: FVOCI with reclassification	Valuation acc. to IFRS 9: FVOCI without reclassification	Valuation acc. to IFRS 16	Non-financial
31 Dec 2019									
Current loans and short-term portion of non-current loans	Financial Liabilities at Amortised Cost	20,336	20,336	20,336	0	0	0	0	0
Trade accounts payable	Financial Liabilities at Amortised Cost	13,217	13,217	13,217	0	0	0	0	0
Other current financial liabilities – finance lease liabilities	Not applicable	3,861	3,861	0	0	0	0	3,861	0
Other current liabilities	Financial Liabilities at Amortised Cost	11,477	5,201	5,201	0	0	0	0	6,276
Non-current finance lease liabilities	Not applicable	14,729	14,729	0	0	0	0	14,729	0
Non-current loans	Financial Liabilities at Amortised Cost	97,508	97,508	97,508	0	0	0	0	0
Total		161,128	154,852	136,262	0	0	0	18,590	6,276

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

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

€k	From interest	From fair value valuation	From write-offs	Net results
1 Jan 2019 – 31 Dec 2019				
Financial Assets at Amortised Cost	27	0	42	69
Financial Liabilities at Amortised Cost	(1,914)	0	0	(1,914)
Total	(1,887)	0	42	(1,845)
1 Jan 2018 – 31 Dec 2018				
Financial Assets at Amortised Cost	72	0	92	164
Financial Liabilities at Amortised Cost	(1,935)	0	0	(1,935)
Total	(1,863)	0	92	(1,771)

42. CAPITAL MANAGEMENT

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

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

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

€k	31 Dec 2019	31 Dec 2018
Shareholders' equity	100,768	97,956
Total assets	266,077	244,911
Shareholders' equity in % of total assets	37.9%	40.0%

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

€k	31 Dec 2019	31 Dec 2018
Financial liabilities	136,433	115,588
Cash and cash equivalents	(8,237)	(6,656)
Net debt	128,196	108,932

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

€k	31 Dec 2019	31 Dec 2018
Shareholders' equity	100,768	97,956
Net debt	128,196	108,932
Gearing	127.2%	111.2%
Net debt	128,196	108,932
EBITDA	31,987	28,277
Dynamic gearing	4.0 years	3.9 years

43. LEASING CONTRACTS AS LESSEE

Per 31 December 2019, leasing contracts as lessee were as follows:

€k	Present value	Interest	Repayment value
Up to 1 year	3,861	460	4,321
From 1 to 5 years	10,362	1,173	11,535
More than 5 years	4,367	283	4,650
Total	**18,590**	**1,916**	**20,506**

From 1 January 2019 (after IFRS 16 adjustments), leasing liabilities developed as follows:

€k	Leasing liabilities
Balance per 1 Jan 2019	18,985
+ Additions	2,395
– Repayments	(3,822)
+ Changes in scope of consolidation, others	791
± Foreign exchange difference	241
Balance per 31 Dec 2019	**18,590**

In the fiscal year 2019, interest expenses from leasing liabilities amounted to € 518k, expenses for current leasing contracts amounted to € 44k and expenses for leasing contracts with low values amounted to € 71k.

Per 31 December 2019 potential future leasing payments, which are not shown in the balance sheet due to uncertainties regarding the exercise of renewal or termination options, amounted to € 79k. The average historic probability for the exercise of renewal and termination options amounted to 93%.

In the fiscal year 2019, income from the sub-renting of rights of use amounted to € 136k.

44. LEASING CONTRACTS AS LESSOR

In the fiscal year 2019, there were no leasing contracts as lessor.

IX. NOTES TO RELATED PARTIES AND LEGAL REPRESENTATIVES

45. BUSINESS RELATIONSHIPS WITH RELATED COMPANIES AND PERSONS

The Pierer Konzerngesellschaft mbH is the ultimate parent of Pankl Racing Systems AG, which is fully consolidated in the consolidated financial statements of the Pierer Konzerngesellschaft mbH. All companies which are included in the consolidated financial statements of Pierer Konzerngesellschaft mbH, are controlled by or are significantly influenced by Pierer Konzerngesellschaft mbH are shown as related companies in the category “Companies related to shareholder”.

In the fiscal years 2019 and 2018, there were no transactions with related persons (except for management board and supervisory board remuneration, please see Note 47). Business transactions with related companies can be summarised as follows:

€k	Revenues	Expenses	Receivables	Liabilities	Other income
31 Dec 2019					
KTM Group	36,874	717	681	237	33
SHW AG	0	(132)	12	0	0
SHW Automotive GmbH	333	(28)	60	0	0
Pierer Mobility AG (formerly: KTM Industries AG)	0	178	0	0	0
Pierer Industrie AG	23	1,553	281	0	0
Pierer Konzerngesellschaft mbH	0	287	0	0	0
Pierer Immoreal GmbH	0	648	0	0	0
Total	37,230	3,223	1,034	237	33
31 Dec 2018					
KTM Group	29,096	1,725	585	425	42
SHW AG	7	(15)	10	0	0
SHW Automotive GmbH	37	0	37	0	0
KTM Industries AG	0	1,280	0	50	0
Pierer Industrie AG	0	464	368	44	0
Pierer Konzerngesellschaft mbH	0	257	0	49	0
Pierer Immoreal GmbH	0	648	0	0	0
Total	29,140	4,359	1,000	568	42

All transactions with related companies were at arm’s length basis.

Expenses contain expenses for software licenses (€ 295k), participation in the group insurance scheme (€ 357k), rent expenses (€ 648k), sponsoring (€ 300k), salaries (€ 825k), internal group charges (€ 463k) and other group services (€ 76k). KTM AG invoiced operating expenses of € 185k. All services were invoiced at arm’s length basis.

46. LEGAL REPRESENTATIVES OF PANKL RACING SYSTEMS AG

In the fiscal year 2019 and up until the preparation of these consolidated financial statements, the Management Board of the Pankl Racing Systems AG consisted of the following persons:

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

In the fiscal year 2019 and up until the preparation of these consolidated financial statements, the Supervisory Board of the Pankl Racing Systems AG consisted of the following persons:

- Mr. Stefan Pierer (chairman)
- Mr. Josef Blazicek (deputy chairman)
- Mr. Alfred Hörtenhuber
- Mr. Friedrich Roithner
- Mr. Harald Plöckinger (until 26 April 2019)
- Mr. Klaus Rinnerberger (from 26 April 2019)

47. MANAGEMENT BOARD AND SUPERVISORY BOARD REMUNERATION

In the fiscal year 2019, the Management Board remuneration consisted of salaries, benefits, bonuses and payments into the employee pension fund and amounted in total to € 1,506k (2018: € 1,755k).

In the period from 1 January 2019 until 31 December 2019, the Supervisory Board remuneration amounted to € 22k (2018: € 22k)

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

X. EVENTS AFTER THE BALANCE SHEET DATE

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

XI. GROUP COMPANIES (LIST OF EQUITY HOLDINGS)

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

		Stake		
Company	Location	2019	2018	Acquired on
Pankl Racing Systems UK Ltd.	Leicester (UK)	100%	100%	7 Mar 1998
Pankl Holdings, Inc.	Irvine (US)	100%	100%	7 Mar 1998
Pankl Japan, Inc.	Tokyo (JP)	100%	100%	9 Apr 1998
CP-CARRILLO, Inc.	Irvine (US)	100%	100%	3 Aug 1998
Pankl Aerospace Systems, Inc.	Cerritos (US)	100%	100%	25 Apr 2000
Pankl Systems Austria GmbH	Kapfenberg (AT)	100%	100%	13 Jan 2005
Pankl Aerospace Systems Europe GmbH	Kapfenberg (AT)	100%	100%	29 Sep 2006
Pankl Automotive Slovakia s.r.o.	Topoľčany (SK)	100%	100%	24 Nov 2006
Pankl Turbosystems GmbH	Mannheim (GE)	70%	70%	28 Sep 2012
KTM Components (Dalian) Co., Ltd.	Dalian (CN)	100%	0%	1 Jul 2019

XII. DECLARATION OF LEGAL REPRESENTATIVES

The Management Board approved the consolidated financial statements on 20 February 2020 (2018: 20 February 2019) to be reviewed by the Supervisory Board, to be presented to the Annual General Meeting and thereafter to be published. The review of the Supervisory Board may lead to amendments of the consolidated financial statements.

Kapfenberg, on 20 February.2020

The Management Board of Pankl Racing Systems AG

Wolfgang Plasser	Thomas Karazmann	Christoph Prattes	Stefan Seidel
CEO	CFO	COO	CTO

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

AUDIT OPINION

We have audited the consolidated financial statements of Pankl Racing Systems AG, Kapfenberg, Austria, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019, the consolidated profit and loss account, consolidated statement of comprehensive income, schedule of consolidated shareholder's equity and consolidated cash flow statement for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code).

BASIS FOR OUR OPINION

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

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD/ AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITORS' RESPONSIBILITY

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

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

Moreover:

- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misprepresentations or override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as related disclosures made by management.

- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty about the entity's ability to continue as a going concern, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.

GROUP MANAGEMENT REPORT

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

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

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

OPINION

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

STATEMENT

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

ENGAGEMENT PARTNER

The engagement partner on this engagement is Mr. Helge Löffler.

Linz, 20 February 2020

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Dr. Helge Löffler
Wirtschaftsprüfer
(Austrian Chartered Accountant)

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

STATEMENT
OF ALL LEGAL REPRESENTATIVES

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

Kapfenberg, on 20 February 2020

The Management Board of Pankl Racing Systems AG

Wolfgang Plasser	Thomas Karazmann	Christoph Prattes	Stefan Seidel
CEO	CFO	COO	CTO

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