KTM_AG

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INTERIM FINANCIAL STATEMENTS
H1 2014

KTM

KTM AT A GLANCE

EARNINGS RATIOS		Jun. 30, 2013	Jun. 30, 2014
Revenue	EUR million	349.0	410.3
EBITDA	EUR million	34.4	52.4
EBIT	EUR million	18.4	33.6
EBT	EUR million	14.5	30.1
Net result after tax	EUR million	12.3	26.2
EBITDA margin		9.9%	12.8%
EBIT margin		5.3%	8.2%

BALANCE SHEET RATIOS		Dec. 31, 2013	Jun. 30, 2014
Balance sheet total	EUR million	571.4	610.5
Working capital[1]	EUR million	86.1	129.0
Equity	EUR million	282.8	298.9
Equity in % of total assets		49.5%	49.0%
Net financial debt[2]	EUR million	82.4	113.2
Gearing[3]		29.1%	37.9%

CASH FLOW		Jun. 30, 2013	Jun. 30, 2014
Cash flow from operating activities	EUR million	15.3	5.0
Free cash flow	EUR million	(5.5)	(25.3)

EMPLOYEES		Dec. 31, 2013	Jun. 30, 2014
Employees[4]		1,849	2,053

STOCK EXCHANGE RATIOS		Dec. 31, 2013	Jun. 30, 2014
Number of shares outstanding		10,845,000	10,845,000
Highest price	EUR	62.85	95.00
Lowest price	EUR	47.00	62.25
Closing price	EUR	62.85	95.00
Market capitalization	EUR million	681.6	1,030.3

[1] Working capital = Trade receivables + inventories – trade payables
[2] Net financial debt = Financial liabilities (current, non-current) – cash and cash equivalents – financing receivables
[3] Gearing = Net financial debt / equity including non-controlling interests
[4] Employees including temporary staff and external employees

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INTERIM FINANCIAL STATEMENTS »

H1 2014

for the first half from January 1 to June 30, 2014
of KTM AG, Mattighofen, Austria

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INTERIM CONSOLIDATED MANAGEMENT REPORT

FOR THE FIRST HALF OF 2014 OF KTM AG, MATTIGHOFEN, AUSTRIA (CONDENSED)

KTM – CONTINUING THE ROAD TO SUCCESS IN THE FIRST HALF OF 2014

- **Sales: 70,469 vehicles (+27.8%)**
- **Revenue: EUR 410.3 million (+17.6%)**
- **EBIT: EUR 33.6 million (+82.6%)**
- **Start of production in China**

(1) ECONOMIC ENVIRONMENT

According to the International Monetary Fund (IMF) as of April 2014 the global economic growth will recover weaker than assumed in its forecast as of January 2014. The IMF anticipates a change in global economic performance of 3.6% (compared to 3.7% in January) for the year 2014. For advanced economies, a growth of 2.2% is still projected for the year 2014 and 2.3% for the year 2015. However, in the euro area a development of 1.2% (compared to 1.0% in January) is projected. For the year 2015, the IMF anticipates a global economic growth of 3.9% and for the euro area a growth of 1.5%.

For emerging markets and developing economies, a growth in economic output of 4.9% is projected for the year 2014 and a growth of 5.3% for the year 2015. The highest growth rate is expected for China, with a growth rate forecast of 7.5% for the year 2014 and 7.3% for the year 2015.

(2) BUSINESS DEVELOPMENT AND HIGHLIGHTS

In the first half year of 2014 KTM reported group revenues amounting to EUR 410.3 million (+17.6% compared to prior year). Taking into account the 200 Dukes and 390 Dukes sold by our partner Bajaj in India 70,469 KTM motorcycles were sold worldwide in the first half year of 2014 (+27.8% compared to prior year). In the first six months of 2014 KTM showed an EBITDA of EUR 52.4 million (+52.1% compared to prior year) and an EBIT of EUR 33.6 million (+82.6% compared to prior year). Net result could be increased from EUR 12.3 million in prior year to EUR 26.2 million in the first half year of 2014.

The implementation of the global product strategy as well as the expansion into further Asian and South American markets has been consistently pursued in the first half year of 2014.

In March 2014 our Chinese importer CF-Moto started the production in China. KTM delivers the part sets and the engines for the models 200 Duke and 390 Duke, and CF-Moto manages the assembly in the plant in Hangzhou for the distribution.

Furthermore, in the first half year of 2014, contracts for the import and production of KTM products on basis of CKD (Completely Knocked Down) have been concluded with partners in Brazil and Argentina.

In June 2014 KTM presented the new EXC model range 2015. By further development and significant improvements, the models represent the benchmark in the Enduro range.

The integration of the brand “Husqvarna” has been fully completed. In the first half year of the reporting period 6,046 Husqvarna models have been delivered from the plant in Mattighofen.

The capital investments planned for 2014 proceed as scheduled. In May, the expansion of the main plant in Mattighofen has been completed. The expansion of the R&D-building will be completed in the second half of the year. In June, groundbreaking for a new logistics center in Munderfing with a total area of 24,000 m² took place. Due to this investment amounting to around EUR 22 million, 50 new workplaces will be created. The project is expected to be completed in the second half year of 2015.

The positive development of KTM in the past years was honoured by awarding KTM in the catagory “leading enterprises” with the golden Pegasus Award in June. The Oberösterreichischen Nachrichten and their partners – the Raiffeisenlandesbank Upper Austria, the Austrian Chamber of Commerce, the Economics department of Upper Austria, the Federation of Upper Austrian Industry and KPMG Group awarded the winners.

Furthermore, KTM’s social engagement continued in 2014. KTM donated clothes from the PowerWear collection amounting to EUR 550,000 to SOS Kinderdörfer and to Caritas Salzburg.

In the racing division, KTM factory rider Marc Coma celebrated his fourth title in the Dakar championship. This is the 13th consecutive title for KTM in the world's toughest rallye. In the 450SX Supercross series, two KTM factory riders, Ryan Dungey and Ken Roczen, reached the second and the third place within the overall ranking. Furthermore, KTM could win a great number of races in the world championship series MX1, MX2 and Moto3, which are not yet finished.

(3) MARKET DEVELOPMENT

Compared to prior year, the overall **European market**[1] increased slightly by 9.7% to 276,568 vehicles registered in the first half year of 2014. This increase is primarily due to the upward trend in the largest European markets such as Spain (+29.8%), Germany (+9,9%) and the United Kingdom (+14.3%). Registrations of KTM motorcycles in the overall European market could be increased by 7.6%.

In the overall **U.S. market**[2] registrations increased, compared to prior year by 2.2% to 223,701 vehicles registered in the first half year of 2014. KTM succeeded in increasing its share in the overall U.S. market by 15.8% to 4.4%.

[1] Motorcycles ≥ 120 ccm, excluding motocross, scooters and ATVs
[2] Motorcycles ≥ 120 ccm, including motocross, excluding scooters and ATVs
[3] Motorcycles ≥ 120 ccm

(4) DEVELOPMENT OF SALES

In the first half year of 2014 KTM sold 59,595 fullsize motorcycles[3] (+11,382 compared to prior year) out of which 21,333 motorcycles (+872 compared to previous year) were sold in the offroad division and 38,262 motorcycles (+10,510 compared to previous year) in the street division. Sales units in the sportminicycle segment increased to 4,500 motorcycles (+659 compared to prior year). In the first half year of 2014 KTM sold 33 X-Bows (+13 compared to prior year).

By region, sales in North America (USA and Canada) – our largest single market – increased to 10,268 vehicles (+2,652 compared to prior year).

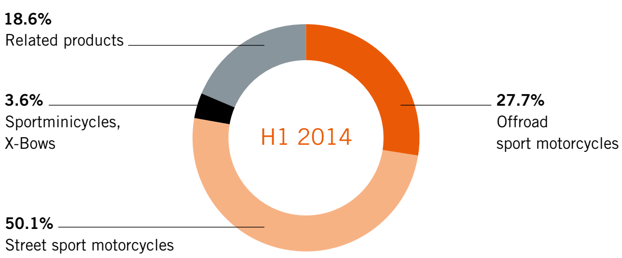
(5) DEVELOPMENT OF REVENUE

In the **offroad division**, revenue rose to EUR 113.5 million (+3.6% compared to prior year). Revenue of sportminicycles could be increased to EUR 12.9 million compared to previous year (+14.8% compared to prior year).

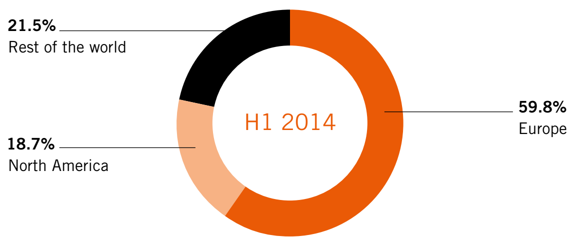
In the **street division**, revenue increased to EUR 205.8 million (+19.4% compared to prior year). The increase in revenue is primarily due to the successful market launch of the 390 Duke and 1290 Super Duke.

In the **related products division**, revenue could be increased by 20.0%, to EUR 76.3 million.

REVENUE BY PRODUCTS



REVENUE BY REGION



By region, sales in Europe increased to EUR 245.4 million (+11.9% compared to prior year). In the U.S. revenue increased to EUR 76.5 million (+37.1% compared to prior year). Revenue in other countries could be increased by 19.6% to EUR 88.4 million, mainly due to higher sales in Asia and South America.

(6) KTM SHARE

The KTM share showed an upward trend in the first half year of 2014 closing at EUR 95.00 on the last trading day (June 30, 2014). Compared to prior year balance sheet date the share price rose from EUR 62.85 (by 51.2%. The highest closing price in a period of six months was EUR 95.00 and the lowest closing price was EUR 62.25. As of June 30, 2014 the market capitalization for 10,845,000 shares admitted for trading amounted to EUR 1,030.3 million.

(7) ANNUAL GENERAL MEETING OF THE SHAREHOLDERS

The 26th Annual General Meeting of the shareholders of KTM AG took place on April 24, 2014 in Mattighofen.

For the business year 2013, the Annual General Meeting decided to distribute a dividend amounting to EUR 1.00 (prior year: EUR 0.70) per share.

The members of the Supervisory Board and the Executive Board were discharged.

Furthermore, changes in the Supervisory Board have been decided. The number of the members of the Supervisory Board elected by the Annual General Meeting will be reduced from six to four members, effective from the resignation of function of Mr. Rudolf Knünz and Mr. Alfred Hörtenhuber.

(8) RISK REPORT

The risk report is provided in the consolidated financial statements as of December 31, 2013. Since then, there have been no material changes in the evaluation of risks.

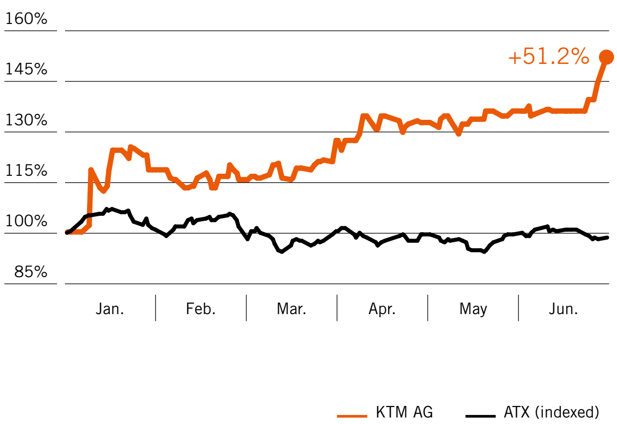
(9) RELATED PARTY DISCLOSURES

All products and services rendered and received from related companies and individuals as stated in the consolidated financial statements as of December 31, 2013 are carried out at arm's lengths. In the first half year of 2014 there have been no material changes.

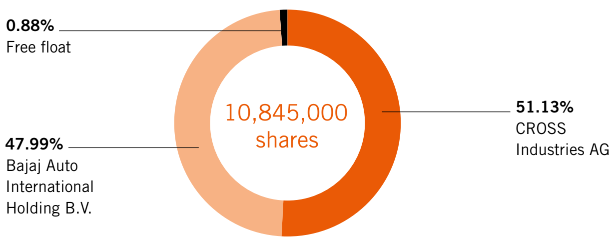
(10) SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There have been no reportable events after June 30, 2014.

DEVELOPMENT OF THE KTM SHARE (JAN. 1 – JUN. 30, 2014)



SHAREHOLDER STRUCTURE BY VOTING RIGHTS



(11) OUTLOOK

Despite the difficult market environment a significant growth was achieved due to the internationalization strategy and the implementation of a global product strategy. For the financial year 2014 in total, management expects an increase in sales and revenue as well as a further growth in market shares.

In the medium term, KTM expects to increase sales figures in the next five years. Therefore, investments in the current infrastructure at the plant in Mattighofen as well as an increase in the capacity of the production plant are planned or have already been implemented.

As in the past, innovative development projects will be one main focus. The financing of the planned expansion will be ensured by holding sufficient long term liquidity reserves as well as a balanced mix of different financing instruments.

Mattighofen, August 2014

The Executive Board of KTM AG

Stefan Pierer
CEO

Harald Plöckinger
COO

Friedrich Roithner
CFO

Viktor Sigl
CFO

Hubert Trunkenpolz
CSO

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FIRST HALF OF 2014 OF KTM AG, MATTIGHOFEN, AUSTRIA (CONDENSED)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

EUR million	Note	Q2 2014	Q2 2013	H1 2014	H1 2013
Revenue	(6)	**213.4**	**185.4**	**410.3**	**349.0**
Cost of sales		(146.3)	(130.9)	(283.6)	(250.8)
Gross profit	(6)	**67.1**	**54.5**	**126.8**	**98.2**
Selling and racing expenses	(6)	(28.6)	(24.3)	(55.5)	(47.8)
Research and development expenses		(7.3)	(6.7)	(14.8)	(14.0)
Infrastructure and administration expenses		(7.7)	(6.0)	(14.9)	(12.1)
Other operating expenses		(4.6)	(3.2)	(8.2)	(5.9)
Other operating income		0.1	0.0	0.1	0.0
Result from operating activities	(6)	**19.0**	**14.3**	**33.6**	**18.4**
Interest income		0.1	0.1	0.3	0.4
Interest expenses		(2.1)	(1.9)	(4.0)	(4.1)
Other financial result		0.4	(0.4)	0.1	(0.2)
Profit before tax		**17.4**	**12.1**	**30.1**	**14.5**
Tax expense/income		(2.3)	(1.5)	(3.9)	(2.2)
PROFIT FOR THE REPORTING PERIOD	(6)	**15.1**	**10.6**	**26.2**	**12.3**
of which attributable to the owners of the parent company		*15.0*	*10.6*	*26.1*	*12.4*
of which attributable to non-controlling interests		*0.1*	*0.0*	*0.1*	*(0.1)*
EARNINGS PER SHARE (EUR)					
Basic		1.39	0.98	2.41	1.14
Diluted		1.39	0.98	2.41	1.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	Q2 2014	Q2 2013	H1 2014	H1 2013
Profit for the reporting period		**15.1**	**10.6**	**26.2**	**12.3**
Currency translation		0.0	(0.2)	(0.1)	(0.1)
Valuation of cash flow hedges		0.5	1.9	0.9	1.6
Deferred taxes on the valuation of cash flow hedges		(0.1)	(0.5)	(0.2)	(0.4)
Other comprehensive income – Possible reclassification into the income statement		**0.4**	**1.2**	**0.6**	**1.1**
TOTAL COMPREHENSIVE INCOME	(7)	**15.5**	**11.8**	**26.8**	**13.4**
of which attributable to the owners of the parent company		*15.4*	*11.8*	*26.7*	*13.5*
of which attributable to non-controlling interests		*0.1*	*0.0*	*0.1*	*(0.1)*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR million	Note	Jun. 30, 2014	Dec. 31, 2013
ASSETS			
Non-current assets			
Property, plant and equipment	(8)	104.4	99.1
Goodwill		78.7	78.7
Intangible assets	(9)	160.4	152.8
Investments accounted for using the equity method		2.4	2.4
Deferred tax assets		3.1	2.1
Other non-current assets	(10)	1.6	1.8
		350.7	**337.0**
Current assets			
Cash and cash equivalents	(11)	12.1	31.6
Trade receivables due from third parties	(12)	83.1	54.2
Trade receivables due from affiliated companies	(12)	0.1	0.0
Trade receivables due from associated companies	(12)	5.6	4.6
Inventories	(13)	133.4	120.6
Prepayments		3.6	2.8
Other current assets		21.9	20.6
		259.9	**234.5**
ASSETS		**610.5**	**571.4**
EQUITY AND LIABILITIES			
Consolidated equity			
Share capital		10.8	10.8
Reserves including retained earnings		287.5	271.6
Equity of the owners of the parent company		**298.4**	**282.5**
Non-controlling interests		0.5	0.4
		298.9	**282.8**
Non-current liabilities			
Bonds		84.7	84.6
Financial liabilities	(14)	23.5	24.8
Employee benefits		10.6	9.8
Deferred tax liabilities		21.8	18.8
Other non-current liabilities	(15)	5.3	4.4
		145.9	**142.4**
Current liabilities			
Financial liabilities	(14)	17.8	5.5
Trade payables owed to third parties		75.6	77.8
Trade payables owed to affiliated companies		14.8	13.2
Trade payables owed to associated companies		2.9	2.3
Provisions		6.2	5.3
Tax liabilities		1.1	0.6
Prepayments		1.6	1.6
Other current liabilities	(16)	45.8	39.8
		165.7	**146.2**
EQUITY AND LIABILITIES		**610.5**	**571.4**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR million	Attributable to the owners of the parent company					Non-controlling interests	Total consolidated equity
	Share capital	Reserves including retained earnings	Cash flow hedge reserve	Foreign currency translation reserve	Total		
Balance as of January 1, 2014	**10.8**	**275.0**	**(2.5)**	**(0.9)**	**282.5**	**0.4**	**282.8**
Currency translation	0.0	0.0	0.0	0.1	0.1	0.0	0.1
Financial instruments	0.0	0.0	0.6	0.0	0.6	0.0	0.6
Other comprehensive income	**0.0**	**0.0**	**0.6**	**0.1**	**0.7**	**0.0**	**0.7**
Profit of the reporting period	0.0	26.1	0.0	0.0	26.1	0.1	26.2
Total comprehensive income	**0.0**	**26.1**	**0.6**	**0.1**	**26.8**	**0.1**	**26.9**
Dividend	0.0	(10.8)	0.0	0.0	(10.8)	0.0	(10.8)
BALANCE AS OF JUNE 30, 2014	**10.8**	**290.3**	**(1.9)**	**(0.8)**	**298.4**	**0.5**	**298.9**
Balance as of January 1, 2013	**10.8**	**246.8**	**(3.1)**	**(0.4)**	**254.2**	**0.3**	**254.5**
Currency translation	0.0	0.0	0.0	(0.1)	(0.1)	0.0	(0.1)
Financial instruments	0.0	0.0	1.2	0.0	1.2	0.0	1.2
Other comprehensive income	**0.0**	**0.0**	**1.2**	**(0.1)**	**1.1**	**0.0**	**1.1**
Profit of the reporting period	0.0	12.4	0.0	0.0	12.4	(0.1)	12.3
Total comprehensive income	**0.0**	**12.4**	**1.2**	**(0.1)**	**13.5**	**(0.1)**	**13.4**
Dividend	0.0	(7.6)	0.0	0.0	(7.6)	0.0	(7.6)
BALANCE AS OF JUNE 30, 2013	**10.8**	**251.6**	**(1.9)**	**(0.5)**	**260.1**	**0.2**	**260.3**

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR million		**H1 2014**	**H1 2013**
Consolidated cash flow from operating activities			
+(–)	Profit (loss) for the reporting period	26.1	12.4
+(–)	Profit (loss) allocated to non-controlling interests	0.1	(0.1)
+(–)	Interest expenses (income)	3.7	3.7
–	Interest paid	(3.3)	(3.4)
+	Interest received	0.3	0.4
+(–)	Current income tax	2.1	0.6
–	Income taxes paid	(0.8)	(0.3)
+(–)	Deferred taxes	1.8	1.6
+(–)	Write-downs (additions) of fixed assets	18.7	16.1
+(–)	Write-downs (additions) of financial assets	0.0	(0.5)
+(–)	Addition to (reversal from) employee benefits	0.7	0.4
	Gross cash flow	**49.4**	**30.9**
–(+)	Increase (decrease) in inventories	(12.4)	(6.6)
–(+)	Increase (decrease) in trade receivables, prepayments, other current and non-current asset	(32.7)	(24.2)
–(+)	Increase (decrease) in trade receivables due from affiliated companies	(0.1)	(0.1)
–(+)	Increase (decrease) in trade receivables due from associated companies	(1.0)	(1.6)
+(–)	Increase (decrease) in trade payables, prepayments and other current and non-current liabilities	(1.6)	15.1
+(–)	Increase (decrease) in trade payables owed to affiliated companies	1.6	0.8
+(–)	Increase (decrease) in trade payables owed to associated companies	0.6	0.5
+(–)	Increase (decrease) in tax liabilities, deferred taxes and other provisions	1.4	0.6
		(44.4)	**(15.6)**
Consolidated cash flow from operating activities		**5.0**	**15.3**

EUR million		H1 2014	H1 2013
Consolidated cash flow from investing activities			
–	Investments in fixed assets	(30.9)	(20.8)
–	Investments in financial assets	0.0	(0.1)
+	Disposals of fixed assets	0.6	0.1
Consolidated cash flow from investing activities		**(30.3)**	**(20.8)**
Consolidated cash flow from financing activities			
–	Dividend	(5.6)	(7.6)
+(–)	Increase (decrease) in current and non-current financial liabilities	11.0	(8.6)
–(+)	Other financing activities	0.3	1.6
Consolidated cash flow from financing activities		**5.6**	**(14.6)**
Consolidated cash flow			
+(–)	Consolidated cash flow from operating activities	5.0	15.3
+(–)	Consolidated cash flow from investing activities	(30.3)	(20.8)
+(–)	Consolidated cash flow from financing activities	5.6	(14.6)
Change in cash and cash equivalents		**(19.7)**	**(20.1)**
+(–)	Effect of exchange rate fluctuations on cash held	0.1	(0.1)
+	Cash and cash equivalents at the beginning of the reporting period	31.6	29.4
CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD		**12.1**	**9.2**
comprising: cash on hand, checks, cash in banks and time deposits		*12.1*	*9.2*

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FIRST HALF OF 2014 OF KTM AG, MATTIGHOFEN, AUSTRIA (CONDENSED)

(1) THE COMPANY

KTM AG has its registered office in Stallhofnerstrasse 3, 5230 Mattighofen, Austria, and has been recorded in the commercial register at the Provincial Court as Commercial Court of Ried im Innkreis under file number FN 107673 v.

KTM AG engages in the development, production and distribution of motorized vehicles for recreational purposes (power sports), in particular under the KTM and Husqvarna brands, and in the acquisition and holding of stakes in entities engaging in the development, production and distribution of such equipment. As of June 30, 2014, the KTM Group comprised 38 subsidiaries, located in Austria, Switzerland, the U.S., Japan, South Africa, Mexico, Greece and India as well as in various other European countries, which are included within the consolidated financial statements. Furthermore, the KTM Group has equity holdings in general importers that are based in important distribution markets (New Zealand and Dubai) as well as in various flagship stores in Austria and Germany.

Significant sales markets include the U.S., Germany, France, Australia, Italy, the United Kingdom, Spain, Austria, Canada and Malaysia as well as other European countries.

(2) PRINCIPLES OF FINANCIAL REPORTING

The interim financial statements of KTM AG as of June 30, 2014 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU considering IAS 34 “Interim Financial Reporting”. The interim consolidated financial statements were neither audited nor reviewed by a certified public accountant.

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements as of December 31, 2013.

The figures in the interim consolidated financial statements are reported in the functional currency of the parent, the euro. Unless deviations are indicated specifically, all amounts are rounded to 1,000,000 euros (EUR million), which may give rise to rounding differences. Slight differences in totals from adding up rounded amounts and percentages cannot be excluded due to automated calculation tools.

The accounting and valuation methods used for the consolidated financial statements as of December 31, 2013 were applied unchanged. Further information regarding the accounting and valuation method are explained in the notes to the consolidated financial statements for the financial year 2013. The accounting and valuation methods applied therein constitute the basis for the present interim consolidated financial statements for the first half year of 2014.

The accounting principles of the companies included in the condensed interim consolidated financial statements are based on standardized accounting principles. These principles were fully applied by all consolidated companies.

The accounting policies applied in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year ended December 31, 2013, except for the adoption of new standards and interpretations effective as of January 1, 2014:

IFRS 10, 11 and 12, IAS 27 and 28: In May 2011, the International Accouting Standards Board (IASB) published five new and revised standards that deal with the treatment of subsidiaries, joint arrangements, the disclosure of interests in other entities as well as with the identification of the entities to be included in the scope of consolidation:

- IFRS 10 – building on the principles to be currently applied – uses a comprehensive concept of control for regulating which entities should be included within the consolidated financial statements. According to the new concept, an entity has control if it has power in respect of the relevant processes, generates variable returns from the subsidiary and is able to use its power to impact these returns.

- IFRS 11 regulates the accounting for joint arrangements, thus replacing IAS 31. In the future, joint ventures have to be included within the consolidated financial statements using the equity method according to IAS 28; the previously applicable rule that permitted proportional consolidation has been eliminated.

- IFRS 12 regulates the disclosure requirements for any kinds of interests in other entities, including joint arrangements, associates and unconsolidated, structured entities.

- IAS 27 was renamed "Separate Financial Statements" and in the future will treat those only.

- IAS 28 was renamed "Investments in Associates and Joint Ventures" and describes the equity method to be used for the accounting treatment of both forms of entities in the future as well as the requirements for application.

There are no significant impacts on the scope of consolidation or on the consolidated financial statements of KTM AG.

All further new or amended standards and interpretations that are effective in the European Union from January 1, 2014 (Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities; Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting; Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities) have no significant impact on the interim consolidated financial statements of KTM AG.

IFRS 21 provides a guideline on the recognition of a liability or a levy, imposed by governments under legislation. The interpretation refers both to levies that have to be accounted for IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as for levies where the period of time and the amount are known. There are no impacts for KTM AG.

In the first half year of 2014 the balance sheet item "advance payments made to inventories" is no longer reported under the balance sheet item inventories. This item is reported under the item "other current financial assets" from now on. There are no changes in valuation due to this change in presentation. The prior year amount was not adjusted due to immateriality.

There were not further changes in accounting policies.

(3) SCOPE OF CONSOLIDATION

All material subsidiaries under the legal or factual control of KTM AG have been included in the interim consolidated financial statements of KTM AG for the first half year of 2014. Apart from the parent, 38 entities (of which 31 are foreign entities and seveb are domestic entities) are therefore included by full consolidation in the KTM Group.

The following table shows the scope of consolidation as of June 30, 2014:

	Full consolidation	At-equity consolidation
As of January 1, 2014	38	3
Additons	0	0
Disposals	0	0
As of June 30, 2014	**38**	**3**

The scope of consolidation as of December 31, 2013 was unchanged on June 30, 2014. For further information, we refer to the consolidated financial statements of KTM AG as of December 31, 2013.

(4) ESTIMATES

In the consolidated financial statements, certain estimates and assumptions have to be made that affect the recognized assets and liabilities, the disclosure of contingent liabilities as of the balance sheet date and the presentation of income and expenses for the financial year. Estimates and assumptions are based on empirical values the Executive Board deems appropriate. The amounts actually arising may differ from the estimates if assumed parameters develop contrary to expectations. If new conditions become known, they are duly taken into account and previous assumptions are revised accordingly.

Estimates and uncertainties in judgements and assumptions are explained in the consolidated financial statements of KTM AG as of December 31, 2013 under note (4) accounting policies.

(5) SEASONALITY

Seasonality effects occur due to a different seasonality of offroad- and street motorcycles. In the street segment, there are higher sales in the first half of the year, whereas in the offroad division, the main focus is on the second half of the year. Due to the increasing importance of the street segment to total revenue, seasonal effects are straightened over the year to a great extent. Therefore, management is not expecting a high dependency on seasons.

(6) NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Revenue increased, compared to prior year, by EUR 61.3 million to EUR 410.3 million (+17.6%).

The KTM Group consists of one single cash generating unit, with the purpose to develop, manufacture and distribute motorcycles. The notes across the segments are shown as follows. The **regional allocation of revenues** complies with the customers' location.

EUR million	Europe		North America		Others		Consolidation		Group	
	H1 2014	H1 2013	H1 2014	H1 2013	H1 2014	H1 2013	H1 2014	H1 2013	H1 2014	H1 2013
External revenue	245.4	219.3	76.5	55.8	88.4	73.9	0.0	0.0	**410.3**	**349.0**
EBIT	31.3	17.6	1.7	1.5	0.5	0.9	0.2	(1.6)	**33.6**	**18.4**

In the first half year of 2014 **gross profit** rose by 29.2% to EUR 126.8 million compared to prior year due to an increased business volume resulting in a gross margin ratio of 30.9%.

Selling and racing expenses increased by EUR –7.7 million to EUR –55.5 million (+16.1%) compared to prior year.

Overhead expenses increased in total from EUR –79.8 million in the prior year to EUR –93.2 million (+16.8%).

The **result from operating activities** increased to EUR 33.6 million (+ EUR 15.2 million compared to prior year) due to a positive development of sales and revenue in the first half year of 2014. An EBIT margin of 8.2% (5.3% in previous year) could be recorded.

The **financial result** increased by EUR 0.3 million to EUR –3.6 million compared to prior year (EUR –3.9 million). The profit for the financial year increased from EUR 12.3 million in prior year to EUR 26.2 million.

(7) NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The cash flow hedge reserve increased by EUR 0.7 million net in the first half year 2014.

Total comprehensive incme increased the group's equity in the first six months by EUR 26.8 million.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(8) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment increase by EUR 5.3 million to EUR 104.4 million due to investments in buildings at the plant in Mattighofen.

(9) INTANGIBLE ASSETS

Intangible assets include, in substance, capitalized development costs as well as liscense rights to brands and licenses. In the first half year of 2014, intangible assets rose by EUR 7.6 million to EUR 160.4 million due to the net capitalization of development costs.

(10) OTHER NON-CURRENT ASSETS

Other non-current financial assets include, as reported in the consolidated financial statement as of December 31, 2013, equity instruments, that are not quoted in an active market and whose fair value cannot be reliably measured. These are accounted for at cost less impairment.

(11) CASH AND CASH EQUIVALENTS

In the first half year 2014, cash and cash equivalents decreased by EUR 19.5 million to EUR 12.1 million.

(12) TRADE RECEIVABLES

Trade receivables including receivables due from affiliated and associated companies increased by EUR 30.0 million to EUR 88.8 million; taking into account the receivables sold in the first six months of 2014 in the framework of the ABS transaction, this increase amounts to EUR 31.7 million.

(13) INVENTORIES

Inventories rose by EUR 12.8 million to EUR 133.4 million compared to prior year due to an increase in finished goods and merchandise (+ EUR 11.2 million compared to December 31, 2013).

(14) FINANCIAL LIABILITIES

In the first half year 2014, non-current financial liabilities decreased by EUR 1.3 million to EUR 23.5 million due to repayments as scheduled. Current financial liabilities increased by EUR 12.3 million to EUR 17.8 million.

Net financial debt increased in the first half year of 2014, compared to December 31, 2013, by EUR 30.8 million to EUR 113.2 million due to seasonality. The gearing ratio amounts to 37.9% (December 31, 2013: 29.1%), due to seasonality.

(15) OTHER NON-CURRENT LIABILITIES

Other non-current liabilities increased by EUR 0.9 million to EUR 5.3 million compared to December 31, 2013 and include, in substance, deposits received.

(16) OTHER CURRENT LIABILITIES

Other current liabilities rose by EUR 6.0 million to EUR 45.8 million and include, in substance, employee benefits, liabilities for social security benefits and accrued interest payables.

The increase, compared to December 31, 2013, is due to dividends not yet paid out to key shareholders for the financial year 2013.

(17) NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Compared to the previous year the free cash flow increased from EUR –5.5 million to EUR –25.3 million, and is therefore negative due to seasonality. This development is primarily due to an increased business volume as well as an increased working capital and higher investments.

(18) NOTES TO THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Total equity rose from EUR 282.8 million as of December 31, 2013 to EUR 298.9 million.

The Annual General Meeting as of April 24, 2014 resolved, among other things, on the distribution of a dividend of EUR 1.00 per share, totalling EUR 10,845,000.00 for the business year 2013. Dividend payment day was May 8, 2014.

(19) NOTES TO FINANCIAL INSTRUMENTS

The fair value of a financial instrument is determined by means of quoted market prices for an identical instrument in active markets (level 1). If no quoted market prices in active markets are available for the instrument, the fair value is determined by means of valuation techniques for which the material parameters are based only on observable market data (level 2). In all other cases, the fair value is determined on the basis of valuation techniques for which at least one material parameter is not based on observable market data (level 3).

Reclassifications from one level to another are taken into account at the end of the reporting period. There were no transfers between levels in the financial year.

The following table shows the carrying amounts and fair values of the financial assets (financial instruments shown on the assets side), broken down by class or measurement category according to IAS 39. But it does not provide information on financial instruments not measured at fair value where the carrying amount is a reasonable approximation of fair value.

EUR million	Carrying amount	Fair value	Fair value			
			Level 1	Level 2	Level 3	Total
June 30, 2014						
Loans and receivables						
Cash and cash equivalents	12.1	–	–	–	–	–
Trade receivables	88.9	–	–	–	–	–
Other financial assets	14.0	–	–	–	–	–
	115.0	**–**				
Available for sale						
Other non-current financial assets	1.6	–	–	–	–	–
	1.6	**–**				
Fair value – Hedging instruments						
Other current assets – Derivatives with positive market value (cash flow hedge)	1.4	1.4	–	1.4	–	1.4
	1.4	**1.4**				
Total	**118.0**	**1.4**				
December 31, 2013						
Loans and receivables						
Cash and cash equivalents	31.6	–	–	–	–	–
Trade receivables	58.9	–	–	–	–	–
Other financial assets	12.7	–	–	–	–	–
	103.2	**–**				
Available for sale						
Other non-current financial assets	1.8	–	–	–	–	–
	1.8	**–**				
Fair value – Hedging instruments						
Other current assets – Derivatives with positive market value (cash flow hedge)	2.3	2.3	–	2.3	–	2.3
	2.3	**2.3**				
Total	**107.3**	**2.3**				

The following table shows the carrying amounts and fair values of the financial liabilities (financial instruments shown on the liabilities side), broken down by class or measurement category according to IAS 39. But it does not provide information on financial liabilities not measured at fair value where the carrying amount is a reasonable approximation of fair value.

EUR million	Carrying amount	Fair value	Fair value			
			Level 1	Level 2	Level 3	Total
June 30, 2014						
At amortized cost						
Financial liabilities	41.3	41.8	–	–	41.8	41.8
Trade payables	93.3	–	–	–	–	–
Bonds	84.7	89.3	89.3	–	–	89.3
Other current and non-current financial liabilities	41.1	–	–	–	–	–
	260.4	**131.1**				
Held for trading						
Other financial liabilities – Derivatives with negative market value	0.4	0.4	–	0.4	–	0.4
	0.4	**0.4**				
Fair value – Hedging instruments						
Other financial liabilities – Derivatives with negative market value (cash flow hedge)	4.0	4.0	–	4.0	–	4.0
	4.0	**4.0**				
Total	**264.8**	**135.5**				
December 31, 2013						
At amortized cost						
Financial liabilities	30.3	30.6	–	–	30.6	30.6
Trade payables	93.4	–	–	–	–	–
Bonds	84.6	89.0	89.0	–	–	89.0
Other current and non-current financial liabilities	35.5	–	–	–	–	–
	243.7	**119.6**				
Held for trading						
Other financial liabilities – Derivatives with negative market value	0.6	0.6	–	0.6	–	0.6
	0.6	**0.6**				
Fair value – Hedging instruments						
Other financial liabilities – Derivatives with negative market value (cash flow hedge)	4.7	4.7	–	4.7	–	4.7
	4.7	**4.7**				
Total	**249.0**	**124.9**				

FAIR VALUE DETERMINATION

The following table shows the valuation technique used to determine the fair value in level 2 and level 3 as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Connection between significant unobservable inputs and fair value measurement
Financial instruments measured at fair value			
Foreign currency forwards and interest rate swaps	Market comparison method: The fair values are based on the market values determined using accepted methodologies of financial mathematics; they are regularly checked for plausibility	Not applicable	Not applicable
Financial instruments not measured at fair value			
Bonds	The exchange listed bond is measured using the price quoted on the balance sheet date	Not applicable	–
Loans	Discounted cash flows	Risk premium for own credit risk	–

(20) RELATED PARTY DISCLOSURES

All products and services rendered and received from related companies and individuals as stated in the consolidated financial statements as of December 31, 2013 are carried out at arm's lengths. In the first half year of 2014 there have been no material changes.

(21) SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There have been no reportable events after June 30, 2014.

STATEMENT OF ALL LEGAL REPRESENTATIVES

We, the Executive Board of KTM AG, confirm to the best of our knowledge that the condensed interim consolidated financial statements for the first six months of 2014 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 interim consolidated management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed interim consolidated financial statements, of the principal risks and uncertainties for the remaining six months of the financial year and of significant related party transactions to be disclosed.

Mattighofen, August 2014

The Executive Board of KTM AG

Stefan Pierer
CEO

Harald Plöckinger
COO

Friedrich Roithner
CFO

Viktor Sigl
CFO

Hubert Trunkenpolz
CSO

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GENERAL INFORMATION ON THE KTM SHARE

WKN	64540
Symbol	KTM
ISIN	AT0000645403
Listed	Vienna Stock Exchange, Mid Market
Number of shares	10,845,000
Share capital	EUR 10,845,000
Reuters	KTMP:VI
Bloomberg	KTM AV

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

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

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