Annual Report 2007/2008

RACING SYSTEMS

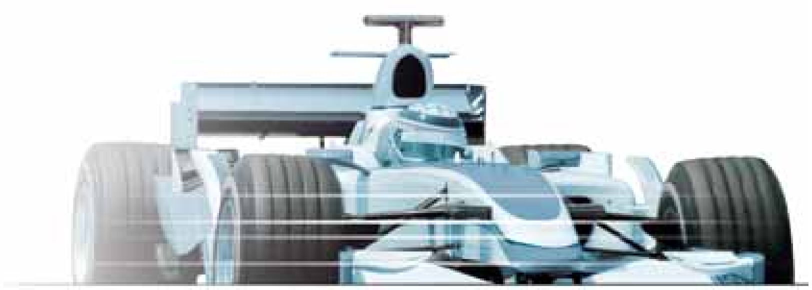


Table of Contents

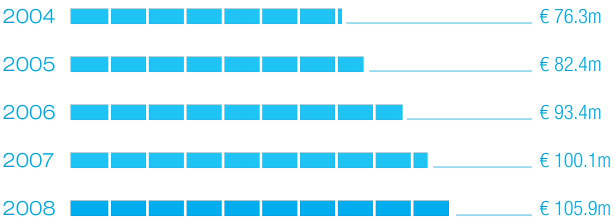
04 THE COMPANY
04 Highlights of the Fiscal Year 2007/2008
06 Company Mission Statement and Corporate Values
08 Locations/Organisational Chart
11 Legal Representatives
12 Interview with the Management Board
21 Report of the Chairman of the Supervisory Board
22 Investor Relations
24 Corporate Governance

31 GROUP STATUS REPORT 2007/2008
32 Business Development and Financial Position
39 Major Events during the Fiscal Year
41 Key Financial Indicators
42 Key non-Financial Indicators
46 Material Events after the Balance Sheet Date
46 Composition of the Share Capital
49 Future Developments and Risks of the Group
52 Research and Development
53 Disclosure according to Article 243 a of the Austrian Commercial Code (§ 243 a UGB)

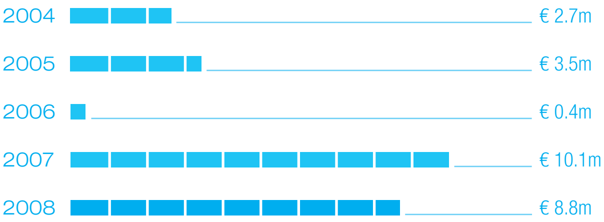
55 CONSOLIDATED FINANCIAL STATEMENTS 2007/2008
56 Consolidated Profit and Loss Account
57 Consolidated Balance Sheet per 30 September
59 Schedule of Development of Shareholders' Funds per 30 September
60 Consolidated Cash Flow Statement
62 Notes to the Consolidated Financial Statements
108 Consolidated Schedule of Fixed Assets per 30 September
112 Unqualified Audit Opinion

114 Statement by the Authorized Representatives
115 Important Addresses

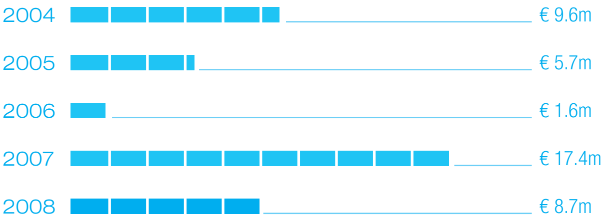
REVENUES



EBIT



CASH FLOW FROM OPERATING ACTIVITIES



Financial Calendar

30 JANUARY 2009

General Assembly

4 FEBRUARY 2009

Ex-Dividend Day and Dividend Payment Day

12 FEBRUARY 2009

Publication of Q1 2008/2009 figures

19 MAY 2009

Publication of H1 2008/2009 figures

18 AUGUST 2009

Publication of Q1–Q3 2008/2009 figures

NOVEMBER 2009

Preliminary year-end results for 2008/2009

Key Financial Ratios

			2004	2005	2006	2007	2008	Change
EARNINGS RATIOS								
	Revenues	in €k	76,259	82,402	93,428	100,054	105,909	6%
	EBITDA	in €k	10,112	14,014	8,604	17,325	16,868	(3%)
	EBIT	in €k	2,676	3,511	422	10,124	8,805	(13%)
	Earnings before taxes (EBT)	in €k	1,018	2,845	(635)	8,446	7,364	(13%)
	Earnings after taxes	in €k	1,397	3,817	145	8,288	6,858	(17%)
	EBITDA margin		13%	17%	9%	17%	16%	–
	EBIT margin		4%	4%	0%	10%	8%	–
BALANCE SHEET RATIOS								
	Total assets	in €k	97,533	114,010	119,033	127,068	141,723	12%
	Net working capital	in €k	15,729	21,328	25,270	26,772	34,365	28%
	Capital employed	in €k	66,807	71,808	74,582	80,823	98,924	22%
	Shareholders' equity	in €k	54,107	57,712	57,676	64,561	67,399	4%
	Equity in % of total assets		55%	51%	48%	51%	48%	–
	Net debt	in €k	11,452	13,506	14,202	14,217	29,428	107%
	Gearing		21%	23%	25%	22%	44%	–
CASH FLOW AND CAPEX								
	Cash flow from operating activities	in €k	9,610	5,677	1,625	17,412	8,730	(50%)
	Free cash flow	in €k	1,236	1,948	(2,891)	5,759	(10,481)	neg.
	Capital expenditure in fixed assets	in €k	8,148	8,786	5,663	8,713	14,790	70%
EMPLOYEES								
	Average number of employees		609	665	661	808	896	11%
VALUE CREATION								
	ROCE (Return on capital employed)		3%	6%	2%	12%	9%	–
	ROE (Return on equity)		3%	7%	0%	14%	10%	–
STOCK EXCHANGE RATIOS								
	Share price per 30/9 (XETRA)	in €	13.00	20.85	22.50	38.20	25.30	(34%)
	Number of shares issued	m share	3.88	3.88	3.88	3.88	3.88	–
	Number of treasury shares	share	62,602	95,585	95,585	585	62,861	>1,000%
	Market capitalisation	in €m	50.54	79.06	85.32	148.22	98.20	(34%)
	Earnings per share	in €	0.36	0.99	0.04	2.03	1.67	(18%)
	Book value per share	in €	13.92	14.84	14.83	16.61	17.34	4%

Annual Report 2007/2008
Pankl Racing Systems AG

The Pankl family continued to grow via acquisitions of leading motor racing companies also in the fiscal year 2007/2008. Despite a challenging market environment, we achieved the third best financial results in our corporate history.

Our employees are the most important factor for this success. We would like to introduce some of those personally who supported Pankl to make this excellent achievement happen.

Wolfgang Plasser, CEO

pankl
RACING SYSTEMS

Highlights of the Fiscal Year 2007/2008

OCTOBER 2007

The new Pankl logo: Pankl presents its new corporate design

The racing season 2007 ends: 161 Formula 1 victories since 1985

NOVEMBER 2007

Participation in the "Professional MotorSport World Expo" in Cologne, Germany

DECEMBER 2007

Participation in the world's largest performance racing industry trade show (PRI) in Orlando, Florida

Pankl Aerospace Systems Europe GmbH receives € 9.5m order from Sikorsky

JANUARY 2008

Start of share buyback programme: 128,676 shares representing 3.3% of the issued share capital are bought back

FEBRUARY 2008

Best quarterly results of Aerospace Segment in corporate history

Alfred F. Hörtenhuber is appointed as a member of the Supervisory Board

First-time dividend payment of € 0.60 per share

APRIL 2008

Pankl acquires UK-based specialty screws supplier Northbridge Motorsport (Pankl Racing Systems Northbridge Ltd.)

MAY 2008

Major improvements in Q2 revenues and earnings

Pankl acquires US connecting rod supplier Carillo Industries, Inc.

JUNE 2008

Pankl Aerospace Systems Europe GmbH concludes supply contract for the production of prototype tail rotor shafts for the new helicopter type EC 175 (Z15)

Official opening of the new Topolcany production facility of our Slovak subsidiary Pankl Automotive Slovakia, s.r.o.

JULY 2008

CROSS Motorsport Systems AG owns a stake of 50.1% in Pankl Racing Systems AG and controls 59.94% of the voting rights

66,400 own shares out of a total of 129,261 are sold

AUGUST 2008

Pankl achieves the second best operating earnings in corporate history

OCTOBER 2008

Alfred F. Hörtenhuber resigns from the Supervisory Board and, as of 1 November 2008, becomes a member of the Pankl Racing Systems AG Management Board

Corporate Mission Statement

IDENTITY – WHO WE ARE

We develop, manufacture, maintain and distribute mechanical systems in the high-tech field of dynamic components for the global niche markets motor racing, luxury vehicles and aerospace.

VISION – WHAT WE ARE GOING TO ACHIEVE

We strive to be the world's leading supplier of systems to the motor racing, luxury vehicles and aerospace industries. Systems from Pankl should feature in every upmarket racing and luxury vehicle as well as in all aircraft built by the most important manufacturers. Our goal is to be a leading innovator within all our business and corporate fields when we launch new products and materials.

MISSION – WHY WE DO THIS

We share our customers' passionate desire to come out on top. We want to make the best of ourselves and do our utmost to ensure that our systems are made with the highest levels of quality. The resultant success promotes the prosperity of our customers, staff, investors and the society we live and work in.

Corporate Values

HIGH TECH

We develop and manufacture technical systems that lead the market. Our work is based on state-of-the-art findings in each of our fields. We fully support the implementation of new ideas. Our intensive research effort enables us to secure our technological lead.

HIGH SPEED

We strive to be the fastest in everything concerning our business. We want to move forward and are willing and prepared to undertake constant improvements. We recognise the opportunities available in our field of business and take appropriate steps to exploit these to the full.

HIGH QUALITY

We believe that quality means perfection right down to the last detail. We concentrate our energies on meeting the needs of our customers. We believe that quality also means the need to establish an enduring relationship of mutual trust with our business associates and colleagues.

OUR STAFF

We act out of the conviction that our conscientious staff constitute our most valuable assets. In creating a performance-driven environment we want to be attractive for creative and loyal members of staff.

We appreciate and cultivate both the professional advancement and self-development of our staff (leadership qualities, holistic thinking, role models, etc.).

We promote openness and fairness in our dealings with our staff and colleagues.

>> Supervisory Board and Management Board at the management meeting in November 2008

Locations

Revenues of € 106m

In 2007/08, Pankl achieved an EBIT of € 8.8m, the third-best results in its corporate history

10 Locations

Pankl is a global niche player in motor racing, high performance vehicles and aerospace

980 Mitarbeiter

as of 30 September 2008. Pankl offers interesting jobs and international career chances in the whole Group

3 Acquisitions

in the past 18 months; Pankl's strategy is to grow via acquisitions with the aim to become a complete systems' supplier

161 F1 Victories

Pankl has celebrated 161 F1 victories since 1985 and numerous top positions in all major international racing categories

Pankl Racing Systems AG

RACING

Pankl Drivetrain Systems GmbH & Co KG
Kapfenberg (AT), 100%

Pankl Engine Systems GmbH & Co KG
Bruck/Mur (AT), 100%

Pankl Drivetrain Systems UK Ltd.
Bicester (UK), 100%

Pankl Engine Systems Weymouth Pin Ltd.
Weymouth (UK), 100%

Pankl Racing Systems Northbridge Ltd.
Leicester (UK), 100%

CP Pistons, LLC
Irvine, CA (US), 70%

Carrillo Industries, Inc.
San Clemente, CA (US), 100%

Pankl Japan, Inc.
Tokyo (JP), 100%

HIGH PERFORMANCE

Pankl Schmiedetechnik GmbH & Co KG
Kapfenberg (AT), 100%

Pankl Automotive Slovakia, s.r.o.
Topolcany (SK), 100%

AEROSPACE

Pankl Aerospace Systems Europe GmbH
Kapfenberg (AT), 100%

Pankl Aerospace Systems, Inc.
Cerritos, CA (US), 75%

>> Wolfgang Plasser, CEO
Born in 1962 in Gmunden
Active in the company since 2004
Responsible for Racing and
Aerospace divisions

>> Alfred F. Hörtenhuber, COO
Born in 1955 in Wels
Active in the company since 2008
Responsible for High Performance division

Legal Representatives

SUPERVISORY BOARD

— Stefan Pierer, Wels
Chairman of the Supervisory Board
from 29 June 2006 until the
General Assembly that votes on the discharge
of directors for the fiscal year 2008/2009

— Rudolf Knünz, Dornbirn
Vice-Chairman of the Supervisory Board
from 29 June 2006 until the
General Assembly that votes on the discharge
of directors for the fiscal year 2008/2009

— Gerold Pankl, Huntington Beach, USA
Member of the Supervisory Board
from 28 February 2003 until the
General Assembly that votes on the discharge
of directors for the fiscal year 2008/2009

— Josef Blazicek, Perchtoldsdorf
Member of the Supervisory Board
from 22 April 2005 until the
General Assembly that votes on the discharge
of directors for the fiscal year 2008/2009

— Alfred F. Hörtenhuber, Stadl-Paura
Member of the Supervisory Board
from 8 Februar 2008 until the
General Assembly that votes on the discharge
of directors for the fiscal year 2008/2009;
resignation on 27 October 2008

— Herbert Paierl, Bad Waltersdorf
Substitute Member of the Supervisory Board
from 29 June 2006 until the
General Assembly that votes on the discharge
of directors for the fiscal year 2008/2009

MANAGEMENT BOARD

— Wolfgang Plasser
appointed until 31 May 2012

— Alfred F. Hörtenhuber
appointed from 1 November 2008 until 31 May 2012

Interview with the Management Board

IN VIEW OF THE DIFFICULT WORLD ECONOMIC ENVIRONMENT, CEO WOLFGANG PLASSER ANSWERS THE QUESTIONS OF AN INTERESTED SHAREHOLDER.

In the fiscal year 2007/2008, your company was able to grow revenues by 6% and to achieve an EBIT margin of 8.3% in a challenging market environment. In the second half of the fiscal year you had to revise your guidance, what were the reasons for that? The major reason for the new guidance in the second half of the fiscal year was a weak engine component revenues development due to Formula 1 engine homologation. In addition, we had to cope with exceptional and non-recurring cost burdens associated with the construction of our new factory in Slovakia. As a result, we fell slightly short of our target to achieve double digit EBIT margins. Nevertheless, we consider the past fiscal year a successful one as we achieved the third best results in our corporate history.

The aerospace segment recorded significant increases in revenues and earnings. How was that possible? These developments were mainly due to further diversification. We managed to transfer new programmes and products from prototype production to serial production. This generated revenue growth with customers such as Agusta, Eurocopter, Sikorsky, Pratt & Whitney or Schiebel. The portion of serial production revenues drives profitability. The aerospace business is characterised by product life cycles that often span over decades after many years of product development and certification. Hence, after our more than ten years of involvement in aerospace it is only now, that we can finally start to generate sufficient economies of scale to be able to achieve appropriate results.

In the aerospace segment it was one of your major aims to reach critical mass via productivity improvements. What does that mean? We can achieve good results by maximising utilisation of our machinery and minimising set-up times. Serial production allows

stable capacity utilisation and low set-up times. Productivity is good if certain machines are exclusively used to produce large numbers of a particular product for example flanges or tail rotor drive shafts. Productivity is bad if large varieties of different products have to be produced on the same machine in small lot numbers. It is therefore important to achieve the right mix of prototype products for securing long-term future orders and serial production allowing an appropriate return on investment. This right mix can only be achieved if critical mass is reached. We feel that based on our product mix, we need to generate annual revenues of at least € 40m to reach the critical mass necessary to be able to optimise margins. We believe that we are on a good path, but there is still plenty to do.

Do you want to diversify your product and customer portfolios in this segment? Which new products do you look at besides rotor drive shafts and in-flight refueling systems? Which regions are your main target markets? Our current product portfolio could be described as large drive shafts and pipes. In the last few years, we put a lot of effort to position our in-flight refueling systems in the market place. Today we achieve a substantial portion of our aerospace revenues from this product. We also introduced jet engine drive shafts for our US and European customers. In future, we will focus on the products that we have already today. Hence we do not target any new products before we achieve critical mass with what we have.

Today our major markets are the USA and Europe, increasingly important becomes China. Major helicopter OEMs entered into joint ventures with Chinese companies to build helicopters for the Chinese market. Critical components such as our products continue to be sourced from the established and certified suppliers, which opens China as a promising growth market for us in the future.

The racing division suffered declines. What puts a break on your Formula 1 business? Engine homologation led to a near standstill in terms of engine development. This impacted negatively on our revenues and earnings in the engine components division. We are increasingly able to compensate these declines with new products, which we developed in-house or acquired in the market place. I do expect, however, that the Formula 1 teams and FIA will soon agree on a long overdue new engine regime.

Currently, the motor racing segment experiences two diverging developments: revenues and earnings growth in the drivetrain division and, driven by the regulatory environment, weak demand for engine components. When do you expect new engine rules in Formula 1, respectively an end to engine homologation? In the last few years, the regulatory environment in Formula 1 caused a substantive shift of team budgets away from the engine towards drivetrain and aerodynamics.

We expect new engine rules in the calendar year 2009 effective from the 2011 racing season. The resulting development efforts will cause appropriate transfers in team budgets and will benefit our business.

If a new engine regime were to be introduced from the 2011 racing season, from what time on would you notice a beneficial impact in the revenues and earnings of your engine components division? As soon as a new regime is concluded and publicly announced, teams are required to launch their appropriate development projects. A regime change hence impacts positively on our numbers from the moment it is announced.

The first Formula 1 night race ever was carried out in Singapore. 100,000 spectators along the track and unique optical effects created the most spectacular scenery. Do you believe that such events, if they are necessary to increase public attention, may overshadow the core values of the sport? I believe that the Singapore night race was not just an excellent show it was also a high profile sporting event. Everyone involved was deeply touched by the buzz this event created. The show element is at the core of motor racing and it is important that the event is open to a global TV audience that is as large as possible. Hence there is a need to be more flexible in terms of racing times. In the meantime there are a lot of discussions regarding further night races.

Formula 1 considers itself a technological centre of excellence defining new technological paths for the mainstream automotive industry. On this basis FIA intends to move Formula 1 racing more towards environmental approaches. Technologies that may be introduced in the next racing season, include kinetic energy recovery systems (KERS). What impact would that have on Pankl? We may offer our customers the one or the other new product. The introduction of KERS would have direct impacts on engine and drivetrain systems and would hence require an appropriate adaptation of our components.

I believe that measures to drive efficiency in motor racing are meaningful and should be pursued. The future of motor racing lies in extremely lightweight construction methods and materials and the development of ever more efficient engine and drivetrain systems.

Will climate change impact on motor racing and its technological developments? Do you believe that Pankl could be a forerunner for new technologies to be adopted by the broader automotive industry? I do not believe that environmental issues will ever lead to the cancellation of a motor racing series. I do, however, believe that there will be ongoing pressure to develop new technologies improving efficiency eventually leading to environmental benefits at mass produced cars. I believe that the material carbon will play an ever more important role. Today, already 60% of a Formula 1 car is built from composite materials. These materials still allow substantial potential for improvements and much wider applications. We put much effort into development projects using carbon for our components. We benefit from a co-operation with the carbon specialist motor racing company Wethje AG, which also belongs to the CROSS Motorsports Group.

Which are the future growth markets for motor racing? The important growth markets are in Asia, notably China and India. The economies of these countries develop very promising. Enthusiasm for motor racing will further increase along with personal wealth and consumption. It is important for Formula 1 racing that a team such as "Force India" will be able to keep pace with the other teams. I hope that soon we will be able to welcome also a Chinese racing team into Formula 1.

You announced a more intense use of production facilities in the USD region and a sustained marketing effort in Europe. What does that mean? Our US subsidiaries CP Piston, LLC and Carillo Industries, Inc. are very well placed in the tuning and aftermarkets, primarily in the USA. The exchange rate development of the US Dollar versus the Euro led to a competitive advantage of these companies versus European competitors. We therefore started to market these brands intensely in Europe.

Which of your three business segments – motor racing, high performance, aerospace – has the highest growth potential? Without doubt, the high performance segment, as it represents our largest niche market. We are only active in niche markets and enjoy high market shares for our products in motor racing; hence I expect only moderate growth in this segment. Due to the general economic environment it is not plausible to expect further growth in racing sponsoring revenues. I expect ongoing significant growth in our aerospace segment, which after the high growth rates of the past years may, however, bottom out somewhat as we are approaching critical mass.

How does the financial crisis impact your markets? What do you expect in the future? So far, Pankl has not experienced any declines directly associated with the financial crisis, but motor racing in general will not be immune to the crisis. The global automotive industry experiences sales declines and hence may be forced to reduce marketing spending meaning also less money for motor racing. Racing promoters and regulators react by introducing a larger number of standardised components, which I believe will have limits, primarily in the top class racing categories. There will need to be a certain freedom for technological development to allow automotive brands and other sponsoring brands to be associated with superior technology. The current situation means for us more price sensitive customers, but results also in chances to gain market share with innovative technologies within our systems driving efficiency and allowing differentiation. We may also benefit from a trend towards more outsourcing as the most expensive components are the ones that are developed and manufactured as quasi prototypes by the teams themselves.

In our high performance market we start to feel the crisis. The automotive companies have reduced production previews. Nevertheless I do not expect any dramatic declines due to the fact that we only serve a selected niche target market.

The aerospace segment is affected by high energy costs. Struggling air traffic companies may reduce the number of aircraft being used and ordered. Companies that aim to strengthen their market presence will be required to invest in new equipment and technologies to drive efficiency. On this basis I do not expect any material declines in our aerospace business.

How will the Pankl share price develop? I assume that the Pankl share price will develop in accordance with our revenues and earnings. On this basis, I expect

price rises of our shares. The development of our share price will, however, also depend on the general capital markets environment.

The financial markets crisis led to a lack of attention for small caps, such as Pankl. How do you attempt to attract interest of investors and analysts? I believe that it is only possible to attract interest for the shares of a particular company in a sustainable manner, if the company is managed well and delivers consistently good results. Pankl benefits from a business model that is relatively immune to general business cycles. Most analysts share this view as motor racing activities were so far always maintained also in times of economic hardship. We try to deliver this message in investor roadshows, exhibitions and conferences. But it has to be said that, at the moment, this does not seem to have any impact. I believe that in the medium to long term future an appropriate market position showing consistent revenues and earnings improvements will eventually feed through to the Pankl share price.

Your fiscal year 2007/2008 was characterised by a number of acquisitions of leading motor racing companies. Do you expect further activities in this field? Yes, for sure, to be able to fulfill our vision to become a complete systems supplier. Today we supply already enough components to be considered a systems supplier. But every addition of complementing components can improve the value of our systems and allows us to gain synergies from the better understanding of the complete system. We benefit from a strong financial position and face, currently, a favourable environment in which we can acquire at reasonable prices. Hence we expect to continue to be an active player in the M&A market for motor racing engineering companies. I anticipate one to two acquisitions in the fiscal year 2008/2009.

Do you target only motor racing engineering companies or also companies in your high performance or aerospace segments? Our main focus is on motor racing engineering, because this is our core business. But as we are also active in high performance cars and aerospace there may be also targeted motor racing companies that have activities in other areas.

How do you intend to fund future acquisitions? Is it possible that you have to delay transactions because of the financial crisis? We have cash reserves of more than € 20m which we can use for acquisitions. In addition we have funding commitments from banks in place. I therefore do not believe that transactions may be delayed; in fact the opposite may be true. In the current market environment we will, however, not carry out any capital increases to fund acquisitions.

How do you price acquisitions? The price depends on profitability and indebtedness of the target. But we also focus on the strategic value, i.e. can we acquire new technologies, market segments or products. We focus also on the market position of the target. In the current environment we are very cautious and disciplined to avoid overpaying. We are, however, still prepared to recognise strategic value and to pay fair prices for technology and/or market leaders.

Which synergies do you expect to realise from acquisitions? Each acquisition strengthens our systems competency and lowers our dependency on external suppliers. Pankl operates a worldwide distribution network and can hence realise synergies from adding new products to this network. The speciality screws from the UK-based supplier Pankl Racing Systems Northbridge Ltd. are today not just sold in Europe but also in the USA and Japan. Synergies can also be realised in the areas production and R&D.

How do you attempt to address new customers? Pankl is in business relations in the one or the other form with nearly all major OEMs. We therefore need to focus on increasing our share of the business with existing customers and to be involved in new development projects in time to be able to be considered a strategic partner. To achieve this, we try to be very close to our customers and to play a proactive role in identifying and developing projects. In many cases we take part in new high performance engine development projects from scratch.

In the past fiscal year you opened a new production facility with 200 employees and expected annual revenues of € 14m in Slovakia. How important is this facility for your growth targets and the development of the high performance segment. What are your targets next year and in the next five years?

This investment is a major strategic step for Pankl. The high performance segment was so far an annex to the motor racing business and no entity in its own right. The new facility represents a competence centre for the high performance segment exclusively and opens us and our customers new possibilities to develop and produce high quality components in an efficient manner. For the first time ever, we will be able to run this division profitable. On this basis, we will be able to market our products more aggressively and increase our market share in this segment. I estimate a revenues potential of € 60m to € 70m and improving profitability in the next five years.

Pankl employs nearly 1,000 persons, how do you assure the long-term committment of your employees? How do you integrate employees from acquired companies? We attempt to motivate employees by offering attractive jobs and promotion prospects within the whole group. In the meantime we have global operations from California to Slovakia. We also put great emphasis on training and education of our employees. We operate our own Pankl Academy and run a dedicated junior management programme. Many of our management positions are filled internally.

Regarding the integration of employees of acquired companies: We only acquire a company if its management and employees are in favour of the acquisition. The real assets of a business are not the machines but the people. This principle paid in the past. Manager and employees of potential acquisition targets know that.

The lack of skilled labour is an issue, which is openly discussed primarily in Austria. Are you affected and how do you attempt to solve this problem? We are heavily affected by this problem. Primarily in the past two years, when the economic environment was favourable, it was very difficult to attract skilled workers with appropriate qualifications in Styria. We reacted to this situation by extending our apprenticeship programme. In Austria, we train 44 apprentices at the moment. Many of our today's managers started their career in Pankl as apprentices.

In the last general assembly you mentioned the construction of a new production facility in Austria, is this still the plan? What capital expenditure would this require? For which division would the capacities be created? Our production facility in Kapfenberg runs at full capacity. Here, we produce drivetrain components for motor racing (Pankl Drivetrain Systems GmbH & Co KG) and aerospace (Pankl Aerospace Systems Europe GmbH). Both subsidiaries developed very favourable and grew appropriately. The production hall does not allow any further capacity increases, so we need to act. Due to the global financial crisis we decided not to proceed with the construction of a completely new production hall, but to extend the existing one. Instead of a capital expenditure of € 6m for a new hall, we will now be spending only a fraction of this amount.

How much capital expenditure do you expect in the next fiscal year? In total, we plan capital expenditure of € 8m. Due to the unfavourable general economic outlook, we will heavily scrutinise investments to increase capacity even if they are budgeted for. In extreme times such as now, it is even more important to show an ability to generate cash rather than spending it immediately.

Your revenues guidance for next fiscal year is a growth of 5% to 10%. How do you plan to achieve this target? Which are the risks that may adversely affect this growth? Our plan is to grow internally. We expect that the racing segment has already reached the bottom of the demand cycle due to Formula 1 engine homologation. In the high performance and aerospace segments we benefit from solid order books. On this basis, I believe that internal revenue growth of 5% to 10% is a realistic target in the fiscal year 2008/2009.

If the financial crisis had caused a global meltdown of the whole world economy, then obviously our targets would be unrealistic. Given the internationally co-ordinated rescue packages of the EU and the USA, I believe that the necessary adjustment will mean a period of no growth, which should have only a rather limited impact on our business.

What impact would your revenues growth target have on your profitability? When can we expect double digit EBIT margins again? It is our aim to re-establish double-digit EBIT-margins as soon as possible. It will depend on the extent of the impact of the financial crisis on motor racing, when we will be able to achieve this.

One last question: Where do you see Pankl in five years? We are today and we will be in five years a leading supplier of leightweight components withstanding extreme mechanical stress levels. As today, we will serve the niche markets motor racing, aerospace and high performance vehicles, but we aim to become a larger organisation with more operating subsidiaries in order to be able to offer more products and complete systems. I expect that we will acquire another four to five companies within the next five years. I would consider our target revenues in five years to be in the region of € 200m.

Thank you for the interesting conversation!

Report of the Chairman of the Supervisory Board

In the fiscal year 2007/2008, the Supervisory Board has carried out the tasks as required by law and the Company's Articles 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 November 2008, the Audit Committee met for scrutinising and preparing the financial statements and the status report of the fiscal year 2007/2008, agreeing on proposals on profit distribution and nomination of the auditor and the discussion of any accounting related matters. The members of the Audit Committee were Mr. Rudolf Knünz and Mr. Josef Blazicek.

KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, in accordance with the legal requirements, audited the unconsolidated financial statements and the status report of the Company and the consolidated financial statements and the status report of the Group for the fiscal year 2007/2008.

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 confirms that the accounting systems and the unconsolidated financial statements per 30 September 2008 are in compliance with all appropriate rules and regulations. The unconsolidated financial statements show a true and fair view of the financial situation of the Company. The status report is consistent with the financial statements. The Auditor also confirms that the consolidated financial statements per 30 September 2008 are in compliance with all appropriate rules and regulations and show a true and fair view of the Group's financial situation, its profitability and its cash flows in accordance with International Financial Reporting Standards (IFRS). The Group status report is consistent with the consolidated financial statements.

The Supervisory Board approved the unconsolidated financial statements per 30 September 2008 and the status report for the fiscal year 2007/2008. The financial statements of the Company for the fiscal year 2007/2008 are hence formally concluded in accordance with article 125 para 2 of the Austrian Public Companies Act (§ 125 Abs 2 AktG).

The Supervisory Board acknowledges the consolidated financial statements per 30 September 2008 and the Group status report for the fiscal year 2007/2008 and supports the Management Board proposal regarding 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 these excellent 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.

Bruck/Mur, 10 December 2008

Stefan Pierer
Chairman of the Supervisory Board

PANKL SHARES

Since 2007, all 3,888,000 Pankl shares have been quoted in the Prime Market of the Vienna Stock Exchange. In Germany, Pankl shares are listed in the unofficial market of Frankfurt, Stuttgart, Berlin, Munich, Hamburg and Dusseldorf.

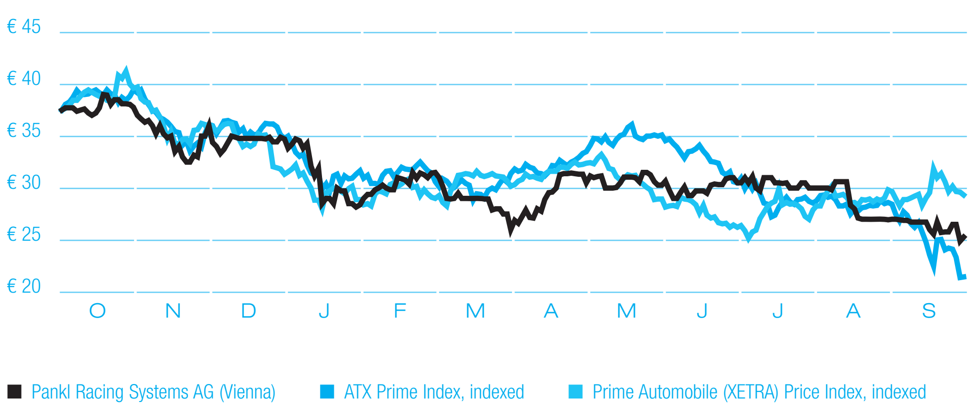
Despite a persistently difficult situation on international stock exchanges resulting from the worst global financial crisis to date, Pankl shares have developed more favourably than the ATX, the leading index of the Vienna Stock Exchange (42.9% decline since 1 September 2007). At the end of the fiscal year 2007/2008, the Pankl share price amounted to € 25.3, translating into a 32.5% decline from € 37.5 at the beginning of the fiscal year. Our market capitalisation amounted to € 98.2m. Our share price reached a high of € 39.0 on 19 October 2007.

IR-ACTIVITIES

In the fiscal year 2007/2008, the Management Board informed analysts and shareholders about the current corporate development via conference calls, investor conferences and roadshows. Moreover, we were present at the investor fair of the Austrian investment magazine “Gewinn” in Vienna and took part in an event of the Economic Chamber of Styria as well as in a roadshow for private investors organised by the Austrian shareholder association (Österreichisches Aktienforum). To guarantee transparency, service and actuality, we regularly publish all relevant information and news on our website www.pankl.com.

Analyst reports were regularly submitted by Capital Bank – GRAWE Gruppe AG, Erste Bank der österreichischen Sparkassen AG, Landsbanki Kepler, Raiffeisen Centrobank, and UniCredit Markets & Investment Banking in the fiscal year 2007/2008.

SHARE PRICE DEVELOPMENT OF PANKL SHARE
1/10/2007 – 30/9/2008



DETAILS ON PANKL SHARE
1/10/2007 – 30/9/2008

Share price on 30/9/2008	€ 25.3
High (19/10/2007)	€ 39.0
Low (29/9/2008)	€ 24.9
Performance Pankl Racing Systems AG	–32.5%
Performance Prime Automobile (XETRA)	–21.8%
Market capitalisation	€ 98.2m

Highlights
Company Mission Statement and Corporate Values
Locations/ Organisational Chart
Legal Representatives
Interview with the Management Board
Report of the Chairman of the Supervisory Board
Investor Relations
Corporate Governance

DIVIDEND

In the AGM, which is scheduled for 30 January 2009, the Management and Supervisory Boards will propose the payment of a dividend of € 0.50 per share (2006/2007: € 0.60). Based on the group net income for the fiscal year 2007/2008, this represents about 30% payout ratio as of 30 September 2008 (like in the previous year). On the basis of the closing price in the amount of € 25.3 as of 30 September 2008, this corresponds to a 2.0% dividend yield.

FINANCIAL CALENDAR 2009

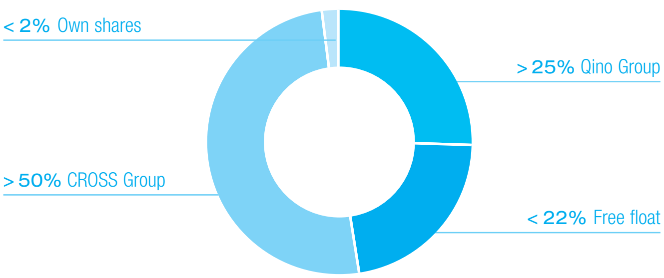
30/1/2009	General Assembly
4/2/2009	Ex-Dividend Day and Dividend Payment Day
12/2/2009	Publication of Q1 2008/2009 figures
19/5/2009	Publication of H1 2008/2009 figures
18/8/2009	Publication of Q1–Q3 2008/2009 figures
Nov 2009	Preliminary year-end results for 2008/2009

FURTHER INFORMATION ON PANKL SHARE

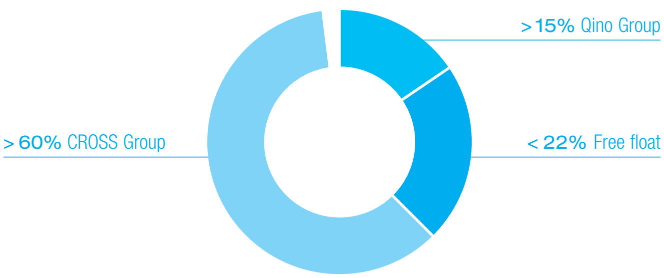
Investor Relations
phone: +43-3862-33 999-113
fax: +43-3862-33 999-181
e-mail: ir@pankl.com, www.pankl.com

Securities Code (NM): 914732
ISIN: AT0000800800
Bloomberg symbol: PARS:AV
Reuters symbol: PARS.VI

SHAREHOLDER STRUCTURE BY SHARES



SHAREHOLDER STRUCTURE BY VOTING RIGHTS



Corporate Governance

The Austrian Corporate Governance Codex represents a set of rules to support responsible management and leadership of companies in Austria. The Codex aims at establishing sustainable and long term values and improving transparency for the benefit of all shareholders. The Codex is based on legal provisions, primarily within the Austrian corporate, stock exchange and capital markets laws and the OECD guidelines for Corporate Governance.

The Austrian Corporate Governance Codex has been in force since 1 October 2002. Changes to the Codex were carried out in February 2005, January 2006 and June 2007. The Codex beyond the scope of the legal provisions comes into force once a company adopts them voluntarily. The adoption of the Codex requires companies to explain non-conformance with C-rules ("comply or explain").

This voluntary self-regulation effort is designed to improve the trust of shareholders via more transparency, higher quality interaction between supervisory board, management board and shareholders and its strong bias on the creation of long term values. The Austrian Corporate Governance Codex is considered a major element to promote and further develop the Austrian capital markets.

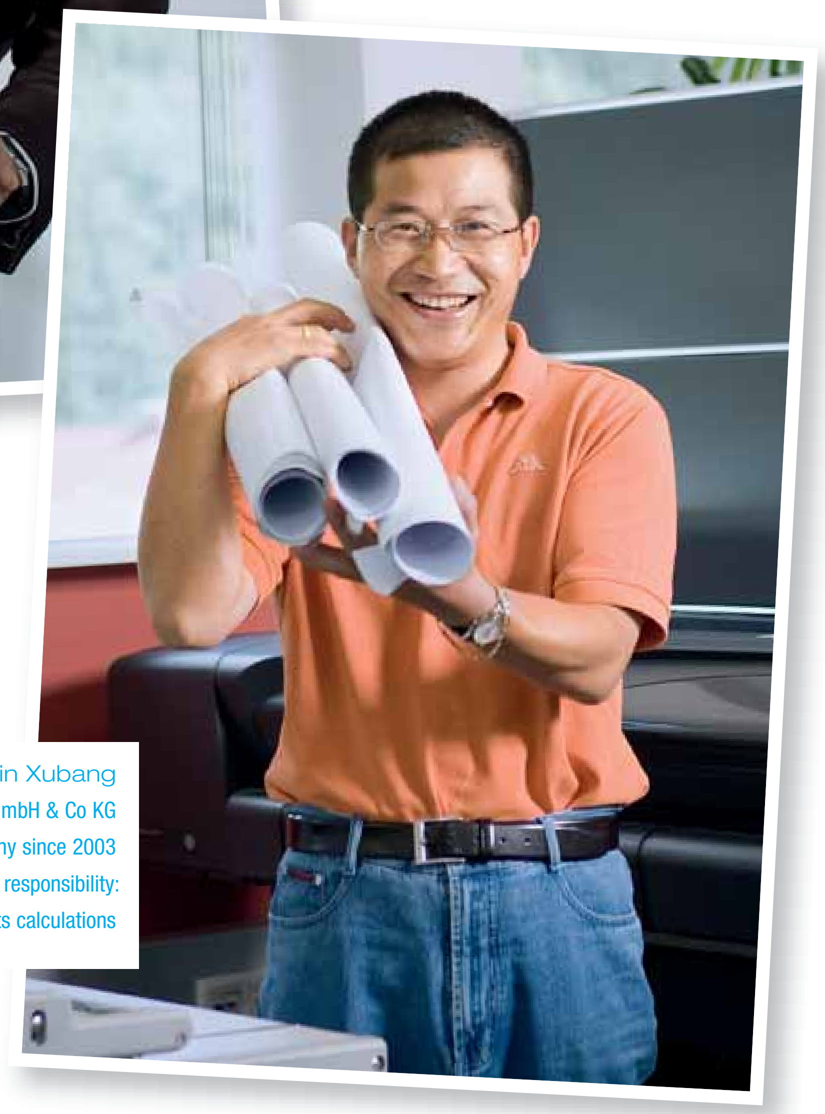
Due to the change of the official stock exchange listing from the Frankfurt to the Vienna Stock Exchange in March 2007, Pankl Racing Systems AG has adopted the Austrian Corporate Governance Codex. Before this time, the company was bound by the German Corporate Governance Codex. Pankl Racing Systems AG bases its corporate activities on the strict principles of good corporate leadership and transparency.

At the beginning of March 2007, the Management Board and the Supervisory Board adopted the Austrian Corporate Governance Codex and are hence bound by it. In addition to L-Rules (Legal Requirements), the Company also complies with C-Rules (Comply or Explain) with the following exceptions (Rule 60):

- Rule 16, which requires a management board to consist of more than one person, is not complied with, because one management board member was considered sufficient in the past fiscal year. At this point it shall be mentioned that Mr. Alfred Hörtenhuber was appointed as second member of the Management Board as of November 2008.

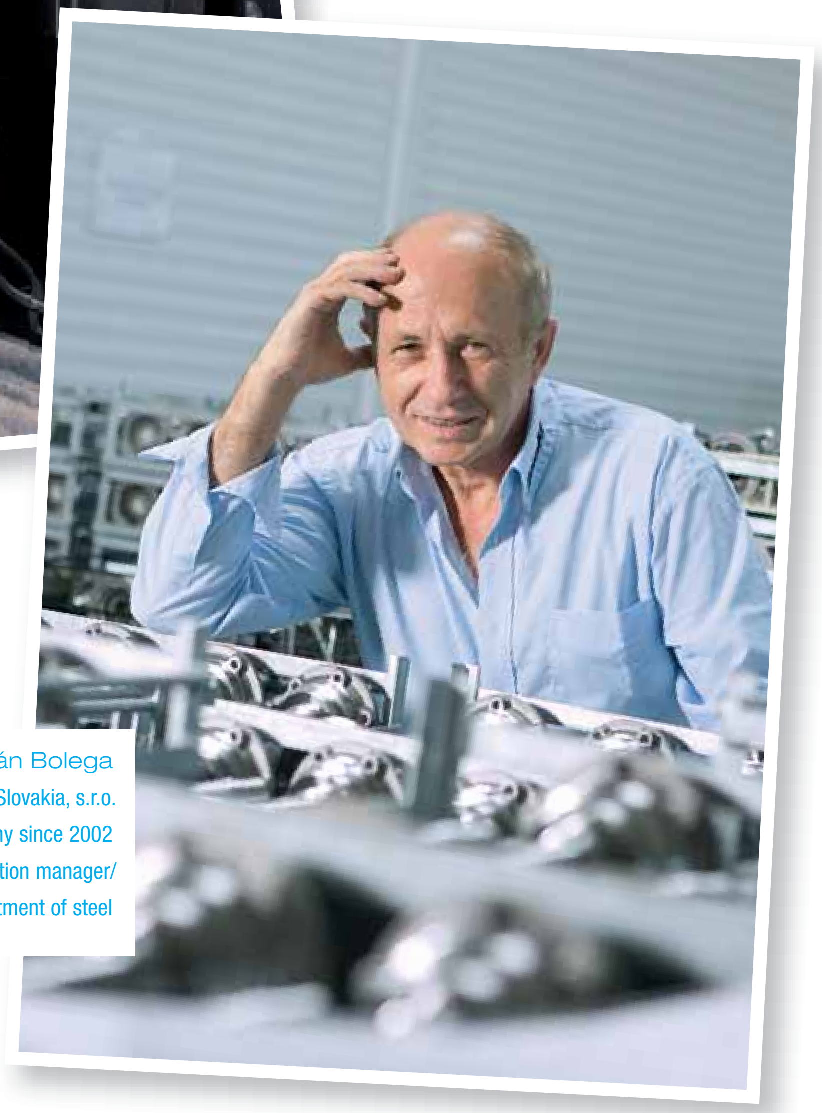
- Rule 39, 41 and 43, which require the establishment of supervisory board sub-committees, are not complied with, because the Supervisory Board only consists of five or, as of November 2008, of four shareholder representatives. The establishment of sub-committees would therefore not improve the efficiency of supervisory board activities.

>> Bernd Ekhart
Company: Pankl Racing Systems AG
Active in the company since 2001
Areas of responsibility: Legal matters, mergers & acquisitions



>> Qin Xubang
Company: Pankl Engine Systems GmbH & Co KG
Active in the company since 2003
Areas of responsibility:
Finite elements calculations

>> Mario Chladek
Company: Pankl Schmiedetechnik GmbH & Co KG
Active in the company since 2004
Areas of responsibility: Blacksmith,
started as maintenance apprentice



>> Ján Bolega
Company: Pankl Automotive Slovakia, s.r.o.
Active in the company since 2002
Areas of responsibility: Production manager/
Specialist for heat treatment of steel

GUIDELINES TO AVOID ILLEGAL INSIDER DEALINGS

It is a major priority for Pankl Racing Systems AG to ensure that all shareholders are treated equally and are informed comprehensively. A Compliance Guideline was implemented to avoid illegal insider dealings. This Compliance Guideline is based on the requirements of the Issuer Compliance Directive of the Austrian Financial Markets Authority (Finanzmarktaufsicht, FMA) and is also binding for all Supervisory Board members. The Compliance Officer is responsible to monitor compliance with the Compliance Guideline on a permanent basis. The Compliance Guideline is published on the homepage of the Company.

PERFORMANCE-BASED REMUNERATION OF THE MANAGEMENT BOARD

Remuneration of Management Board members contains fixed and variable components. Variable components depend on operating earnings. Variable remuneration components are capped at a certain percentage of the total remuneration. In the fiscal year 2007/2008, there were no major changes compared to the year before. There is currently no stock option programme for the Management Board.

In the fiscal year 2007/2008, Management Board remuneration amounted to € 505k, with variable remuneration components accounting for € 193k.

There is no agreement between the members of the Management Board and the Company with regard to pension plans. In the fiscal year 2007/2008, there were no pension plan contributions for Management Board members.

Entitlements of members of the Management Board arising out of the termination of their contracts are based on the legal provisions of Austrian employment law (article 23 of the Angestelltengesetz).

SUPERVISORY BOARD

In compliance with the Codex, Management Board and Supervisory Board are in regular contact also beyond the scope of formal Supervisory Board Meetings to discuss the development and strategic positioning of the Company. The Supervisory Board may form dedicated sub-committees to carry out its consulting and control activities in certain areas. The Rules of Procedure of the Supervisory Board are published on the Company's homepage.

Mr. Rudolf Knünz and Mr. Josef Blazicek form the Audit Committee of the Company. Services rendered between the Company and members of the Supervisory Board respectively companies, in which members of the Supervisory Board have a material economic interest, are invoiced at arm's length.

According to Rule 49, the Company publishes the following business relationships:

The Company completed a comprehensive competition clause with Mr. Gerold Pankl. This competition clause is in force for a period of seven years from 2004 onwards and involves payments of € 200k from the Company to Mr. Pankl in exchange for him not competing with the Company.

The services of Mr. Wolfgang Plasser are carried out based on a service contract and are invoiced by Ocean Consulting GmbH. Mr. Wolfgang Plasser and the Supervisory Board member Mr. Josef Blazicek are shareholders of Ocean Consulting GmbH. Ocean Consulting GmbH occasionally provides translation services for Pankl Racing Systems AG. In the fiscal year 2007/2008, these translation services amounted to € 5k.

There are business transactions between Pankl Racing Systems AG and KTM Powersports AG as well as its subsidiaries, which are directly controlled by Mr. Stefan Pierer and Mr. Rudolf Knünz. These transactions are invoiced at arm's length basis. In the fiscal year 2007/2008, the Pankl Group achieved revenues in the amount of € 810k with KTM. By contrast, KTM performed services via investor events and sponsorships, which amounted to € 90k in the fiscal year 2007/2008.

Moreover, the Pankl Group makes use of software licences made available by the CROSS Group. Pankl Racing Systems also leases office accommodations from the CROSS Group. In the fiscal year 2007/2008, these services amounted to € 121k.

The remuneration of the Chairman of the Supervisory Board is higher than the remuneration of ordinary members. The exact amount of these remunerations is, however, defined by the Shareholders' Assembly after the end of the fiscal year.

In the fiscal year 2007/2008, the Chairman of the Supervisory Board received a remuneration of € 6k and ordinary members of € 4k each, on a pro rata temporis basis.

INDEPENDANCE OF THE SUPERVISORY BOARD

According to Rule 53 of the Corporate Governance Codex, a Supervisory Board member is deemed independent if he/she does not have any business or personal relationships with the Company or its Management Board, which may constitute a material conflict of interest and hence may have an influence on the actions of the Supervisory Board member.

The Rules of Procedure define independance of a Supervisory Board member as follows:

- The Supervisory Board member hasn't been a member of the Management Board or in a management position in Pankl Racing Systems AG or any of its subsidiaries for a period of at least two years.
- The Supervisory Board member shall not entertain or have entertained a business relationship with Pankl Racing Systems AG or any of its subsidiaries in an extent deemed material to him/her in the current or the preceding fiscal year. The same is valid for companies in which the Supervisory Board member has a material economic interest. The approval of such business transactions by the Supervisory Board in compliance with L-Rule 48 does not automatically lead to the respective member of the Supervisory Board to be considered independent.
- The Supervisory Board member has not been the auditor or a member or employee of the auditor auditing Pankl Racing Systems AG for a period of three years.
- The Supervisory Board member is not a member of the Management Board of a company in which a member of the Management Board of Pankl Racing Systems AG is a member of the Supervisory Board.
- The Supervisory Board member is no close relative (direct descendant, spouse, partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the Management Board of Pankl Racing Systems AG and also no close relative of any persons described in the items above.

On the basis of the criteria above, Mr. Gerold Pankl is to be considered an independent member of the Supervisory Board (Rule 53 of the Corporate Governance Codex).

For the dates, at which members of the Supervisory Board are appointed and the dates, at which their functions expire, please refer to the Section Legal Representatives of the Company on page 11 (Rule 58, para 1). The following table lists other supervisory board mandates or similar functions of the Supervisory Board members (Rule 58, para 2).

SHAREHOLDER STRUCTURE (RULE 62)

For further information please refer to the Section Investor Relations on page 22.

SUPERVISORY BOARD MANDATES OR SIMILAR FUNCTIONS
SUPERVISORY BOARD MEMBERS OF PANKL RACING SYSTEMS AG

Name	Company	Function
Stefan Pierer	Austria Email AG	Member of the Supervisory Board
	BEKO Holding AG	Member of the Supervisory Board
	Brain Force Holding AG	Member of the Supervisory Board
	Unternehmens Invest AG	Deputy Chairman of the Supervisory Board
Rudolf Knünz	Austria Email AG	Chairman of the Supervisory Board
	CROSS Motorsport Systems AG	Chairman of the Supervisory Board
	KTM Power Sports AG	Chairman of the Supervisory Board
	Unternehmens Invest AG	Chairman of the Supervisory Board
Josef Blazicek	Beko Holding AG	Member of the Supervisory Board
	Brain Force Holding AG	Member of the Supervisory Board
	CROSS Immobilien AG	Deputy Chairman of the Supervisory Board
	CROSS Industries AG	Chairman of the Supervisory Board
	CROSS Motorsport Systems AG	Deputy Chairman of the Supervisory Board
	Unternehmens Invest AG	Member of the Supervisory Board
	Update Software AG	Member of the Supervisory Board

Group Status Report 2007/2008

Pankl Racing Systems AG

32 Business Development and Financial Position

39 Major Events during the Fiscal Year

41 Key Financial Indicators

42 Key non-Financial Indicators

46 Material Events after the Balance Sheet Date

46 Composition of the Share Capital

49 Future Developments and Risks of the Group

52 Research and Development

53 Disclosure according to Article 243 a of the Austrian Commercial Code (§ 243 a UGB)

Business Development and Financial Position

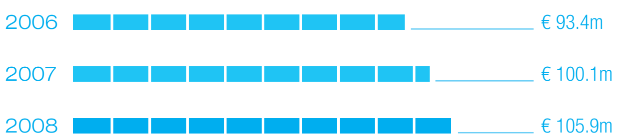
MARKET ENVIRONMENT

The Pankl Racing Systems AG Group ("the Group") specialises in the production of lightweight components withstanding extreme mechanical stress for the international niche markets motor racing, luxury and high performance cars and aerospace. Pankl focuses primarily on developing, optimising and testing products to be able to react on market challenges in a timely and flexible manner. In accordance with the corporate mission statement "High Tech – High Speed – High Quality" Pankl aims at premium technologies, lowest tolerances and prompt delivery. Pankl's corporate culture is based on meeting customers' requirements with the outmost flexibility and the timely anticipation of future challenges. Pankl customers are served via a global network of companies in Austria, the United Kingdom, Slovakia, Japan and the USA. The Pankl Group is in a strong strategic position due to its US production facilities and is able to compensate foreign exchange fluctuations via the shifting of production steps in certain divisions from one location to another.

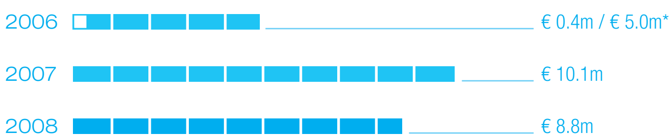
Racing

In the Racing Segment, Pankl supplies international motor racing series such as Formula 1, Moto GP, NASCAR, ALMS, Le Mans, DTM, WRC, FIA GT, IRL and Champcar. According to a study conducted by the trade journal "Formula Money", Formula 1 increased its revenues by 4% to a record $ 4.7bn in the racing season 2008. Despite a deteriorating general economic environment, Formula 1 teams were able to increase sponsoring revenues from $ 834m to $ 837m. Formula 1 team budgets increased by 10% to $ 3.1bn.

DEVELOPMENT OF REVENUES

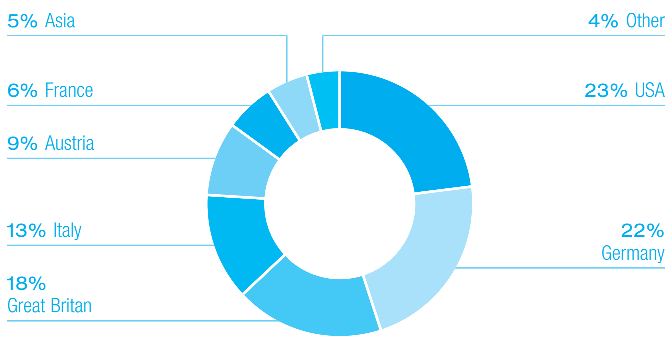


DEVELOPMENT OF EBIT



* Without non-recurring expenses for the gearbox and converter projects; reported EBIT: € 0.4m

REVENUES BY REGION 2007/2008



In the Racing Segment, the main products of Pankl are connecting rods, pistons, drivetrain systems, wheel uprights and wheel hubs. In the Racing Segment, the market demands extreme flexibility and short planning and product life cycles. The customers require state-of-the-art technology and top quality. These features of the motor racing business represent significant barriers to market entry.

In motor racing demand is driven by regulatory changes. In the engine component division, Formula 1 engine homologation caused a change of lot sizes and customers' order behavior. For Pankl this meant stagnating revenues and earnings. The engine development freeze resulted in a shift of team budgets away from the engine towards aerodynamics and drivetrain components. These development efforts impacted positively on Pankl's revenues and earnings.

High Performance

The last few years saw a trend towards super sports cars, i. e. serial-produced cars with similar performance as racing cars. Many major automotive suppliers acquired or developed a dedicated luxury sports car brand. In contrast to motor racing, this high performance market features project life cycles of three to five years. Pankl benefits from its experiences from prototype and low volume production. Motor racing know how continuously filters into serial production. The main products of the High Performance Segment are connecting rods, pistons, drivetrain systems, wheel upright systems including wheel hubs and flanges.

Pankl targets OEMs (Original Equipment Manufacturers) producing vehicles (sports cars, sports motor bikes) with high performance engines in production lots from a few hundred up to 30,000 units per year. In addition, Pankl serves customers in the aftermarket primarily via its US subsidiaries CP Pistons, LLC and Carillo Industries, Inc. Sports car customers include Audi, Bentley, Bugatti, Chevrolet (Corvette), Ferrari, Lamborghini, Maserati, Mercedes-Benz and Porsche. Sports motor bike customers include Aprilia, Ducati, Harley Davidson, Honda, KTM, MV Agusta, Suzuki and Yamaha.

High quality and premium technologies are major requirements to be able to serve this market niche. Compared to motor racing this niche is characterised by more intense pricing pressures due to larger production lots and a larger number of competitors. Cost leadership is hence a major success criterion. For this reason, Pankl extended the Topolcany production facility in Slovakia (Pankl Automotive Slovakia, s.r.o.) to be able to meet the demands of its customers.

Aerospace

Global aerospace companies and helicopter manufacturers increasingly move towards the outsourcing of components' and systems' development and production. While in motor racing product life cycles may be very short, in the helicopter business it is very important to be able to maintain very long product life cycles. The highest standards in quality and process management are hence major requirements in the aerospace industry. Strict safety regulations require certain helicopter components to be replaced in defined intervals. Replacement parts are, as a result, an important portion of this market. Pankl is currently not affected by declines in the civil aerospace industry causing delays in the development of new types such as Boeing 787 or Airbus A350. 60% of Pankl revenues in this segment are from military customers, 40% from civil customers.

Worldwide, there are about 50,000 helicopters in service. The average civil helicopter is nearly 30 years old. The engine manufacturer Rolls-Royce estimates that by 2017 15,711 new turbine engine powered helicopters worth $ 140m will be required for civil and military purposes. Emerging countries such as India or China grow military spending by 8% to 10% p.a. Demand for helicopters in these countries requires international aerospace companies to conclude co-operations and joint ventures.

Pankl supplies the aerospace industry with main rotor drive shafts, hubs and gearboxes, tail rotor drive shafts, hubs and gearboxes, in-flight refueling pipes for helicopters and jet engine drive shafts for airplanes.

The order book in the aerospace segment amounted to $ 89m versus $ 60m last year. Most orders refer to helicopter components. Pankl compensates exchange rate fluctuations via shifting pre-production steps from the European subsidiary Pankl Aerospace Systems Europe GmbH to the US subsidiary Pankl Aerospace Systems, Inc. The US production facilities provide Pankl with a major competitive advantage versus other European suppliers.

REVENUES AND EARNINGS

In the fiscal year 2007/2008, revenues of Pankl Group increased by 5.9% from € 100.1m to € 105.9m. The acquired companies Carillo Industries, Inc. in San Clemente (USA, fully consolidated from 1 June 2008) and Pankl Racing Systems Northbridge Ltd. in Leicester (UK, fully consolidated from 1 January 2008) accounted for revenues of € 2.7m. The first half of the fiscal year generated record results; the second half was burdened by delivery problems of a supplier and order delays in the Aerospace Segment and a continuous difficult market environment for motor racing engine components. The Racing and High Performance Segments accounted for 81%, Aerospace for 19% of revenues.

EBIT was also affected by non-recurring expenses amounting to € 0.7m resulting from the start-up of the new Slovak production facility (Pankl Automotive Slovakia, s.r.o.). Overall EBIT declined from € 10.1m to € 8.8m translating into an EBIT margin of 8.3% (2006/2007: 10.1%). Adding back non-recurring items would have resulted in an EBIT of € 9.5m or the second best results in Pankl's corporate history.

Adding back depreciation charges of € 8.1m, gives EBITDA of € 16.9m or 15.9% of revenues for the fiscal year 2007/2008 versus € 17.3m or 17.3% of revenues for the previous year.

The financial result improved from € –1.7m to € –1.4m despite higher refinancing expenses due to favourable exchange rates developments. Earnings before taxes amounted to € 7.4m versus € 8.4m last year. Income taxes amounted to –0.5% of revenues (2006/2007: –0.2%). The ongoing low effective tax rate is due to active tax planning optimising the use of available tax loss carry forwards. Earnings after tax before minorities amounted to € 6.9m (2006/2007: € 8.3m). Minorities' share of the profit amounted to € 458k (2006/2007: € 418k). Applying weighted average number of shares in issue of 3,843,556 gives earnings per share of € 1.67 versus € 2.03 last year.

SEGMENT REPORTING

Racing/High Performance

Racing/High Performance Segment revenues increased by 4.9% to € 86.6m. Ongoing strong demand for drivetrain components failed to fully compensate for engine component revenues declines caused by the regulatory environment. EBIT declined from € 9.6m or 11.6% of revenues to € 7.5m or 8.6% of revenues. Pankl Racing Systems AG was able to improve its market position as a systems' supplier via the acquisitions of Northbridge Motorsport Ltd. (Pankl Racing Systems Northbridge Ltd.) and Carrillo Industries, Inc. in the fiscal year 2007/2008 and Weymouth Pin Manufacturing Ltd. (Pankl Engine Systems Weymouth Pin Ltd.) in the fiscal year 2006/2007. After the construction and start-up of the new production facility in Slovakia (Pankl Automotive Slovakia, s.r.o.), Pankl is able to offer high quality, high performance components at competitive prices.

Aerospace

The Aerospace Segment achieved its best results in our corporate history both in terms of revenues and earnings. Delivery delays of certain suppliers and the postponement of two customer orders put a break on the strong growth in the second half of the fiscal year. Nevertheless, revenues grew by 11.8% to € 20.1m, EBIT improved by 156% from € 520k or 2.9% of revenues to € 1.3m or 6.6% of revenues. This over proportionate improvement of profitability is due to an excellent product mix and productivity gains driven by the shift from prototype production to serial production. In addition to the core products main and tail rotor drive shafts, we were able to move newer product groups such as in-flight refueling systems to serial production.

CAPITAL EXPENDITURE

In the fiscal year 2007/2008, net capital expenditure amounted to € 11.7m (2006/2007: € 8.5m). Of this amount, € 6.0m were spent on the construction of the new production hall in Topolcany, Slovakia (Pankl Automotive Slovakia, s.r.o.), € 2.9m on new machinery and equipment in the Slovak facility. The remaining capital expenditure referred to the increase of production capacities in the drivetrain division and in the newly acquired companies.

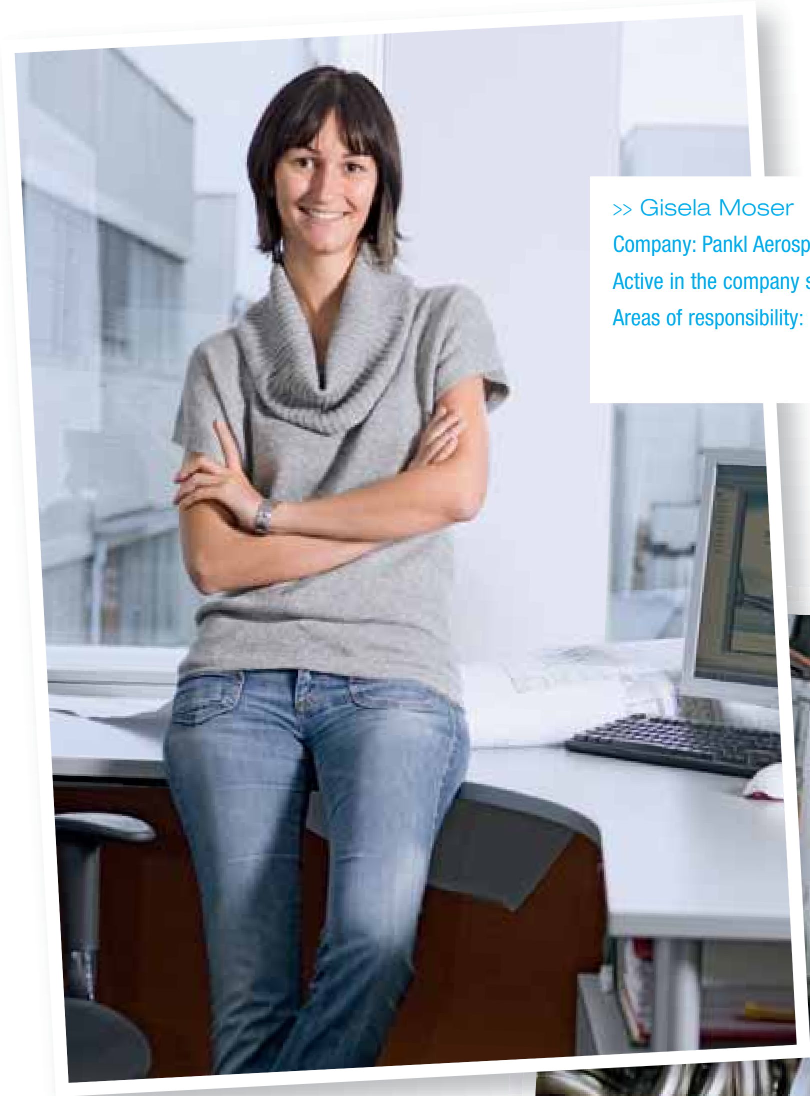
BALANCE SHEET AND FINANCIAL POSITION

The increase in total assets from € 127m to € 142m was mainly due to the acquisitions. Goodwill increased to nearly € 10m (2006/2007: € 6.3m) due to the acquisitions of Pankl Racing Systems Northbridge Ltd. and Carrillo Industries, Inc.; Cash flow from investment activities amounted to € –19.2m, the acquisition prices accounted for € 7.5m. € 1.4m of the increase in net working capital referred to the acquisitions, the remaining € 6.2m on internal growth. Cash and cash equivalents amounted to € 24.5m (2006/2007: € 25.7m) and remained high despite the cash outflow from the acquisitions.

Net debt amounted to € 29.4m resulting in financial gearing of 44%. Capital employed increased by 22.4% to € 98.9m. This is due to an increase in long-term loans for capex and acquisition purposes. Shareholders' equity increased from € 64.6m to € 67.4m representing 48% of total assets as per 30 September 2008.

PROFITABILITY RATIOS

	2004	2005	2006	2007	2008	Change
Capital employed in €k	66,807	71,808	74,582	80,823	98,924	22%
ROCE (Return on capital employed)	3%	6%	2%	12%	9%	–
ROE (Return on equity)	3%	7%	0%	14%	10%	–



>> Gisela Moser

Company: Pankl Aerospace Systems Europe GmbH

Active in the company since 2006

Areas of responsibility: Procurement

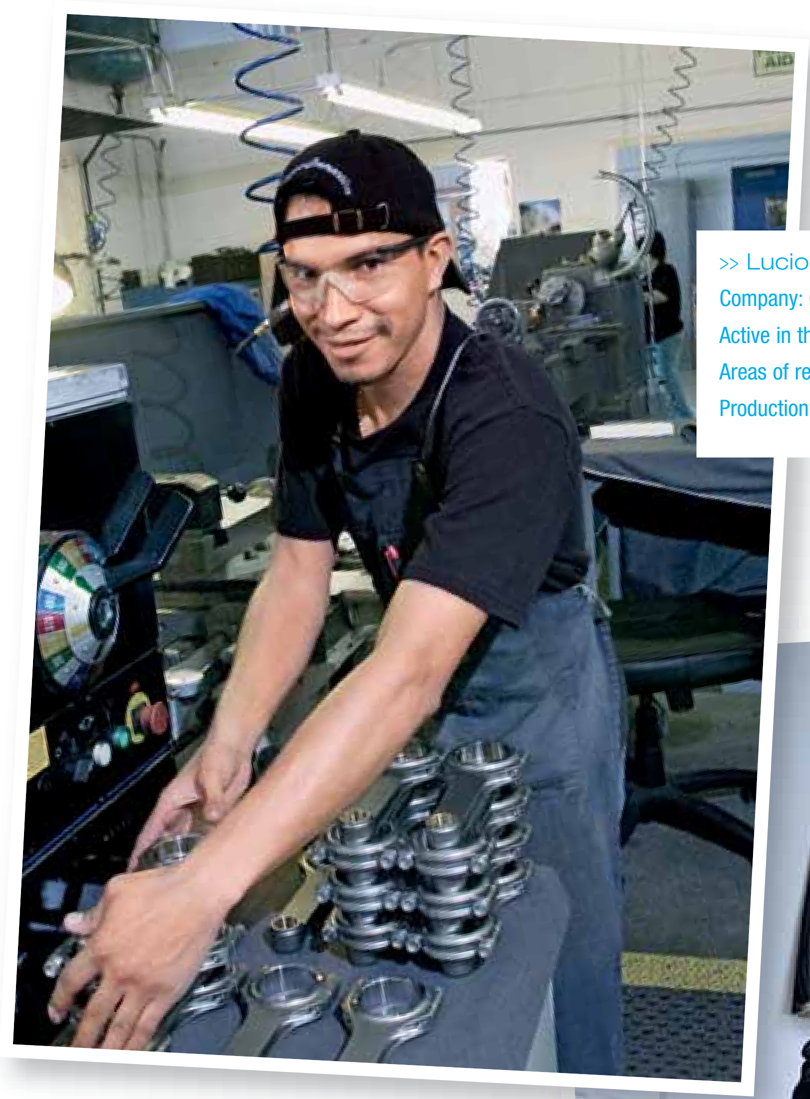
>> Chris Eastwood

Company: Pankl Drivetrain Systems UK Ltd.

Active in the company since 2004

Areas of responsibility:

Production – exhaust systems



>> Lucio Nava
Company: Carrillo Industries, Inc.
Active in the company since 2002
Areas of responsibility:
Production – machine operator

>> Mary Medcraft
Company: Pankl Engine Systems Weymouth Pin Ltd.
Active in company since 2007
Areas of responsibility: Accounting

Major Events during the Fiscal Year

- Pankl Aerospace Europe GmbH received a major order amounting to $ 9.5m from Sikorsky for the production of tail rotor drive shaft assemblies for the S76 model in Kapfenberg. The order book increased to a new record high of more than $ 70m.

- The Management Board of Pankl Racing Systems AG decided on 22 January 2008 to make use of the authorisation of the 9th AGM to buy back up to 10% of the issued share capital until 8 August 2008. Until 16 April 2008, the company bought back 128,676 shares representing 3.31% of the issued share capital.

- In the 10th AGM held on 8 February 2008, Alfred F. Hörtenhuber was voted into the Supervisory Board of Pankl Racing Systems AG, increasing the number of Supervisory Board members to five. Gerold Pankl, founder of the company, was re-elected as a member of the Supervisory Board for another term. The AGM approved unanimously the payment of a dividend of € 0.6 per share in accordance with the Management Board proposal backed by the Supervisory Board.

- Pankl Racing Systems AG acquired the Leicester-based UK specialty screw manufacturer Northbridge Motorsport Ltd. (Pankl Racing Systems Northbridge Ltd.) on 17 April 2008. Pankl Racing Systems Northbridge Ltd. is specialised on the development, production and distribution of screws for motor sports. In the fiscal year 2007, the company achieved revenues of € 2m with 14 employees. Customers are teams from a number of racing categories, from Formula 1 to WRC. The purchase price of this strategic acquisition amounted to € 2.3m.

- On 31 May 2008, Pankl Group acquired, via its 70% subsidiary CP Pistons, LLC, 100% of Carrillo Industries, Inc., the world's second largest manufacturer of motor racing connecting rods. Carrillo Industries, Inc. is based in San Clemente, California and is specialised in the development, production and distribution of connecting rods made from steel. In the fiscal year 2007, the company achieved revenues of $ 10.7m with 65 employees. This acquisition was the largest in the Racing/High Performance Segment so far and complements the Pankl portfolio of connecting rods addressing a large variety of technological requirements and different price points. Pankl customers can choose between the "Pankl" and the "Carillo" brands. Carillo is well known and established in the US motor racing market and supplies, among others, all teams of the GrandAM series and NASCAR. This new addition to the Pankl Group is fully consolidated from 1 June 2008.

- On 27 June 2008, Pankl Aerospace Systems Europe GmbH concluded a supply contract for the production of prototype tail rotor drive shafts for the new EC 175 (Z15) helicopter type. This model is the product of a French-Chinese joint venture. The order is for 54 prototype drive shafts worth € 800k. The aim of this order is to be awarded the appropriate official certifications and qualifications to be able to go into serial production scheduled for 2010.

- On 27 June 2008, the Management Board of Pankl Racing Systems AG decided to re-sell up to 129,261 acquired own shares representing 3.32% of the issued share capital.

- On 30 June 2008, the new production facility in Topolcany (Pankl Automotive Slovakia, s.r.o.) was officially opened. The opening ceremony was witnessed by a number of prominent guests from business and politics. Pankl invested a total of € 12m and created 186 jobs.

- On 10 July 2008, the CROSS Group announced that it increased its stake in Pankl Racing Systems AG to 46.78% of the shares and that it controls 56.62% of the voting rights.

- On 23 July 2008, CROSS Industries AG transferred all its 997,907 Pankl shares representing 25.67% of the issued share capital into CROSS Motorsport Systems AG, a 100% subsidiary of CROSS Industries AG. On 28 July 2008, CROSS Motorsport Systems AG acquired additional 12,711 Pankl Racing Systems AG shares.

- During the period from 3 July 2008 until 31 July 2008, Pankl Racing Systems AG sold 66,400 of the total of 129,261 own shares. On 31 July 2008, the Management Board decided to end the re-sale programme of own shares. The Supervisory Board approved this decision. The remaining 62,861 shares shall be used as acquisition currency in potential future transactions.

Key Financial Indicators

in €k	2004	2005	2006	2007	2008	Change
EARNINGS RATIOS						
Revenues	76,259	82,402	93,428	100,054	105,909	6%
EBITDA[1]	10,112	14,014	8,604	17,325	16,868	(3%)
EBIT	2,676	3,511	422	10,124	8,805	(13%)
Earnings before taxes (EBT)	1,018	2,845	(635)	8,446	7,364	(13%)
Earnings after taxes	1,397	3,817	145	8,288	6,858	(17%)
EBITDA margin	13%	17%	9%	17%	16%	–
EBIT margin	4%	4%	0%	10%	8%	–
BALANCE SHEET RATIOS						
Total assets	97,533	114,010	119,033	127,068	141,723	12%
Net working capital[2]	15,729	21,328	25,270	26,772	34,365	28%
Capital employed[3]	66,807	71,808	74,582	80,823	98,924	22%
Shareholders' equity	54,107	57,712	57,676	64,561	67,399	4%
Equity in % of total assets	55%	51%	48%	51%	48%	–
Net debt[4]	11,452	13,506	14,202	14,217	29,428	107%
Gearing[5]	21%	23%	25%	22%	44%	–
CASH FLOW AND CAPEX						
Cash flow from operating activities	9,610	5,677	1,625	17,412	8,730	(50%)
Free cash flow	1,236	1,948	(2,891)	5,759	(10,481)	neg.
Capital expenditure in fixed assets	8,148	8,786	5,663	8,713	14,790	70%
EMPLOYEES						
Average number of employees	609	665	661	808	896	11%
VALUE CREATION						
ROCE (Return on capital employed)[6]	3%	6%	2%	12%	9%	–
ROE (Return on equity)[7]	3%	7%	0%	14%	10%	–

1 EBITDA: Operating earnings before depreciation and amortisation
2 Net working capital: Stock plus trade receivables, other short term receivables minus trade payables, short term provisions, other short term payables
3 Capital employed: Shareholders' equity including minorities plus financial debt (short term and long term) minus cash and cash equivalents, ready for sale securities (shown in current assets)
4 Net debt: Financial debt (short term and long term) minus cash and cash equivalents, ready for sale securities (shown in current assets)
5 Gearing: Net debt / shareholders' equity including minorities
6 ROCE = NOPAT (net operating profit after tax) / average capital employed
7 ROE = Earnings after tax / average shareholders' equity

Key non-Financial Indicators

EMPLOYEES

In the fiscal year 2007/2008, Pankl Racing Systems AG employed an average of 896 persons compared to 808 in the previous year. This 10.9% increase is mainly due to the acquisitions in the UK and US carried out during the fiscal year. The Racing/High Performance Segment employed an average of 768 employees during the fiscal year (2006/2007: 719 employees) and the Aerospace Segment employed an average of 128 employees (2006/2007: 89 employees).

The Main Emphasis of our Personnel Management

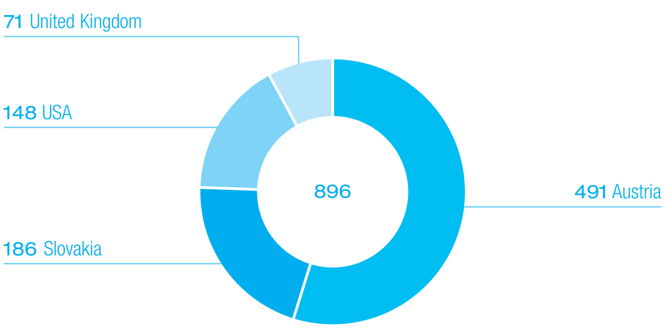
Pursuing our growth strategy, we successfully carried out acquisitions and a significant capacity extension in the fiscal year 2007/2008. The main emphasis of our personnel management was hence the integration of new companies and their employees. Good teamwork from the start between the Pankl management and local management teams in addition to optimised know-how transfers allowed fast and efficient integration of the new operating business units into the Pankl Group.

Apprentice training is another major emphasis of our personnel management. In Austria, we currently train 44 apprentices as technicians being specialised on certain machinery and IT. A lack of qualified workers and very specific requirements of our production processes are our main reasons to extend and support our training infrastructure.

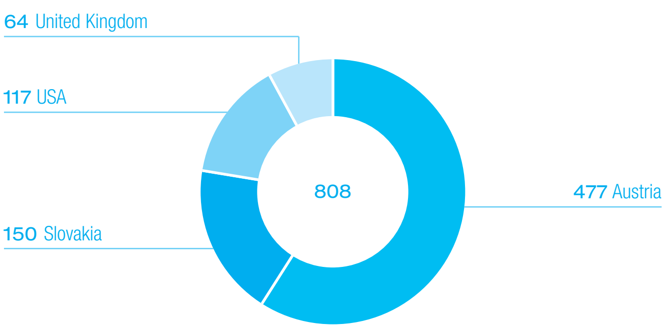
In addition, we aim to fill our management positions mainly internally. For that purpose we developed a junior management training programme to support suitable employees and to tie them more effectively to the company.

We also entertain a close relationship to a number of selected universities to be able to spot young talent early on. Pankl Group takes part in job fairs of universities and colleges, sponsors thesis and offers trainee programmes and guided tours to provide students with an insight into Pankl's business activities.

EMPLOYEES BY REGION 2007/2008



EMPLOYEES BY REGION 2006/2007



We also operate our own training facility, the Pankl Acadamie, to provide specific technical and management courses. In this way we attempt to develop the talent of our employees and to provide career opportunities within all international entities of the Group.

We Care for our Employees

The wellbeing of our employees is a major concern for us. Health and safety at the workplace enjoy key priorities. The health programme for the fiscal year 2007/2008 included immunisation and vitamin treatments, preventive medical examinations, eye tests, road shows dealing with the topic shift work, maternity protection evaluations and first aid courses. Next fiscal year we plan, in addition to the above, ergonomics briefings.

Security instructions are regularly updated and communicated to the employees. Pankl continues to hold top work safety records. This is due to excellent educational work of our medical staff and safety experts.

An important corporate initiative of the past fiscal year was the financial support for car sharing. Due to the fast rising oil and petrol prices, we decided to pay organisers of car pools for the distance from and to work € 0.04 per person per kilometer as expense claims.

Incentive-based Remuneration Schemes

Pankl is a performance driven organisation and hence introduced incentive-based bonus schemes for all employees already years ago. These variable remuneration components contain individual arrangements and location specific bonus systems.

Social Responsibility

Our individual operating entities choose which social projects are supported, because they know the local needs and requirements. Also in the past fiscal year we supported UNICEF via the group-wide purchase of Christmas cards and the Austrian child cancer association with the proceeds from our Christmas tombola. In addition, we dedicated donations to different projects of Austrian Live Aid (Österreichische Lebenshilfe), handicapped sports and volunteer fire brigades.

In the fiscal year 2007/2008, we appointed BBRZ (education and rehabilitation centre) to run the canteen of our Kapfenberg facility in order to help integration of handicapped persons.

ENVIRONMENT AND QUALITY

Acting in an environmentally responsible manner is one of the key mission statements of Pankl Racing Systems AG. Pankl therefore formalised the following guidelines at group level:

- Aim to reduce environmental damage and to use resources in a considerate manner: In the past fiscal year, energy expenses as a percentage of revenues amounted to 1.8%, which was unchanged versus the year before. For a manufacturing company, Pankl shows low energy intensity. Pankl Group was not required to buy any CO_2 certificates and is not part of the national allocation plan (NAP).

- The avoidance of harmful effects from our operations on environment or health is at the centre of our every activity: We secure highest environmental standards via safe and efficient production processes for ongoing activities and capacity extensions and via comprehensive maintenance work.

- Optimisations are carried out in compliance with economic aspects: We carried out energy analysis in different locations and detected energy savings potentials, which we are already about to realise. These energy saving measures range from thermal energy recovery in compressor units, the avoidance of stand-by losses of production machinery to the optimisation of lighting, cooling and heating.

- Active dialogue with the public allows a two-way exchange of environmental information and innovation: The aim is to build trust of shareholders, stakeholders and the population in our company and business in general.

The individual operating entities of the Pankl Group are responsible for the execution of environmental measures on a local level. Pankl is in process to build a group-wide environmental management system and to receive the appropriate ISO 14001 certification. All facilities shall be in a position to utilise tools of an effective and comprehensive environmental management system in order to comply with the environmental guidelines. We plan to complete the implementation of the environmental management system in the fiscal year 2008/2009.

Quality

Of major importance in the Pankl Racing Systems AG mission statement is the development, production and distribution of high quality products. We secure highest quality standards via comprehensive quality management regarding product quality and process supervision. We are in process to implement a Total Quality Management System (TQM). The TQM aims at further improving customer satisfaction, quality awareness and employee motivation and should lead to lower expenses relating to identifying and correcting mistakes and to minimising waste of materials and resources.

Certifications

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:

- TS 16949 (the highest certification in the automotive industry)
- VDA 6.1
- Aviation approval EN 91000
- ISO 9001

Material Events after the Balance Sheet Date

- On 27 October 2008, Alfred F. Hörtenhuber resigned from the Supervisory Board. From 1 November 2008 onwards, he was appointed into the Management Board of the Company. From 1 November 2008, the Management Board of Pankl Racing Systems AG consists of two members: Wolfgang Plasser, member of the Management Board from 2004 and CEO since 2006, responsible for the areas motor racing and aerospace and Alfred Hörtenhuber, responsible for the high performance division and the subsidiaries Pankl Automotive Slovakia, s.r.o. and Pankl Schmiede-technik GmbH & Co KG.

- On 22 October 2008, the Company convened an extraordinary shareholder meeting in Kapfenberg for 17 November 2008 via an adhoc announcement to vote on the authorisation of a share buyback programme.

Composition of the Share Capital

The issued share capital of the Company amounts to € 3,888,000. It is divided into 3,888,000 bearer shares without nominal value. Every share represents one equal vote. Every share constitutes a pro-rata share in the share capital of the Company amounting to € 1.00.

The whole share capital of the issuer is paid in.

>> Lynn Ngo
Company: Pankl Aerospace Systems, Inc.
Active in company since 2003
Areas of responsibility: Quality management

>> Slobodan "Slobo" Celebicanim
Company: Pankl Racing Systems Northbridge Ltd.
Active in company since 2006
Areas of responsibility: Programmer for CNC machining centre

>> Petra Schlugi
Company: Pankl Drivetrain Systems GmbH & Co KG
Active in company since 2002
Areas of responsibility: Quality management

>> Juan Villegas
Company: CP Pistons, LLC
Active in company since 1999
Areas of responsibility: Production – machine operator

Future Developments and Risks of the Group

The Pankl Group maintains its growth strategy. Companies, which we acquired in the past fiscal year, will contribute revenues and earnings already from the beginning of the new fiscal year. In the fiscal year 2008/2009, we aim at revenues growth of 5% to 10%. We do not expect any further non-recurring expenses and hence anticipate an improvement of the EBIT-margin compared to the fiscal year 2007/2008, even if the general economic environment shall deteriorate.

RISK REPORT

The following risks may affect the future development of the Pankl Group:

Rule Changes

The Formula 1 regulator has been allowing only the use of homologated engines since the racing season 2007. Engine development has been frozen at the status of the last F1 grand prix of the 2006 racing season. A continuation of this situation does not allow any improvements of revenues or earnings in Pankl's engine components division. F1 teams are, however, requested to provide suggestions for new engine regulations, which could come into effect from the 2011 racing season. Any changes to existing engines would mean additional revenues resulting from new R&D activities.

Deployment of kinetic energy recovery systems (KERS) and numerous aero dynamical changes are expected in the racing season 2009. Development activities resulting from these changes will benefit revenues and earnings of Pankl's drivetrain division in the next fiscal year.

General Economic Development of the Aerospace and Automotive Industries

The production and the sale of vehicles and aircraft, including helicopters and spare parts are subject to cyclical fluctuations and depend, among other things, on the general economic environment, industrial production, interest rates, fuel costs, private consumption, product specific trends and fashions regarding automotive vehicles and international security policies regarding aircraft including helicopters. Annual production volumes for automotive and aircraft vehicles vary significantly in North America, Europe and the rest of the world. Such variations may lead to an increase or decrease in the demand for Pankl products.

Integration of Acquired Companies

The integration of newly acquired companies contains a number of risks. Although Pankl carefully plans and executes any acquisition and integration, it is possible that unforeseen events may happen. Any expansion represents extra demand on Pankl's resources and increases operating expenditure. Pankl depends on qualified management and technically well trained staff to be able to effectively cope with growth. In addition to appropriate training, motivation and management of employees, Pankl is required to continuously improve operating processes, financial systems and controlling instruments. Although we believe that our investments are justified by market demand, it is possible that the growth in revenues lags behind the increase in expenses. This may have a materially adverse impact on Pankl's earnings and its financial position.

Changes in the Commodities Markets:

Pankl requires premium raw materials such as stainless steel, titan and aluminium alloys for the production of its products. Availability of appropriate raw materials at the right time and quality depends on careful forward planning of required order volumes. Any shortages of required raw materials may lead to production or delivery delays or increasing material expenses. We obtain most of our raw materials internationally and are hence subject to a large number of risks, including economical 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.

Production Risks

Production facilities of the Pankl Group are equipped with state-of-the-art machinery. Continuous and regular maintenance procedures are carried out to minimise the risk of production disruptions.

R&D Risks

Research and development activities have special importance for the Pankl Group. R&D activities always carry the risk that they may not bring the desired results or that customers may not honour the effort with appropriate orders. The Pankl Group aims to minimise these risks through ongoing market observation and close co-operation with customers.

Currency and Interest Rate Risks

Short-term receivables denominated in foreign currencies are nearly entirely matched by short-term payables in the same foreign currency. Long-term liabilities are nearly entirely denominated in Euros. The Pankl Group is subject to an interest rate risk through its financial debt. An evaluation (devaluation) of the Euro by 10% versus all other currencies would result in an decrease (increase) of the profit after taxes and shareholders' equity by € 139k (€ 139k) versus € 644k (€ 837k) as of 30 September 2007.

Interest for most of Pankl's financial debt is fixed. The credit risk deriving from holding financial assets is minimised as Pankl invests or deposits funds only with top rated institutions. An increase (decrease) of the interest rate by 50 basis points results in a decrease (increase) of profit after tax and shareholders' equity by € 26k (€ 26k) versus € 3k (€ 3k) as of 30 September 2007.

Personnel Risks

Employee knowledge is a decisive competitive edge for Pankl. The Company supports the idea of live-long learning. In the internal training centre, the Pankl@kademie, customised training is offered to enable employees to deal with changing requirements in the Company. The focus is not just on professional qualifications but also on social and methodological competences.

Other Risks

The Pankl Group is exposed to legal risks due to numerous rules, regulations and contractual relationships. To deal with these risks, Pankl employs a number of internal specialists who are involved in important decision-making processes. If required, the Company draws also on external specialists. To assure appropriate insurance protection, there is a group-wide insurance scheme.

The financial reporting is essential in supervising and monitoring the economic risks of ongoing business operations. The Management Board and the appropriate decision makers are informed about potential risks in a timely and comprehensive manner. The group-wide information flow is supported by appropriate computer systems.

FINANCIAL INSTRUMENTS

For information on derivative financial instruments, please refer to the chapter “Book Values, Fair Values and Net Results from the Use of Financial Instruments” in the notes to the consolidated financial statements on page 90.

Research and Development

Research and development activities are of major importance for Pankl's strategic planning. Pankl Group plans and monitors such activities in a centralised manner. Co-operation with academic research institutes such as the Technical Universities of Graz and Vienna, the Leoben University for Mining, Metallurgy and Materials, the Campus 02 in Graz, the Joanneum Colleges in Graz and Kapfenberg, the RWTH Aachen and the Paderborn University forms an important basis for innovative projects. Pankl employs 73 dedicated R&D personnel.

Technological leadership is a key characteristic of Pankl's business. The Company's R&D work is based on innovations and ongoing product and process optimisations aiming at profitably maintaining or extending the group's competitive position for the long term. In the past fiscal year one of our major projects was "Systematic Innovation Management".

Pankl's Systematic Innovation Management aims at securing sustainable and continuous innovation processes and at supporting knowledge generation and management via a methodological approach. Our innovation processes allow us to better exploit given success potentials and to secure our position as an innovation leader for the long term.

Pankl's systematic innovation process consists of four interrelated core areas: brainstorming to develop ideas, definition of milestones, analysis of future trends and the technology and innovation roadmap.

In the brainstorming phase we systematically develop ideas leading to innovation potentials. The milestone definition process aims at further defining and evaluating the ideas from the previous stage. The analysis of future trends aims to establish possible scenarios regarding markets, product and manufacturing technologies. These scenarios result in search fields, which serve as parameters for the systematic product idea generation. These product ideas are summarised in the technology and innovation roadmap representing the strategic plan. This plan defines which product ideas are prioritised and which market, product and manufacturing technologies are utilised. The result is a new, technically feasible product, an innovation.

Disclosure according to Article 243 a of the Austrian Commercial Code (§ 243 a UGB)

The share capital of the Company amounts to € 3,888,000. It is divided into 3,888,000 bearer shares without nominal value. Every share represents one equal vote. Every share constitutes a pro-rata share in the share capital amounting to € 1.00. The whole share capital of the issuer is paid in.

There are voting right restrictions due to a voting rights agreement completed between Qino Group and CROSS Group. According to this agreement Qino Group transfers 10% of its voting rights to CROSS Group. There are no restrictions regarding share transfers.

As of 30 September 2008, CROSS Group owned more than 50% of the share capital of the company, Qino Group owned more than 25%.

There are no shares with preferential voting rights.

Currently there is no employee share participation programme.

The Rules of Procedure of the Supervisory Board define an age restriction for members of the Supervisory Board and Members of the Management Board of 65 years. Other than that there are no restrictions outside the legal provisions regarding members of the Supervisory Board or Management Board. There are also no rules outside the legal provisions for changing the Articles.

In the 9th General Assembly which was held on 9 February 2007, the Management Board was authorised in accordance with article 65 para 1 of the Austrian Public Companies Act (§ 65 Abs 1 AktG) to acquire own shares up to 10% of the issued share capital during a period until 8 August 2008. The compensation for acquired own shares shall not deviate from the stock exchange price by more than 20% in either direction. The appropriate stock exchange price is the closing price on the appropriate stock exchange of the last five preceding trading days before the purchase is executed. In addition, the Management Board was authorised without any further resolution of a shareholders' meeting to sell these shares at a price which is not materially lower than the prevailing stock exchange price at the time of the sale. The Management Board is also authorised without any further resolution of a shareholders' meeting to cancel own shares. The authorisations can be executed in whole or in part. The Management Board is hence authorised to cancel own shares, that were acquired in accordance with article 65 of the Austrian Public Companies Act (§ 65 AktG) in part and to sell the remaining part or to cancel all own shares or to sell all own shares.

The Supervisory Board was authorised to adjust the Articles accordingly. In the fiscal year 2007/2008 until 16 April 2008, the Company bought back a total of 128,676 own shares during the course of the share buyback programme. Until 14 July 2008, the Company re-sold a total of 66,400 shares in the course of a share re-sale programme. The authorisation to buy back own shares expired on 8 August 2008.

The Company did not enter into any material contracts, which would be subject to change or termination in case of a change of control.

There are no compensation agreements between the Company and its Management Board and/or Supervisory Board members in case there is a public takeover bid.

Bruck/Mur, 14 November 2008

The Management Board

Wolfgang Plasser
Alfred F. Hörtenhuber

Consolidated Financial Statements 2007/2008

Pankl Group according to IFRS

56 Consolidated Profit and Loss Account

57 Consolidated Balance Sheet per 30 September

59 Schedule of Development of Shareholders' Funds per 30 September

60 Consolidated Cash Flow Statement

62 Notes to the Consolidated Financial Statements

108 Consolidated Schedule of Fixed Assets per 30 September

112 Unqualified Audit Opinion

Consolidated Profit and Loss Account for the Fiscal Year 2006/2008

Pankl Group

		2007/2008		2006/2007	
	Note	in €k	in %	in €k	in %
COST OF GOODS SOLD	(01)	105,909	100.0	100,054	100.0
Cost of goods sold	(02)	(80,337)	(75.9)	(76,324)	(76.3)
Gross profit		**25,572**	**24.1**	**23,730**	**23.7**
Distribution expenses	(02)	(6,281)	(5.9)	(4,405)	(4.4)
Administrative expenses	(02)	(13,702)	(12.9)	(10,832)	(10.8)
Other operating income	(04)	3,746	3.5	4,014	4.0
Other operating expenses	(04)	(530)	(0.5)	(2,383)	(2.4)
Operating income (EBIT)		**8,805**	**8.3**	**10,124**	**10.1**
Financial income	(05)	877	0.8	1,013	1.0
Financial expenses	(05)	(2,318)	(2.2)	(2,691)	(2.7)
Financial result		**(1,441)**	**(1.4)**	**(1,678)**	**(1.7)**
Earnings before income taxes (EBT)		**7,364**	**7.0**	**8,446**	**8.4**
Income taxes	(06)	(506)	(0.5)	(158)	(0.2)
EARNINGS AFTER INCOME TAXES		**6,858**	**6.5**	**8,288**	**8.2**
Attributable to shareholders of parent company		*6,400*	*6.0*	*7,870*	*7.9*
Attributable to minorities		*458*	*0.4*	*418*	*0.4*

EARNINGS PER SHARE		2007/2008	2006/2007
Undiluted = fully diluted earnings per share	(19)	€ 1.67	€ 2.03

Consolidated Balance Sheet per 30 September 2008

Pankl Group

Consolidated Profit and Loss Account
Consolidated Balance Sheet
Schedule of Development of Shareholders' Funds
Consolidated Cash Flow Statement
Notes to the Consolidated Financial Statements
Consolidated Schedule of Fixed Assets
Unqualified Audit Opinion

ASSETS		30/9/2008		30/9/2007	
	Note	in €k	in %	in €k	in %
SHORT-TERM ASSETS					
Cash and cash equivalents	(07)	24,478	17.3	25,747	20.3
Short-term financial assets	(08)	0	0.0	1,098	0.9
Trade accounts receivables	(08)	17,223	12.2	15,974	12.6
Other short-term assets and receivables	(08)	3,748	2.6	4,162	3.3
Stock	(09)	30,071	21.2	24,601	19.4
Total short-term assets		75,520	53.3	71,582	56.3
LONG-TERM ASSETS					
Goodwill	(10)	9,997	7.1	6,289	4.9
Intangible assets	(10)	2,897	2.0	1,611	1.3
Fixed assets	(11)	47,352	33.4	41,057	32.3
Financial assets	(12)	2,166	1.5	2,602	2.0
Deferred taxes	(06)	3,791	2.7	3,927	3.1
Total long-term assets		66,203	46.7	55,486	43.7
TOTAL BALANCE SHEET		141,723	100.0	127,068	100.0

LIABILITIES		30/9/2008		30/9/2007	
	Note	in €k	in %	in €k	in %
SHORT-TERM LIABILITIES					
Short-term loans and short-term portion of long-term loans	(17)	9,906	7.0	10,901	8.6
Other short-term liabilities	(17)	10,217	7.2	9,435	7.4
Liabilities from income taxes	(17)	736	0.5	699	0.6
Trade accounts payables	(17)	5,401	3.8	7,255	5.7
Provisions	(14)	323	0.2	576	0.5
Total short-term liabilities		**26,583**	**18.8**	**28,866**	**22.7**
LONG-TERM LIABILITIES					
Bonds	(17)	20,000	14.1	20,000	15.7
Long-term loans	(17)	24,140	17.0	10,549	8.3
Long-term finance lease obligations	(11)	1,957	1.4	1,657	1.3
Personnel related provisions	(15)	1,133	0.8	1,193	0.9
Deferred taxes	(06)	511	0.4	242	0.2
Total long-term liabilities		**47,741**	**33.7**	**33,641**	**26.5**
Total liabilities		**74,324**	**52.4**	**62,507**	**49.2**
SHAREHOLDERS' EQUITY					
Share capital	(16)	3,888	2.7	3,888	3.1
Capital reserves	(16)	37,046	26.1	37,046	29.2
Treasury shares	(16)	(1,361)	(1.0)	(9)	0.0
Reserve from currency translations	(16)	24,944	17.6	23,079	18.2
Minorities	(16)	2,882	2.0	557	0.4
Total shareholders' equity		**67,399**	**47.6**	**64,561**	**50.8**
TOTAL BALANCE SHEET		141,723	100.0	127,068	100.0

Consolidated Profit and Loss Account
Consolidated Balance Sheet
Schedule of Development of Shareholders' Funds
Consolidated Cash Flow Statement
Notes to the Consolidated Financial Statements
Consolidated Schedule of Fixed Assets
Unqualified Audit Opinion

Schedule of Development of Shareholders' Funds per 30 September 2008

Pankl Group

	Share capital	Additional paid-in capital	Treasury shares	Reserves from retained earnings: Fair value reserve/ AFS securities	Reserves from retained earnings: Translation reserve	Reserves from retained earnings: Other reserves from retained earnings	Shareholders' funds attributable to shareholders of parent	Shareholders' funds attributable to minorities	Total
	in €k	in €k	in €k	in €k	in €k	in €k	in €k	in €k	in €k
PER 30 SEPTEMBER 2006	3,888	37,560	(1,576)	0	(3,667)	21,540	57,746	(69)	57,676
Own shares	0	0	1,567	0	0	0	1,567	0	1,567
Change of translation reserve	0	0	0	0	(2,013)	0	(2,013)	(1)	(2,014)
Other adaptations without impact on profit and loss	0	(514)	0	17	0	(668)	(1,165)	209	(956)
Total adaptations without impact on profit and loss	**0**	**(514)**	**1,567**	**17**	**(2,013)**	**(668)**	**(1,611)**	**208**	**(1,403)**
Earnings after tax	0	0	0	0	0	7,870	7,870	418	8,288
Earnings for the period 2006/2007	**0**	**(514)**	**1,567**	**17**	**(2,013)**	**7,202**	**6,259**	**626**	**6,885**
Dividend distributions	0	0	0	0	0	0	0	0	0
PER 30 SEPTEMBER 2007 (= 1 OCTOBER 2007)	3,888	37,046	(9)	17	(5,680)	28,742	64,004	557	64,561
Own shares	0	0	(1,352)	0	0	0	(1,352)	0	(1,352)
Change of translation reserve	0	0	0	0	(566)	0	(566)	70	(496)
Other adaptations without impact on profit and loss	0	0	0	(17)	0	(1,621)	(1,638)	1,552	(86)
Total adaptations without impact on profit and loss	**0**	**0**	**(1,352)**	**(17)**	**(566)**	**(1,621)**	**(3,556)**	**1,621**	**(1,934)**
Earnings after tax	0	0	0	0	0	6,400	6,400	458	6,858
Earnings for the period 2007/2008	**0**	**0**	**(1,352)**	**(17)**	**(566)**	**4,779**	**2,844**	**2,079**	**4,924**
Proceeds from capital increase	0	0	0	0	0	0	0	350	350
Dividend distributions	0	0	0	0	0	(2,332)	(2,332)	(104)	(2,436)
PER 30 SEPTEMBER 2008	3,888	37,046	(1,361)	0	(6,246)	31,189	64,517	2,882	67,399

For more detail on the development of consolidated shareholders' funds please refer to Note (16).

Consolidated Cash Flow Statement for the Fiscal Year 2007/2008

Pankl Group

	2007/2008	2006/2007
	in €k	in €k
EARNINGS AFTER INCOME TAXES	6,858	8,288
Calculation of operating cash flow starting from earnings after tax		
Depreciation and amortisation	8,063	7,204
Profit/loss from sale of fixed assets	(975)	(357)
Change in personnel related provisions	(60)	191
CASH FLOW FROM EARNINGS	13,886	15,326
Change of trade accounts receivables	(638)	(455)
Change in other assets and receivables	466	(340)
Change of stock	(3,884)	(960)
Change in short-term securities	1,097	4,049
Change in short-term assets	**(2,959)**	**2,294**
Change of trade accounts payables	(2,159)	(411)
Change of provisions	(253)	(559)
Change in other liabilities and income tax payables	450	1,674
Change in short-term liabilities	**(1,962)**	**704**
Change of long-term deferred taxes	323	605
Change in translation reserve and other non-cash expenses	(558)	(1,517)
Change in long-term assets/liabilities	**(235)**	**(912)**
CASH FLOW FROM OPERATING ACTIVITIES	8,730	17,412

	2007/2008	2006/2007
	in €k	in €k
Capital expenditure in fixed assets	(14,790)	(8,713)
Proceeds from sale of fixed assets	3,910	902
Capital expenditure in intangible assets	(719)	(635)
Investments in financial asset	(78)	(75)
Investments from acquisitions	(7,534)	(3,132)
CASH FLOW FROM INVESTING ACTIVITIES	**(19,211)**	**(11,653)**
Change of short-term loans	(995)	(1,453)
Change of long-term loans	13,591	(1,517)
Change of leasing obligations	300	(237)
Acquisition of treasury shares	(1,352)	1,566
Paid dividends	(2,332)	0
Decrease of controlling stakes	0	(734)
CASH FLOW FROM FINANCING ACTIVITIES	**9,212**	**(2,375)**
CHANGE OF CASH AND CASH EQUIVALENTS	**(1,269)**	**3,384**
Cash and cash equivalents at the beginning of the year	25,747	22,363
Change of cash and cash equivalents	(1,269)	3,384
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**24,478**	**25,747**
Interest received	730	847
Interest paid	(1,922)	(1,323)
	(1,192)	(476)
Income taxes paid	(710)	(924)

The consolidated cash flow statement of Pankl Group shows changes in cash and cash equivalents (liquid funds) from inflows and outflows of cash and cash equivalents during the fiscal year. It has been derived from the consolidated financial statements using the indirect method. Cash and cash equivalents (liquid funds) comprise cash at hand, cash at bank as well as treasury bills according to the respective balance sheet positions. Short term securities and short term bank debt are not included in cash and cash equivalents. Details regarding investments of acquired subsidiaries can be found under "Notes Regarding Company Mergers and Acquisitions".
At the balance sheet date there were no material restrictions on the disposability of cash and cash equivalents.

Notes to the Consolidated Financial Statements for the Fiscal Year 2007/2008

Pankl Group

1. The Company

Pankl Racing Systems AG together with its subsidiaries (together referred to as the "Pankl Group") is an international technology group based in Bruck/Mur in Austria. Pankl Racing Systems AG is registered in the commercial register (Firmenbuch) of the Leoben district court under the number FN 143981 m. Business activities are divided into two segments: Racing/High Performance (corresponds to Racing/Automotive) and Aerospace. From the fiscal year 2006/2007 onwards, the Pankl Group is fully consolidated in the consolidated financial statements of CROSS Industries AG based in Wels, Austria.

2. Reporting Rules, Accounting and Valuation Methods

REPORTING RULES

The consolidated financial statements per 30 September 2008 were prepared in accordance with the International Financial Reporting Standards (IFRS), issued be the International Accounting Standards Board (IASB), in conjunction with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) to the extent used in the EU. According to article 245 a of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB), which was added within the Consolidated Financial Statements Law (Konzernabschlussgesetz), these consolidated financial statements based on IFRS fulfil all Austrian reporting requirements. The consolidated financial statements as of 30 September 2008 were approved by the Management Board on 14 November 2008.

IASB and IFRIC have issued the following new standards respectively interpretations, which are not yet in force and which have not yet been applied by Pankl Group:

- Revised IFRS 2: Share-based Payment – Amendment Relating to Vesting Conditions and Cancellations
- Revised IFRS 3: Business Combinations – Comprehensive Revision on Applying the Acquisition Method
- IFRS 8: Operating Segments
- Revised IAS 1: Presentation of Financial Statements – Comprehensive Revision Including Requiring a Statement of Comprehensive Income
- Revised IAS 1: Presentation of Financial Statements – Amendments Relating to Disclosure of Puttable Instruments and Obligations Arising on Liquidation
- Revised IAS 23: Borrowing Costs – Comprehensive Revision to Prohibit Immediate Expensing
- Revised IAS 27: Consolidated and Separate Financial Statements – Consequential Amendments Arising from Amendments to IFRS 3
- Revised IAS 28: Investments in Associates – Consequential Amendments Arising from Amendments to IFRS 3

- Revised IAS 31: Interests in Joint Ventures – Consequential Amendments Arising from Amendments to IFRS 3
- Revised IAS 32: Financial Instruments: Presentation – Amendments Relating to Puttable Instruments and Obligations Arising on Liquidation
- IFRIC 12: Service Concession Arrangements
- IFRIC 13: Customer Loyalty Programmes
- IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 15: Agreements for the Consolidation of Real Estate
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation
- Improvements to IFRSs (issued 22 May 2008)
- Amendments to IFRS 1 and IAS 27: Cost of an Investment in a Subsidiary
- IAS 39: Financial Instruments – Recognition and Measurement: Eligible Hedged Items

We do not expect any major impact on the Pankl Group from the use of the new or amended standards above, because they are currently not relevant and are not likely to have a material influence on the profitability and financial position of the Company.

SCOPE OF CONSOLIDATION

The consolidated financial statements per 30 September 2008 consist of the financial statements of Pankl Racing Systems AG and its subsidiaries. A subsidiary is fully consolidated for the time during which the parent company exercises control over the assets and the business of the respective subsidiary. The financial statements of all fully consolidated domestic and foreign subsidiaries were audited by independent auditors either voluntarily or based on legal requirements. All such audits resulted in unqualified auditor's opinions.

Pankl Racing Systems AG and its subsidiaries: The Company holds shares in 19 (2006/2007: 21) subsidiaries. One of these companies is not included in the consolidated financial statements because of a lack of materiality (2006/2007: 2). The following list shows the 18 subsidiaries included in the consolidated financial statements:

Company	Location	Share	Date of acquisition
Pankl Engine Systems GmbH & Co KG	Bruck/Mur (AT)	100%	17/6/1985
Pankl Drivetrain Systems GmbH & Co KG	Kapfenberg (AT)	100%	26/2/1996
Pankl, Inc.	Cerritos (US)	100%	2/5/1997
Pankl Drivetrain Systems UK Ltd.	Bicester (UK)	100%	7/3/1998
Pankl Holdings, Inc.	Carson City (US)	100%	7/3/1998

Company	Location	Share	Date of acquisition
Capital Technology Beteiligungs GmbH	Bruck/Mur (AT)	100%	16/1/1998
CP Pistons, LLC	Irvine (US)	70%	3/8/1998
Performance Equipment Company, LLC	Irvine (US)	70%	25/9/1998
Pankl Emission Control Systems GmbH	Kapfenberg (AT)	100%	23/12/1999
Pankl Aerospace Systems, Inc.	Cerritos (US)	75%	25/4/2000
Pankl Beteiligungs GmbH	Kapfenberg (AT)	100%	13/1/2005
Pankl Schmiedetechnik GmbH & Co KG	Kapfenberg (AT)	100%	30/9/2005
Pankl Aerospace Systems Europe GmbH	Kapfenberg (AT)	100%	29/9/2006
Pankl Automotive, a.s.	Tovarniky (SK)	100%	24/11/2006
Pankl Automotive Slovakia, s.r.o.	Tovarniky (SK)	100%	24/11/2006
Pankl Engine Systems Weymouth Pin Ltd. (formerly Weymouth Pin Manufacturing Ltd.)	Weymouth (UK)	100%	6/8/2007
Pankl Racing Systems Northbridge Ltd.	Leicester (UK)	100%	7/1/2008
Carrillo Industries, Inc.	San Clemente (US)	70%	31/5/2008

Pankl Racing Systems AG's net investments in its subsidiaries consist of the financial investment shown in the fixed assets of the balance sheet and the following long-term loans:

Company	Loan amount
Pankl Holdings, Inc.	$ 14,850,000

It is neither planned nor foreseeable that this loan is repaid. Any profits or losses resulting from exchange rate fluctuations are booked directly into shareholders' funds without impacting the profit and loss account.

The following company of the Pankl Group is neither fully consolidated nor equity consolidated: Pankl Japan, Inc. (a sales subsidiary of the Pankl Group based in Tokyo, Japan).

Pankl Japan, Inc. was not consolidated due to a lack of materiality. It was accounted for in financial instruments Available-for-Sale (at cost) and was valued at cost, as its Fair Value cannot be determined reliably.

Capital Technology Beteiligungs GmbH: In July 1999, Capital Technology GmbH (previously Pankl Consulting GmbH) was founded in Luzern, Switzerland. This company mainly pursued leasing business. Pankl Racing Systems AG owned 100% of this company directly. On 9 November 2006, the shareholders decided to liquidate Capital Technology GmbH. The liquidation was completed in the fiscal year 2007/2008.

The effective balance sheet date for all companies included in the consolidated financial statements is 30 September 2008.

NOTES REGARDING COMPANY MERGERS AND ACQUISITIONS

	Fully consolidated
Balance per 1 October 2006	16
Included for first time in the financial year	3
Reduction due to mergers	0
Balance per 30 September 2007 (= 1 October 2007)	**19**
thereof foreign companies	*9*
Included for first time in the financial year	2
Reduction due to mergers	(3)
Balance per 30 September 2008	**18**
thereof foreign companies	*11*

The following companies were included in the consolidated financial statements for the fiscal year 2007/2008 for the first time:

Pankl Racing Systems Northbridge Ltd.: On 7 January 2008, Pankl Racing Systems AG acquired 100% of the shares of Pankl Racing Systems Northbridge Ltd. (previously Northbridge Motorsport Ltd.), based in Leicester (UK), for a consideration of $ 3.3m. This company develops, manufactures and distributes speciality screws for motor sports applications.

The capitalised goodwill represents mainly intangible assets, future profits and synergies potentials.

Carrillo Industries, Inc.: On 31 May 2008, CP Pistons, LLC acquired 100% of the shares of Carrillo Industries, Inc., based in San Clemente (USA), for a consideration of $ 8.0m. This company develops, manufactures and distributes connecting rods for motor sports applications.

On a preliminary basis, the capitalised goodwill represents potential synergies, mainly from the co-operation with CP Pistons, LLC. During the period from the time of acquisition until the balance sheet date, Carrillo Industries, Inc. contributed € 1,817k to consolidated revenues and € 8k to consolidated earnings after tax. If the acquisition had taken place already on 1 October 2007, Carrillo Industries, Inc. would have contributed € 5,997k to consolidated revenues and € 154k to consolidated earnings after tax.

The first time consolidation of Pankl Racing Systems Northbridge Ltd. and Carrillo Industries, Inc. resulted in the following assets and liabilities to be included:

in €k	Carrillo Industries, Inc.	Pankl Racing Systems Northbridge Ltd.	Total
Cash and cash equivalents	0	0	0
Other short-term assets	1,501	641	2,142
Fixed assets	703	367	1,070
Other long-term assets	295	444	739
Assets	2,499	1,452	3,951
Short-term liabilities	365	320	685
Long-term liabilities	0	0	0
Deferred tax liabilities	0	117	117
Liabilities	365	437	802
Shareholders' funds (net assets)	**2,134**	**1,015**	**3,149**
Share of parent (100%)	2,134	1,015	3,149
Purchase price	5,172	2,362	7,534
Goodwill	**3,037**	**1,347**	**4,384**
Purchase price	5,172	2,362	7,534
of which paid in 2007/2008	*5,172*	*2,362*	*7,534*
Acquired cash and cash equivalents	0	0	0
Net cash flow from acquisitions in 2007/2008	**5,172**	**2,362**	**7,534**

In the previous fiscal year, the acquisition of Pankl Automotive, a.s. and Pankl Engine Systems Weymouth Pin Ltd. had the following impact on the consolidated balance sheet:

in €k	Pankl Automotive, a.s.	Weymouth Pin Manufacturing Ltd.	Total
Cash and cash equivalents	0	14	14
Other short-term assets	1,335	784	2,119
Fixed assets	2,446	371	2,817
Other long-term assets	405	0	405
Assets	4,186	1,170	5,356
Short-term liabilities	1,450	652	2,103
Long-term liabilities	1,911	118	2,029
Deferred tax liabilities	242	33	275
Liabilities	3,604	803	4,407
Shareholders' funds (net assets)	**582**	**367**	**949**
Share of parent (100%)	582	367	949
Purchase price	1,960	2,941	4,901
Goodwill	**1,378**	**2,574**	**3,952**
Purchase price	1,960	2,941	4,901
of which paid in 2006/2007	*1,346*	*1,800*	*3,146*
Acquired cash and cash equivalents	0	14	14
Net cash flow from acquisitions in 2006/2007	**1,346**	**1,786**	**3,132**

Pankl Engine Systems Weymouth Pin Ltd. (previously Weymouth Pin Manufacturing Ltd.): First time consolidation of Pankl Engine Systems Weymouth Pin Ltd. per 6 August 2007 was carried out in the consolidated financial statements for the fiscal year 2006/2007 using preliminary values. The purchase price allocation for this acquisition was adapted in the consolidated financial statements for the fiscal year 2007/2008 observing the 12 months period of IFRS 3.62.

Changes in the scope of consolidation: As of 1 October 2007, PMC MetallverarbeitungsGmbH was merged with Pankl Aerospace Systems Europe GmbH. In accordance with the merger contract dated 28 March 2008, the operations of Pankl High Performance Pistons GmbH were transferred to Pankl Engine Systems GmbH & Co KG in exchange for shares. Subsequently, Pankl High Performance Pistons GmbH was merged with Pankl Racing Systems AG. Furthermore, Pankl Engine Systems GmbH, which, so far, was acting as unlimited partner, was merged with Pankl Racing Systems AG in accordance with a merger contract dated 31 March 2008.

CONSOLIDATION METHODS

Capital consolidation is carried out according to IFRS 3 based on the revaluation model. Under this method the book value of the investment is compared with the newly valued equity of the subsidiary (Purchase Accounting). Any positive differences, which can be attributed to identifiable intangible assets acquired in the merger, are shown as separate items. As far as useful lives can be determined, these assets are depreciated over their useful lives. Intangible assets with an undeterminable useful life are valued each year and are depreciated if required by an impairment test.

A remaining positive difference is capitalised as goodwill and is subject to an impairment test in accordance with IAS 36. Existing goodwill is hence not anymore subject to linear depreciation charges. According to IFRS 3, a remaining negative difference shall be booked against the profit and loss account in the first year of consolidation.

In the fiscal year 2007/2008, goodwill of € 4,462k (2006/2007: € 3,823k) resulted from the first time consolidation of acquired companies. For more details, please refer to Note (10) “Intangible Assets and Goodwill”.

The minorities’ share of the shareholders’ equity of consolidated companies is shown in a separate line item within consolidated shareholders’ equity. Profit and loss attributable to other shareholders is shown in a separate line item in the consolidated profit and loss account.

Debt consolidation: All intra-group receivables and debt balances are determined at the balance sheet date and eliminated via debt consolidation.

Consolidation of expenses and revenues: Revenues, rent and leasing income and other operating income from activities between Group companies are accrued and charged against the appropriate expense in the period. All major expenses, income and inter-group balances are included and eliminated.

Inter-group profits and losses: All major inter-group profits and losses are eliminated unless they are not material.

Deferred tax items: In the consolidated profit and loss account tax implications are taken into consideration and deferred tax items are created.

Foreign currencies: Foreign currency transactions are translated using the exchange rate at the day of the transaction. Balance sheet items which are denominated in a foreign currency are translated using the exchange rate at the balance sheet date. Exchange rate differences represent an expense or income for the period in which the difference occurred. The currency of the consolidated financial statements is the Euro. The financial statements of the subsidiaries are drawn up using the relevant local currencies.

The various balance sheet items of such subsidiaries, including goodwill and adaptations resulting from the first time consolidation, are translated into the Group balance sheet using the mid exchange rate at the balance sheet date. Items from the profit and loss account are translated using the weighted average exchange rate for the fiscal year. Resulting exchange rate gains or losses are accounted for in the balance sheet item exchange rate reserves and do not impact on the profit and loss account. Exchange rate differences shown as assets in the balance sheet result from the difference in the value of assets based on the exchange rates at the beginning and at the end of the fiscal year.

The exchange rates used in currency conversions in the consolidated financial statements developed as follows:

	Exchange rate		Average exchange rate	
	30/9/2008	30/9/2007	2007/2008	2006/2007
US-Dollar	1.4449	1.4272	1.5039	1.3307
Great Britain Pound	0.7951	0.6974	0.7633	0.6759
Slovak Crown	30.4447	34.0254	32.1561	34.4633

ACCOUNTING AND VALUATION METHODS

The accounting methods have been applied by all companies in the Pankl Group and are identical with the methods used in the fiscal year 2006/2007. To improve readability and comprehensibility, separate positions may be summarised in the profit and loss account and the balance sheet. Such positions are then shown separately in the notes. All short term assets and debts are in principle realisable or repayable within 12 months from the balance sheet date. All other assets and debts are in principle realisable or repayable after this time period.

Amounts shown are rounded to thousand Euros (€k) unless a different unit is shown. In sums of rounded values and percentages, differences from rounding may occur due to the use of automated computation tools.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the consolidated profit and loss account the Cost of Sales Method was used.

Revenue realisation: Revenues are realised when all major risks with respect to the sold product have been transferred to the buyer. With regards to services, revenue is realised after completion of the service. Revenues are only realised if there are no major uncertainties with regards to the service and the directly related expenses and if there are no issues with product acceptance. Rent and similar income is realised when there is a sound contractual basis for such income and its amount. Rent income, which is paid in advance or is due, is accrued. Interest income is realised over time based on the calculated effective interest rate. Dividends are realised from the time of the legal entitlement.

CONSOLIDATED BALANCE SHEET

Cash and cash equivalents include cash at hand, cash at bank, cheques and treasury bills and are valued at the fair value at the balance sheet date.

Receivables: Trade receivables and other short term receivables and assets are valued at their nominal amount. Financial receivables are included in the category loans and receivables and are valued at cost. Foreseeable risks are accounted for via appropriate write-offs. Receivables with a maturity of more than one year are shown at the discounted present value if they are not interest bearing. Receivables denominated in foreign currency are valued using the mid foreign exchange rate at the balance sheet date.

Stock is valued at the lower of historic or production cost and net selling price. Used methods are the First-in First-out Method (or the weighted average price where applicable). 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 production expenses and appropriate fixed and variable indirect production overheads. Foreign exchange costs are not capitalised.

Marketable securities – with exception of derivative financial instruments – have been included in the category Available-for-Sale and are in principle valued at Fair Value without impacting the profit and loss account. Marketable securities are mainly bank debentures that can be called at any time.

Goodwill: Goodwill resulting from first time consolidation is capitalised. The intrinsic value is reviewed each year or if required, also at shorter periods of time, using the Discounted-Cash-Flow-Method using the weighted average costs of capital (WACC) which is adapted each year. Capital costs were 9.3% in the fiscal year (previous year: 9.1%). Data used in the Discounted-Cash-Flow-Method is based on a three year plan. More future data is derived by extrapolation. Uncertainty is taken into account by applying discounts on future cash flows. A loss in value is accounted for via write-offs, which are shown in the consolidated profit and loss account in the line item depreciation. In the fiscal year 2006/2007, there were no goodwill write-offs.

Intangible assets and fixed assets: Acquired intangible and fixed assets are carried in the balance sheet at historic cost reduced by straight line or utilisation-related depreciation. 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 production expenses and appropriate fixed and variable indirect production overheads. General overheads and interest on foreign exchange are not capitalised. The fixed asset is written off over its useful life on a straight-line basis.

Useful lives for different asset categories are listed in the table below:

	Useful economic live
Intangible assets	4 to 10 years
Buildings	10 to 33 years
Machinery	5 to 15 years
Furniture and fixtures	4 to 10 years

Depreciation starts with the day of acquisition or for produced goods, with the day of commencement of utilisation. Land is not written off, with exception of extra-ordinary write-offs. Expenses for maintenance and repairs are shown in the profit and loss account of the appropriate period. Except goodwill, the company does not own any intangible assets or fixed assets with indefinite useful lives.

The Pankl Group does not own any real estate purely for investment purposes (investment properties).

Research and development: Research activities are expensed in the period in which they are carried out. Development expenses, which fulfil the criteria set out in IAS 38.57 are capitalised as intangible assets. Capitalised development expenses are written off over the period, in which a benefit is expected. If the benefit proves to wane sooner than expected then the valuation of the capitalised development is to be adjusted. Per 30 September 2007 there were no development expenses which fulfil all requirements of IAS 38.57.

Leasing: Fixed assets financed via leasing arrangements are capitalised in the balance sheet if the Company carries all major rights and risks of an owner (financial leasing). Such assets are valued at the present value of future leasing payments. At the same time, a liability of the same amount is raised in the balance sheet. Depreciation is spread linear over the useful life of the leased objects.

Financial assets: Stakes in non-consolidated associated companies and other investments are included in the category Available-for-Sale and are valued at cost, because a Fair Value cannot be determined reliably. Granted loans are included in the category Loans and Receivables. They are valued at amortised cost. Other financial assets (securities) are included in the category Available-for-Sale and are generally valued at their Fair Value without impacting the profit and loss account.

Write-offs: Assets (except stock and deferred tax assets) are scrutinised at every balance sheet date whether it is necessary to apply a write-off. A write-off is necessary if the book value exceeds a realisable sale or utilisation value. If the utilisation value is used, future cash flows are discounted with a pre-tax discount rate to calculate the present value. A write-off is applied if the book value is higher than the value derived. The present value of an asset, which realisation is dependent on another fixed asset, is calculated taking into account the other asset as well. A write-off is necessary if the book value exceeds this present value. A write-off is reversed if the expectations with regards to realisable cash flows change over time. Such reversals must not exceed the original book value. Write-offs of goodwill are not reversed.

Liabilities are carried in the balance sheet at nominal value or the repayment amount. In the case of additional payments the actual received amount is entered as the liability. Discounts and premiums or any other differences between the amounts received and the amounts due are spread over the financing time and shown in the financial result.

Trade liabilities are valued at the time when they come into existence at the fair value of the received product or service. Later on, these liabilities are valued at amortised cost. Liabilities not resulting from trading activities are carried in the balance sheet with the repayment value. Foreign exchange liabilities are valued at the average exchange rate on the reporting date.

Financial liabilities are included in the category Liabilities at Amortised Cost and are valued at amortised cost.

Subsidies: Subsidies are accounted for as soon as payment is to be expected and the Pankl Group is able to fulfil the appropriate requirements. As a principle, subsidies should impact the profit and loss account in the same manner as directly related expenses, which the subsidy is designed to eliminate. Investment grants for fixed assets are accrued in the balance sheet and released into the profit and loss account in accordance with effected depreciation charges.

Provisions are formed if the Pankl Group is under a legal or actual obligation that may result in a future expense. The provision amount is estimated on the basis of the expected future payment.

Personnel provisions: 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 such obligations, the Company forms a provision using the "Projected-Unit-Credit Method", accumulating the present value for such payments over the years served by the employees using an actuarial procedure.

From the fiscal year 2006/2007 onwards, the differences between expected and actual values ("actuarial profits and losses") are accounted for immediately in the profit and loss account. The corridor approach is not applied any more.

The calculation as of 30 September 2008 is based on an interest rate of 6.0% (30 September 2007: 4.8%), expected average salary increases of 3.5% (30 September 2007: 2.5%) and fluctuation depending on number of years served. The retirement age is 62 years for women and 62 years for men taking into consideration the transition rules of the Amendment of the Social Security Law 2007 (Sozialrechtsänderungsgesetz 2007) and the rules on age limits for women (BVG Altersgrenzen).

Interest expenses resulting from social provisions are shown in the operating result.

The employer is obliged to pay monthly instalments into a retirement fund for all employees that entered into service after 1 January 2003. There is no legal requirement to pay any additional severance payments when these employees end service. Therefore this model does not require the formation of provisions.

Deferred taxes: In accordance with IAS 12 all temporary valuation differences between the financial statements drawn up for taxation purposes and the financial statements according to IFRS are shown as deferred tax items. The calculation uses the expected future tax rate at the time the item is reversed – taking into consideration the local tax rate of the respective Group company. Deferred tax items for tax loss carry forwards are created as far, as a use of the asset is expected within a foreseeable time frame.

The calculation is based on the common forward tax rate in the respective country at the time of the expected reversal of the value. Future changes in tax rates are considered only if the change has been valid or announced at the balance sheet date.

Deferred tax assets are created only if a reversal is expected within a foreseeable time frame. The calculation is based on the common forward tax rate in the respective country at the time of the expected reversal of the value. Future changes in tax rates are considered only if the change has been valid or announced at the balance sheet date.

Derivative financial instruments: Derivative financial instruments are part of the category At Fair Value through Profit or Loss (Trading). They are valued at fair value through the profit and loss account. The calculation of the fair value is carried out by banks. Derivative financial instruments are only used for hedging. The rule for accounting of hedging transactions (Hedge Accounting) has not been applied by the Pankl Group.

Contingent liabilities: Contingent liabilities are possible or existing obligations resulting from past events, which are deemed unlikely to turn into expenses. According to IFRS these liabilities are not shown in the balance sheet but are listed in the notes.

Estimates and uncertainties in estimates and assumptions: In setting up the consolidated financial statements, to a certain degree, estimates and assumptions are necessary, which influence the assets and liabilities and other obligations shown, as well as expenses and income. Actual future amounts may deviate from these estimates. The principle of "True and Fair View" has been applied without limitation to all estimates.

Uncertainty effects especially the valuation of intangible assets as well as the assessment of the ability to realise deferred tax assets.

The valuation of intangible assets and tangible fixed assets requires estimates for the expected useful lives of the assets and is based on management's assessment of the intrinsic value of the asset or any applicable reduction in value. Smaller than expected net cash flows or changes in the discount rate may lead to a decrease in value. Regarding the assessment of goodwill we refer to the respective text.

Deferred tax assets are built to the extent to which it is likely that they might be used. The assessment of the future usability is based on factors like e.g. past profitability, operating plans, expiry period of tax loss carry forwards and tax planning strategies. If actual results are below estimates this may result in the write-off of deferred tax assets.

In addition, there are uncertainties regarding estimates for the valuation of receivables, personnel related obligations and other provisions.

3. Notes to the Consolidated Profit and Loss Account

The Cost of Sales Method was used to draw up the consolidated profit and loss account.

(01) REVENUES

Consolidated revenues increased by 5.9% to € 105,909k (2006/2007: € 100,054k). The Racing/Automotive Segment achieved revenues of € 86,645k (2006/2007: € 82,559k) and the Aerospace Segment of € 20,116k (2006/2007: € 17,992k). Revenues between the segments amounted to € 852k (2006/2007: € 497k).

(02) COST OF GOODS SOLD

Cost of goods sold was broken down in expense categories as follows:

in €k	2007/2008	2006/2007
Expenses for materials and external supplies	35,673	31,235
Personnel expenses	29,296	33,718
Depreciation or amortisation of fixed assets or intangible assets	6,560	5,786
Other operating expenses	8,808	5,585
Total	**80,337**	**76,324**

In the fiscal year 2007/2008, administration and distribution costs were adapted to the current management structure and organisation. The figures for the past fiscal year remained unaffected.

Cost of goods sold, administration and distribution costs included the following personnel expenses:

in €k	2007/2008	2006/2007
Wages	21,017	20,186
Salaries	17,340	17,384
Other personnel expenses	1,224	860
Personnel expenses	**39,581**	**38,430**
of which compulsory social security contributions	*6,416*	*5,207*
of which payments into private contribution schemes	*242*	*191*

Cost of goods sold, administration and distribution costs included depreciation charges of € 8,063k (2006/2007: € 7,204k).

(03) MANAGEMENT BOARD REMUNERATION AND EMPLOYMENT DATA

Management Board remuneration in the fiscal year 2007/2008 amounted to € 505k including entitlements for severance pay (2006/2007: € 333k including entitlements for severance pay of former members of the Management Board). In addition, the Management Board received payments for private pension plans amounting to € 0k (2006/2007: € 0k). In the fiscal year 2007/2008, the remuneration of the Supervisory Board amounted to € 21k (2006/2007: € 20k).

Pankl Racing Systems AG has a stock option plan for management members, who can directly influence the further development of the Company. On 1 October 2004, this group of persons received the right to buy ordinary shares at a price of € 14.00 per share. The exercise period started on 1 November 2006 and ended on 30 November 2006. In total 95,000 options were issued. Each option gave its holder the right to acquire one share.

The option right remained vested even if the holder of the option was not anymore employed in the Pankl Group. It was possible to transfer options. Until 31 December 2009, Pankl Racing Systems AG has pre-emptive rights regarding these options and the resulting shares. The underlying shares for these options were treasury shares.

	Number of options	Average exercise price
Per 1 October 2006	95,000	€ 14.00/share
Options granted	0	n/a
Options exercised	(95,000)	€ 14.00/share
Options lapsed	0	n/a
Per 30 September 2007	**0**	**n/a**

The option pricing model of Black-Scholes is used for the valuation of options. Some of the market data used in this pricing model is based on subjective assumptions. Expected volatility of Pankl shares is estimated based on historic volatilities. The values below may hence be materially different from future market values. Key data of the options exercised in November 2006:

	Options granted in 2004/2005
Market price of shares at date of granting	€ 13.20
Exercise price of options	€ 14.00
Maturity	2 years
Risk-free interest rate	3.5%
Expected volatility	37%
Time value per option	€ 8.54
Market value of options at time of granting	€ 278k
Included in personnel expenses 2004/2005	€ 278k

At the balance sheet date, there were no loans or advance payments for members of the Management Board or Supervisory Board granted or outstanding.

EMPLOYEES

The average number of employees developed as follows:

Employees by Segment	2007/2008	2006/2007
Racing/High Performance Segment	768	719
Aerospace Segment	128	89
Total	**896**	**808**

Employees by Region	2007/2008	2006/2007
Austria	491	477
United Kingdom	71	64
USA	148	117
Slovakia	186	150
Total	**896**	**808**

Employees broken down by employment type	2007/2008	2006/2007
Blue-collar employees	580	559
White-collar employees	316	249
Total	**896**	**808**

(04) OTHER OPERATING INCOME AND EXPENSES

Other operating income contained the following:

in €k	2007/2008	2006/2007
Grants and subsidies	1,625	1,961
Rental income from the leasing of buildings	92	93
Earnings from the sale of fixed assets	974	357
Other	1,055	1,603
Total	**3,746**	**4,014**

Other operating expenses contained primarily government fees and charges of € 115k and foreign exchange and similar losses of € 158k.

(05) FINANCIAL RESULT

The financial result of € –1,441k (2006/2007: € –1,678k) contained interest for short term loans, and investment income. Interest is expensed in the period to which it contractually refers to.

in €k	2007/2008	2006/2007
Interest received and similar income	730	975
Interest paid and similar expenses	(1,922)	(1.323)
Foreign exchange differences	142	(1.026)
Other financial expenses	(396)	(342)
Other income from financing activities	5	38
Financial result	**(1,441)**	**(1.678)**

Financial income shown in the profit and loss account refers to received interest from investments, dividends, profits from the sale of Available-for-Sale securities, profit from the change of market values of financial investments. Interest income is recorded in the period when it arises using the APR method. Dividend income is recorded from the day when Pankl Group acquires the right to receive a dividend payment.

Financial expenses shown in the profit and loss account refer to interest expenses from liabilities, interest portions in provisions, losses from changes in market values of financial investments. The other financial result mainly refers to bank charges.

(06) INCOME TAXES

Income taxes comprise taxes being owed by Group companies and deferred tax items:

in €k	2007/2008	2006/2007
Effective tax results	(505)	(924)
Deferred tax results	(1)	766
Income taxes	**(506)**	**(158)**

The appropriate tax rate according to Austrian law is 25% (2006/2007: 25%). The reasons for the difference between the Austrian corporation tax rate of 25% (2006/2007: 25%) and the Group tax rate shown were as follows:

in €k	2007/2008	2006/2007
Profit before taxes on earnings	7,364	8,446
thereof 25% calculated income tax (2006/2007: 25%)	*1,841*	*2,112*
Deviating foreign tax rates	519	151
Goodwill amortisation	335	0
Non-temporary differences and tax additions and deductions	(323)	(220)
Tax loss carry forwards not accounted for in prior periods	(2,252)	(2,160)
Taxes referring to other periods	(1)	(444)
Non-capitalised losses brought forward from foreign subsidiaries	381	0
Non-capitalised losses brought forward from domestic subsidiaries	0	707
Other factors	6	12
Effective tax burden	**506**	**158**

Tax loss carry forwards of the Group were:

	30/9/2008		30/9/2007	
in €k	Tax loss carry forwards	Deferred taxes	Tax loss carry forwards	Deferred taxes
Pankl Racing Systems AG	881	220	7,500	1,875
PMC Metallverarbeitungs GmbH	0	0	643	161
Pankl Emission Control Systems GmbH	8,410	2,103	6,436	0
Pankl Drivetrain Systems UK Ltd.	0	0	205	57
Pankl Holdings, Inc.	36	15	1,401	600
Pankl Aerospace Systems, Inc.	5,589	994	6,224	1,188
Total	**14,915**	**3,332**	**22,409**	**3,882**

Deferred tax assets and liabilities were calculated based on the following balance sheet items:

in €k	30/9/2008	30/9/2007
Deferred tax assets		
Short term assets	168	(151)
Long-term assets		
Fixed assets	(18)	(143)
Tax loss carry forwards	3,332	3,882
Short-term liabilities	13	561
Long-term liabilities	297	(221)
Total	**3,791**	**3,927**
Deferred tax liabilities		
Short-term assets	1	0
Long-term assets		
Fixed assets	(512)	(243)
Short-term liabilities	0	1
Total	**(511)**	**(242)**
Deferred tax assets/liabilities	**3,280**	**3,685**

Deferred tax assets and deferred tax liabilities were netted against each other if possible. Net deferred tax assets and liabilities were as follows:

in €k	30/9/2008	30/9/2007
Deferred tax assets	3,791	3,927
Deferred tax liabilities	(511)	(242)
Deferred taxes (net)	**3,280**	**3,685**

Deferred taxes developed during the fiscal year as follows:

in €k	30/9/2008	30/9/2007
Deferred taxes (net) as of 1 October	3,685	4,596
Change in the scope of consolidation	(82)	(242)
Change in deferred taxes impacting the profit and loss	(1)	(559)
Change in deferred taxes without impact on the profit and loss	(322)	(1,228)
Deferred taxes (net) as of 30 September	**3,280**	**3,685**

No deferred taxes were formed for temporary differences arising from holding shares in subsidiaries based on IAS 12.39.

4. Notes to the Balance Sheet

(07) CASH AND CASH EQUIVALENTS

Cash and cash equivalents (liquid funds) comprised cash at banks, cash at hand, cheques and treasury bills of a total value of € 24,478k (30 September 2007: € 25,747k). All liquid funds had a maturity of less than three months.

(08) TRADE RECEIVABLES AND OTHER SHORT TERM RECEIVABLES AND ASSETS

Other short term receivables consisted of the following:

in €k	30/9/2008	30/9/2007
Trade receivables	17,223	15,974
of which against subsidiaries or associated companies	*0*	*24*
Other assets and receivables	2,901	3,652
of which against subsidiaries or associated companies	*0*	*0*
Income tax claims	0	36
Deferred assets	847	474
Total	20,971	20,136

All receivables were repayable within one year. Other receivables and assets were mainly receivables against tax authorities. Direct write-offs of receivables and other assets are deducted from the nominal value. As per 30 September 2007, write-offs amounted to € 744k (30 September 2007: € 1,020k). Write-offs of receivables developed as follows:

in €k	Trade receivables	Other short-term financial claims
Balance per 1 October 2006	802	75
Increase	294	54
Decrease	0	(41)
Write-off	(164)	0
Balance per 30 September 2007 (= 1 October 2007)	**932**	**88**
Increase	110	0
Decrease	(159)	0
Write-off	(139)	(88)
Balance per 30 September 2008	**744**	**0**

Direct write-offs of financial assets are applied if the book value of the financial asset is higher than the net present value of the discounted future cash flows. Write-offs have to be considered if debtors are in financial difficulties, are insolvent, breach contractual obligations or pay late. Direct write-offs consisted of several positions, of which we consider no single one to be material. In addition, we apply write-offs for general credit risks based on debtor risk groups.

Other short term securities included securities from Austrian issuers that can be freely sold at any time.

(09) STOCK

Stock was broken down as follows:

in €k	30/9/2008	30/9/2007	Change
Raw materials	14,232	12,623	12.8%
Work in progress	10,413	8,847	17.7%
Finished goods	5,426	3,132	73.3%
Total	**30,071**	**24,601**	**22.2%**

Stock in the amount of € 3,457k (30 September 2007: € 7,026k) was recorded in the balance sheet at net selling price less distribution costs. At the balance sheet date, stock in the amount of € 0k (30 September 2007: € 0k) was pledged or otherwise of limited availability.

(10) INTANGIBLE FIXED ASSETS AND GOODWILL

The breakdown of intangible fixed assets and their development in the fiscal year 2007/2008 as well as 2006/2007 are shown in the fixed assets schedule (see notes to the consolidated financial statements on pages 108 to 111). Intangible fixed assets mainly comprise software used for operations.

At the balance sheet date, intangible fixed assets in the amount of € 0k (30 September 2007: € 0k) were pledged as collateral for bank debts or liabilities from finance leases or were otherwise of limited availability. At the balance sheet date, contractual obligations for the acquisition of intangible fixed assets amounted to € 0k (30 September 2007: € 0k).

Goodwill broken down by Group company was as follows:

in €k	30/9/2008	30/9/2007
CP Pistons, LLC	661	661
Performance Equipment Company, LLC	51	51
Pankl Aerospace Systems, Inc.	1,754	1,754
Pankl Automotive, a.s.	1,447	1,295
Pankl Engine Systems Weymouth Pin Ltd.	1,622	2,528
Pankl Racing Systems Northbridge Ltd.	1,198	0
Carrillo Industries, Inc.	3,264	0
Total	**9,997**	**6,289**

Impairment tests did not require any write-offs of goodwill.

(11) FIXED ASSETS

The break-down of the fixed assets and their development in the fiscal year 2007/2008 as well as 2006/2007 are shown in the fixed assets schedule (see notes to the consolidated financial statements on pages 108 to 111). Companies of the Pankl Group partly lease land with buildings and machines. According to IFRS, these lease agreements are categorised as finance leasing. In the lease agreements, only variable interest rates are used. There are purchase options in particular with regards to buildings. Liabilities from leasing are valued at the present value of future minimum leasing payments. Within tangible fixed assets (land and buildings, machines as well as other fixed assets) the following assets were leased:

in €k	30/9/2008	30/9/2007
Leasing of buildings		
Cost	1,148	1,068
Accumulated depreciation	(362)	(323)
Net book value	**786**	**746**
Leasing of machinery		
Cost	5,081	3,202
Accumulated depreciation	(1,776)	(1,423)
Net book value	**3,305**	**1,779**

Leasing payments from finance leasing over the next years are as follows:

	Leasing payments		Net present value	
in €k	30/9/2008	30/9/2007	30/9/2008	30/9/2007
Within 1 year	863	139	751	68
1 to 5 years	2,073	1,698	1,957	1,657
More than 5 years	0	0	0	0
Total	**2,936**	**1,837**	**2,708**	**1,725**

Payments for un-callable operating leasing contracts in the following years are as follows:

in €k	30/9/2008	30/9/2007
Within 1 Jahr	903	371
1 to 5 years	3,057	1,242
More than 5 years	456	631
Total	**4,416**	**2,244**

In the lease agreements, only variable interest rates are used; there are partly purchase options.

In the fiscal year, total rental and leasing expenses amounted to € 1,208k (2006/2007: € 1,036k).The expenses shown in the accounts do not include any material conditional rental or sublease payments.

At the balance sheet date, fixed assets in the amount of € 2,059k (30 September 2007: € 4,772k) were mainly pledged as collateral for bank debts and liabilities from finance leases or were otherwise of limited availability.

(12) FINANCIAL FIXED ASSETS

The break-down of the financial fixed assets and their development in the fiscal year 2007/2008 as well as 2006/2007 are shown in the fixed assets schedule (see notes to the consolidated financial statements on pages 108 to 111). Other financial fixed assets are Austrian securities. This position also includes loans granted, interests in associated companies and equity investments. Loans granted to non-consolidated associated companies and companies, in which equity investments are held, amounted to € 0k in the fiscal year 2007/2008 (2006/2007: € 0k).

At the balance sheet date, financial fixed assets in the amount of € 0k (30 September 2007: € 0k) were pledged or otherwise limited in availability.

(13) OTHER SHORT TERM DEBT

Other short term debt was broken down as follows:

in €k	30/9/2008	30/9/2007
Investment grants	1,046	1,165
Liabilities from unconsumed holiday entitlements	1,238	1,019
Liabilities from deferred expenses	2,316	715
Other	5,617	6,536
Total	**10,217**	**9,435**

Other payables mainly included liabilities to employees, loans granted by research promotion agencies and the residual purchase price from the acquisition of Pankl Engine Systems Weymouth Pin Ltd., based in Weymouth, United Kingdom.

(14) PROVISIONS

Provisions and accruals comprised the following items:

in €k	1/10/2007	Change in consolidation scope	Increase	Reversal/Use	Translation reserve	Com-pounding	30/9/2008
Warranties	205	0	132	(209)	0	0	128
Loss-making contracts	60	0	0	(60)	0	0	0
Restructuring	251	0	0	(251)	0	0	0
Legal actions and claims	59	0	315	(185)	6	0	195
Provisions	**576**	**0**	**447**	**(705)**	**6**	**0**	**323**

Provisions for guarantees and warranties comprise provisioning for costs resulting from customer complaints. In the previous year, the provisions for loss-making contracts included provisions for expected losses from pending transactions. Provisions for legal actions and claims refer to costs from unsettled legal actions. Restructuring provisions concerned charges for the restructuring of Pankl Emission Control Systems GmbH.

(15) PERSONNEL PROVISIONS

The provisions for retirement and severance payments shown in the balance sheet were broken down as follows:

in €k	2007/2008	2006/2007
Net present value of liability (DBO) = provision for severance payments	**1,133**	**1,193**
Current office hour expenses	57	82
Interest expense	71	63
Realised actuarial profits and losses	80	296
Expense recorded in the profit and loss account	**208**	**441**
Provisions for severance payments at the beginning of the year	1,193	1,002
Expenses for the financial year	208	441
Actual severance payments	(268)	(250)
Provisions for severance at the end of the year	**1,133**	**1,193**

During the past five fiscal years, the net present value of performance based commitments developed as follows:

in €k	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
Net present value of commitments	1,275	1,849	1,331	1,193	1,133

The relevant actuarial parameters and accounting principles are illustrated in the section “Accounting and Valuation Methods”.

(16) SHAREHOLDERS FUNDS AND NOTES TO CAPITAL MANAGEMENT

The schedule of shareholders’ funds shows the development of the shareholders’ funds in the fiscal years 2007/2008 and 2006/2007. The number of shares in issue has amounted to 3,888,000 since the last capital increase in the fiscal year 1998/1999. The shares represent a pro-rata portion of the share capital amounting to € 1.00 each. In the fiscal year 2007/2008, this number remained unchanged. Each share entitles the holder to the rights regulated in the Austrian Public Companies Act (Aktiengesetz). This includes the right to receive the dividends decided by the General Assembly as well as the right to vote at the General Assembly. All shares are fully paid in. During the fiscal year, dividends in the amount of € 2,332k (2006/2007: €0k) were paid. Issuance costs of shares are directly booked against equity. The purchase price including directly attributable costs of shares re-purchased by the company are subtracted from equity.

Capital reserves are mainly premiums realised from issuing shares of Pankl Racing Systems AG. Repurchased shares are shown under “treasury shares”. The Fair Value reserve for Available for Sale securities shows the changes in valuation for financial instruments of the category Available-for-Sale, which do not impact profit and loss. Reserves for foreign currencies include all exchange rate differences arising from translation of annual accounts of subsidiaries drawn up in foreign currency. Other profit reserves show the reserve from retained net income of the period and the previous periods.

Minorities shown in the balance sheet refer to the 30% stake in CP Pistons, LLC as well as its subsidiaries Carrillo Industries, Inc., and 30% stake in Performance Equipment Company, LLC as well as 25% stake in Pankl Aerospace Systems, Inc.

The aim of capital management is to maintain a strong capital basis so that in future shareholders obtain a return that is adequate to the Company risk, the Company develops favourable and there are benefits also for other stakeholder groups. The management considers as equity only equity according to IFRS. At the balance sheet date the equity ratio was 47.6% (30 September 2007: 50.8%).

On 9 February 2007, the 9th Annual General Meeting of Pankl Racing Systems AG authorised the Management Board to acquire treasury shares of up to 10% of the issued share capital until 8 August 2008. The purchase price must not deviate from the appropriate stock exchange price by more than 20%. Appropriate stock exchange prices are the closing prices on the respective stock exchange within five trading days prior to the purchase of the shares.

Furthermore, the Management Board was authorised to sell treasury shares, without an additional resolution of the General Assembly and without giving pre-emption rights to existing shareholders, at a price, which is not materially lower than the respective stock exchange price of the same type of shares. It was also allowed to cancel treasury shares without any additional resolution of the General Assembly. This may be carried out to a full extent or partly. The Management Board is therefore entitled to sell or cancel all or part of the treasury shares acquired on the basis of article 65 of the Austrian Public Companies Act (Aktiengesetz).

On 1 October 2006, the number of treasury shares amounted to 95,585. In the fiscal year 2006/2007, no shares were repurchased. In November 2006, entitled employees exercised 95,000 options as part of the Employees Stock Option Plan of Pankl Racing Systems AG. The shares were delivered out of the treasury shares stock.

In the fiscal year 2007/2008, 128,676 treasury shares were re-purchased and 66,400 were sold. Thus, the number of treasury shares amounted to 62,861 as of 30 September 2008 (30 September 2007: 585).

5. Other Notes

(17) FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

BASIC PRINCIPLES

The Pankl Group holds primary and derivative financial instruments. Primary financial instruments mainly include financial assets, trade receivables and liabilities, cash at banks and financial liabilities. The level of financial instruments held by the Group is shown in the balance sheet and the notes.

Derivative financial instruments are basically used to hedge against interest rate and foreign currency risks. The use of derivatives is subject to respective approval and control procedures. It has to be bound to the underlying basic transaction, speculative transactions are not allowed.

All purchases and sales of financial instruments are entered at the day of settlement.

Financial instruments are initially generally 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 basically transferred all risks and chances connected with the instrument's ownership.

BOOK VALUES, FAIR VALUES AND NET RESULTS OF THE FINANCIAL INSTRUMENTS

Book values, fair values and valuations of financial assets (financial instruments of the assets side) according to the valuation categories of IAS 39 or IAS 17 were broken down as follows:

in €k	Valuation categories according to IAS 39	Book value	Fair value
Balance per 30 September 2008			
Cash and cash equivalents	Loans and receivables	24,478	24,478
Trade receivables	Loans and receivables	17,223	17,223
Other short-term receivables	Loans and receivables	3,748	0
Financial assets – associated companies and participations	Available-for-Sale (at cost)	23	23
Financial assets – long-term securities	Available-for-Sale	46	46
Financial assets – long-term lending	Loans and receivables	2,097	2,097
Total		47,615	43,867
Balance per 30 September 2007			
Cash and cash equivalents	Loans and receivables	25,747	25,747
Trade receivables	Loans and receivables	15,974	15,974
Other short-term receivables	Loans and receivables	4,162	0
Short-term securities – securities Available-for-Sale	Available-for-Sale	1,028	1,028
Short-term securities – derivatives with positive market value	Trading	69	69
Financial assets – associated companies and participations	Available-for-Sale (at cost)	181	181
Financial assets – long-term securities	Available-for-Sale	377	377
Financial assets – long-term lending	Loans and receivables	2,045	2,045
Total		49,583	45,421

Trade receivables as well as other short term financial receivables mainly have short maturities. Therefore, their book values at the balance sheet date correspond more or less to the appropriate Fair Value. The appropriate Fair Values of long-term loans equal the net present value of the payments associated with the assets, taking the respective current market parameters into account.

Financial assets of the category "Available for Sale" include unlisted equity instruments with a Fair Value that could not be assessed with confidence. These equity instruments are shown in the table above under "Available for Sale (at Cost)" and are valued at cost.

Valuation method in accordance with IAS 39					
Historic cost carried forward	Historic cost	Fair value, impacting the profit and loss	Fair value, not impacting the profit and loss	Valuation in accordance with IAS 17	Non financial
24,478	0	0	0	0	0
17,223	0	0	0	0	0
0	0	0	0	0	3,748
0	23	0	0	0	0
0	0	0	46	0	0
2,097	0	0	0	0	0
43,798	**23**	**0**	**46**	**0**	**3,748**
25,747	0	0	0	0	0
15,974	0	0	0	0	0
0	0	0	0	0	4,162
0	0	0	1,028	0	0
0	0	69	0	0	0
0	181	0	0	0	0
0	0	0	377	0	0
2,045	0	0	0	0	0
43,766	**181**	**69**	**1,405**	**0**	**4,162**

The book values, Fair Values and valuations of debts (financial instruments of the liabilities side) according to the valuation categories of IAS 39 or IAS 17 were broken down as follows:

in €k	Valuation categories according to IAS 39	Book value	Fair value
Balance per 30 September 2008			
Short-term loans and short-term portion of long-term loans	Financial liabilities at amortised cost	9,906	9,906
Trade payables	Financial liabilities at amortised cost	5,401	5,401
Other short-term financial liabilities – liabilities from finance leasing	Not applicable	751	751
Other short-term liabilities	Financial liabilities at amortised cost	9,381	2,271
Other short-term financial liabilities – derivatives with negative market values	Trading	85	85
Long-term loans	Financial liabilities at amortised cost	24,140	24,383
Bond	Financial liabilities at amortised cost	20,000	19,458
Long-term leasing liabilities	Not applicable	1,957	1,957
Total		71,621	64,212
Balance per 30 September 2007			
Short-term loans and short-term portion of long-term loans	Financial liabilities at amortised cost	10,901	10,901
Trade payables	Financial liabilities at amortised cost	7,255	7,255
Other short-term financial liabilities – liabilities from finance leasing	Not applicable	68	68
Other short-term liabilities	Financial liabilities at amortised costt	9,367	729
Other short-term financial liabilities – derivatives with negative market values	Trading	0	0
Long-term loans	Financial liabilities at amortised cost	10,549	10,492
Bond	Financial liabilities at amortised cost	20,000	19,267
Long-term leasing liabilities	Not applicable	1,657	1,657
Total		59,797	50,369

Valuation method in accordance with IAS 39					
Historic cost carried forward	Historic cost	Fair value, impacting the profit and loss	Fair value, not impacting the profit and loss	Valuation in accordance with IAS 17	Non financial
9,906	0	0	0	0	0
5,401	0	0	0	0	0
0	0	0	0	751	0
2,271	0	0	0	0	7,110
0	0	85	0	0	0
24,140	0	0	0	0	0
20,000	0	0	0	0	0
0	0	0	0	1,957	0
61,718	**0**	**85**	**0**	**2,708**	**7,110**
10,901	0	0	0	0	0
7,255	0	0	0	0	0
0	0	0	0	68	0
729	0	0	0	0	8,638
0	0	0	0	0	0
10,549	0	0	0	0	0
20,000	0	0	0	0	0
0	0	0	0	1,657	0
49,434	**0**	**0**	**0**	**1,725**	**8,638**

Short term loans and short term portions of long term loans, trade liabilities as well as other short term liabilities regularly gave short maturities; the book values are estimates for the respective Fair Values. If necessary, the appropriate Fair Values of long-term loans, bonds and long-term finance lease liabilities are determined as book values of the payments associated with the debts, taking the respective market parameters into account.

The net result from financial instruments according to the valuation categories of IAS 39 includes net profits/losses as well as total interest income/expenses and was broken down as follows:

in €k	From interest	From valuation at Fair value	From depreciation	From results of disposals	**Net result**
2007/2008					
Loans and receivables	701	0	(112)	0	**589**
Available-for-Sale	29	26	(14)	(24)	**17**
Trading	0	(151)	0	0	**(151)**
Financial liabilities at amortised cost	(1,810)	0	0	0	**(1,810)**
Total	**(1,080)**	**(125)**	**(126)**	**(24)**	**(1,355)**
2006/2007					
Loans and receivables	770	0	(294)	(78)	**398**
Available-for-Sale	68	17	(45)	0	**40**
Trading	55	69	0	0	**124**
Financial liabilities at amortised cost	(1,270)	0	0	0	**(1,270)**
Total	**(377)**	**86**	**(339)**	**(78)**	**(708)**

Changes in loss allowance for loans and receivables are shown in other operating expenses. The part of financial assets valued at Fair Value without effect on the profit and loss account is shown in the Fair Value reserve Available for Sale securities. Financial income and expenses include the remaining components of the net result.

FINANCIAL RISK MANAGEMENT

Principles of Financial Risk Management

The assets, liabilities and planned transactions of the Pankl Group are subject to credit, market and liquidty risks. The aim of financial risk management is controlling and limiting these risks. The management board and the supervisory board are periodically informed about the risks, which may significantly impact the business development.

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

Foreign Currency Risks

Foreign currency risks derive from financial assets and liabilities being denominated in a different currency than the local currency of the respective Group company. Group companies primarily invoice in local currency and also obtain financing primarily in local currency. Investments are carried out primarily in local currency of the investing Group company. For this reasons there are regularly covered currency positions.

Foreign currency risks have been analysed by sensitivity analysis that show the consequences of a hypothetical change in currency exchange rates on the net result (after taxes) and the equity. The calculations have been based on the balance sheet positions at balance sheet date. This assumes that the risk at balance sheet date is basically the same as during the fiscal year. The tax rate applied has been the Group tax rate of 25%. Furthermore the analysis assumed that all other factors, especially interest rates remain constant. The analysis included the foreign currency risk of all fixed interest 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 have been included in the foreign currency risk of the functional currency of the respective subsidiary. Risks from foreign non-Euro currency positions have been aggregated on a Group level. Exchange rate related differences from conversion of financial statements drawn up in the Group currency have not been taking into consideration.

An increase in value (decrease) of the Euro compared to all other currencies by 10% – based on above assumptions – would result in an decrease (increase) of the net income (after taxes) and equity of € –139k or € 139k respectively (30 September 2007: € 644k or € 837k respectively). Here the sensitivity of equity has only been influenced by the sensitivity of the net income (after taxes).

Interest Rate Risks

Both financial assets and financial liabilities are partly based on contracts with variable interest rates. Interest rate risks arise therefore 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. In special cases interest rate risks are hedged by interest rate swaps.

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

An increase (decrease) in interest rates at the balance sheet date by 50 basis point – based on above assumptions – would result in an decrease (increase) of the net income (after taxes) and equity of € –26k or € 26k respectively (30 September 2007: € –3k or € 3k respectively). Here the sensitivity of equity has only been influenced by the sensitivity of the net income (after taxes).

Other Market Price Risks

The Pankl Group is subject to other market price risks beside interest rate risks and foreign currency risks. These are considered of minor importance.

Credit Risks

Credit risks of trade receivables are regarded small, because the credit-worthiness of all new and existing customers is monitored continuously. Credit risks of other financial assets are regarded small, because the debtors are of highest credit-worthiness.

There are internal procedures for regulation and monitoring of credit risks. For derivative instruments with a positive market value, credit risks are limited to the up-to-date recovery costs. Credit risks are considered low in this case, as all contractual partners are banks with highest credit-worthiness.

The values shown as assets are the maximum potential loss from credit risks because there are no netting agreements.

Book values of financial receivables were as follows:

in €k	Book value	of which: not depreciated or overdue as of the balance sheet date	of which: not depreciated and overdue for the following time periods Within 30 days	30 to 60 days	60 to 90 days	More than 90 days	of which: depreciated
Balance per 30 September 2008							
Trade receivables	17,223	9,066	5,111	961	644	430	1,011
Long-term lending	2,097	2,097	0	0	0	0	0
Total	19,320	11,163	5,111	961	644	430	1,011
Balance per 30 September 2007							
Trade receivables	15,974	4,557	4,096	3,089	474	824	2,934
Long-term lending	2,045	2,045	0	0	0	0	0
Total	18,019	6,602	4,096	3,089	474	824	2,934

Regarding financial receivables which were only partly written off because of payment delays, there were no signs that the debtors may not fulfil their obligations as per the balance sheet date.

Liquidity Risks

It is an important aim of financial risk management of the Pankl Group to guarantee liquidity and financial flexibility at any time. For this reason a liquidity reserve consisting of unused credit lines (cash credits and guarantees) – and if required also cash – is maintained with banks of high rating. These unused credit lines have regularly a term of 12 months after which they are renewed.

The Pankl Group has credit lines in domestic currency (EUR) as well as other currencies (CHF, JPY, GBP, USD) up to a volume of € 19,362k (30 September 2007: € 14,500k). Interest rates depend on the respective currencies and range from 2% to 5.5% (30 September 2007: 2% to 5.5%).

The medium and long term liquidity demand is secured by issued Company shares and bonds. On 15 September 2005, Pankl Racing Systems AG issued a corporate bond with a volume of € 20,000k. The bond is repayable at the end of a five years term. The interest rate is fixed at 3.25% of the nominal value. The bond was placed in a private placement led by Raiffeisen Zentralbank Österreich AG.

The maturities of financial liabilities are as follows:

in €k	Valuation categories according to IAS 39	Book value
Balance per 30 September 2008		
Short-term loans and short-term portion of long-term loans	Financial liabilities at amortised cost	9,906
Trade payables	Financial liabilities at amortised cost	5,401
Other short-term financial liabilities – liabilities from finance leasing	Not applicable	751
Other short-term liabilities	Financial liabilities at amortised cost	2,271
Other short-term financial liabilities – derivatives with negative market values	Trading	85
Long-term loans	Financial liabilities at amortised cost	24,140
Bond	Financial liabilities at amortised cost	20,000
Long-term leasing liabilities	Not applicable	1,957
Total		64,511
Balance per 30 September 2007		
Short-term loans and short-term portion of long-term loans	Financial Liabilities at Amortised Cost	10,901
Trade payables	Financial Liabilities at Amortised Cost	7,255
Other short-term financial liabilities – liabilities from finance leasing	Not applicable	68
Other short-term liabilities	Financial Liabilities at Amortised Cost	729
Other short-term financial liabilities – derivatives with negative market values	Trading	0
Long-term loans	Financial Liabilities at Amortised Cost	10,549
Bond	Financial Liabilities at Amortised Cost	20,000
Long-term leasing liabilities	Not applicable	1,657
Total		51,159

	Maturities	
Within 1 year	1 to 5 years	More than 5 years
9,906	0	0
5,401	0	0
751	0	0
2,271	0	0
0	85	0
0	21,195	2,945
0	20,000	0
0	1,957	0
18,329	**43,237**	**2,945**
10,901	0	0
7,255	0	0
68	0	0
729	0	0
0	0	0
0	10,424	125
0	20,000	0
0	1,657	0
18,953	**32,081**	**125**

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

in €k	Book value	Cash flows 2008/2009 Fixed interest	Variable interest	Redemption
Balance per 30 September 2008				
Short-term loans and short-term portion of long-term loans	9,906	(120)	(300)	(9,906)
Trade payables	5,401	0	0	(5,401)
Other short-term financial liabilities – liabilities from finance leasing	751	(6)	(80)	(751)
Other short-term liabilities	2,271	0	0	(2,271)
Other short-term financial liabilities – derivatives with negative market values	85	0	0	0
Long-term loans	24,140	(208)	(508)	0
Bond	20,000	(650)	0	0
Long-term leasing liabilities	1,957	0	(26)	0
Total	64,511	(984)	(914)	(18,329)

in €k	Book value	Cash flows 2007/2008 Fixed interest	Variable interest	Redemption
Balance per 30 September 2007				
Short-term loans and short-term portion of long-term loans	10,901	(331)	(55)	(10,901)
Trade payables	7,255	0	0	(7,255)
Other short-term financial liabilities – liabilities from finance leasing	68	(10)	0	(68)
Other short-term liabilities	729	0	0	(729)
Other short-term financial liabilities – derivatives with negative market values	0	0	0	0
Long-term loans	10,549	(165)	(298)	0
Bond	20,000	(650)	0	0
Long-term leasing liabilities	1,657	0	(61)	0
Total	51,159	(1,156)	(414)	(18,953)

Cash flows for the period 2009/10 until 2012/13			Cash flows from 2013/14		
Fixed interest	Variable interest	Redemption	Fixed interest	Variable interest	Redemption
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	(85)	0	0	0
(861)	(1,469)	(21,194)	0	(574)	(2,946)
0	0	(20,000)	0	0	0
(5)	(110)	(1,957)	0	0	0
(866)	**(1,579)**	**(43,236)**	**0**	**(574)**	**(2,946)**

Cash flows for the period 2008/09 until 2011/12			Cash flows from 2012/13		
Fixed interest	Variable interest	Redemption	Fixed interest	Variable interest	Redemption
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(215)	(370)	(10,424)	(2)	0	(125)
(1,300)	0	(20,000)	0	0	0
(12)	(29)	(1,657)	0	0	0
(1,527)	**(399)**	**(32,081)**	**(2)**	**0**	**(125)**

Included are all financial instruments, that were held at the balance sheet date and for which payments were agreed. Payments for any additional future financial liabilities are not included. Credit lines funding working capital needs are assumed to have a 12 months term. These lines are regularly renewed and are therefore available to the Company for longer periods of time. Foreign exchange balances were converted using the exchange rate at the balance sheet date. Variable interest payments were estimated based on the most recent interest rate fixing before the balance sheet date. Current financial liabilities are allocated to the group with the shortest maturity.

DERIVATES AND HEDGING

Derivative financial instruments are used to hedge interest rate and foreign currency risks. All derivative financial instruments are included in the category At Fair Value through Profit or Loss (Trading) and are valued at current market prices through the profit and loss account.

Derivative financial instruments were as follows:

	30/9/2008			30/9/2007		
in €k	Nominal value	Book value	Time value	Nominal value	Book value	Time value
Cross currency swaps						
Swap from EUR into CHF, 2011 expiry	2,450	(85)	(85)	1,050	65	65
Swap from EUR into CHF with embedded EUR put-/CHF call option, expired in the fiscal year 2007/2008	0	0	0	3,500	4	4

CONTINGENT LIABILITIES

(18)

in €k	30/9/2008	30/9/2007
Warranties	2,766	2,586
Guaranties	1,150	2,163
Other contingent liabilities	1,811	1,497
Acceptance liabilities	3,049	0
Total	**8,776**	**6,246**

Other liabilities mainly refer to a mortgage concerning a property in Kapfenberg.

(19) EARNINGS PER SHARE

The weighted average number of shares in issue amounted to 3,843,556 as of 30 September 2008. Group net profit amounted to € 6,400k. Earnings per share calculated according to IAS 33 amounted to € 1.67. The weighted average number of shares in issue amounted to 3,871,582 as of 30 September 2007. Group net profit amounted to € 7,870k. Earnings per share calculated according to IAS 33 amounted to € 2.03.

According to IAS 33, non-diluted earnings per share are calculated by dividing the period's profit contributable to the shareholders (net profit) by the weighted number of ordinary shares in issue during the period. The non-diluted earnings per share correspond to the diluted earnings.

		2007/2008	2006/2007
Consolidated net profit	in €k	6,858	8,288
Net profit contributable to the shareholders	in €k	6,400	7,870
Average number of ordinary and preference shares in issue	share	3,843,556	3,871,582
Undiluted = fully diluted earnings per share	in €/share	1.67	2.03

(20) SEGMENT REPORTING

Primary business segments of the Company are Racing/High Performance (engine and drivetrain systems for motor racing and the high performance automotive industry) and Aerospace (drivetrain systems for helicopters). These business segments comply with the segmentation of the management information systems of the company. Secondary business segments are the individual geographic markets of the company.

The 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 minorities.

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

Assets, which are contributed to a segment, refer either directly to the segment or are allocated using an appropriate formula. Write-offs are directly deducted from the appropriate assets.

Segment assets include the portion of short and long term assets which are required for the operations of the segment. They particularly comprise intangible fixed assets (including goodwill from acquisition), tangible fixed assets, stock, trade receivables, as well as the portion of other receivables and assets, which is required for operations. Segment assets do not account for any deferred or other taxes.

Segment liabilities include the portion of short and long term liabilities resulting from the operations of the segment. They particularly comprise personnel provisions and other expenses, trade payables as well as the portion of provisions and liabilities resulting from operations. Both segment assets as well as segment liabilities do not carry any interest.

Segment capital expenditures include all historic and production costs resulting from the purchase or production of segment assets during the reporting period as well as investments in long term financial assets.

Revenues within one segment are consolidated. Expenses and revenues, which are not directly related to a particular segment, are allocated using appropriate formulas.

Primary Segment Reporting

in €k	Racing/High Performance	Aerospace	**Total**	Adjustment	**Group**
2007/2008					
Segment revenues	86,645	20,116	**106,761**	(852)	**105,909**
of which inter-group revenues	*445*	*407*			
of which external revenues	*86,200*	*19,709*			
EBIT	7,476	1,329	**8,805**	0	**8,805**
EBIT in % of segment revenues	8.6%	6.6%	**8.2%**	0	**8.3%**
Total segment assets	92,937	18,350	**111,287**	30,436	**141,723**
Total segment liabilities	17,844	1,923	**19,767**	54,557	**74,324**
Segment capital expenditure	14,575	1,013	**15,588**	0	**15,588**
Segment depreciation charges	(7,088)	(975)	**(8,063)**	0	**(8,063)**
of which exceptional	*0*	*0*	*0*	*0*	*0*
2006/2007					
Segment revenues	82,559	17,992	**100,551**	(497)	**100,054**
of which inter-group revenues	*359*	*138*			
of which external revenues	*82,200*	*17,854*			

in €k	Racing/High Performance	Aerospace	Total	Adjustment	Group
EBIT	9,604	520	10,124	0	10,124
EBIT in % of segment revenues	11.6%	2.9%	10.1%	0	10.1%
Total segment assets	75,677	18,017	93,694	33,374	127,068
Total segment liabilities	16,195	4,621	20,816	41,691	62,507
Segment capital expenditure	6,778	2,645	9,423	0	9,423
Segment depreciation charges	(5,929)	(1,275)	(7,204)	0	(7,204)
of which exceptional	*0*	*0*	*0*	*0*	*0*

Assets and liabilities, which are not directly related to a particular segment, are allocated using appropriate formulas.

Secondary Segment Reporting

Segment capital expenditures and assets broken down by production facilities were as follows:

	2007/2008		2006/2007	
in €k	Capital expenditure	Book value	Capital expenditure	Book value
Austria				
Intangible fixed assets	552	903	473	675
Tangible fixed assets	3,644	30,798	6,399	34,864
Financial fixed assets	0	49	0	537
United Kingdom				
Intangible fixed assets	0	3,571	0	2,528
Tangible fixed assets	770	1,698	42	688
Financial fixed assets	0	0	0	0
USA				
Intangible fixed assets	58	6,508	94	3,003
Tangible fixed assets	996	3,103	968	2,432
Financial fixed assets	78	2,117	75	2,064
Slovakia				
Intangible fixed assets	108	1,913	68	1,694
Tangible fixed assets	9,382	11,752	1,304	3,074
Financial fixed assets	0	0	0	0
Total	15,588	62,412	9,423	51,559

Segment revenues according to the customers' residence were as follows:

	2007/2008		2006/2007	
	in €k	in %	in €k	in %
Asia	5,603	5.3%	5,114	5.1%
France	6,831	6.4%	5,976	6.0%
United Kingdom	18,803	17.8%	12,343	12.3%
USA	24,823	23.4%	24,076	24.1%
Italy	13,412	12.7%	11,734	11.7%
Germany	22,900	21.6%	30,616	30.6%
Austria	9,712	9.2%	6,298	6.3%
Other	3,825	3.6%	3,895	3.9%
Total	**105,909**	**100.0%**	**100,054**	**100.0%**

6. Other Information

(21) EVENTS AFTER THE BALANCE SHEET DATE

On 27 October 2008, Alfred F. Hörtenhuber resigned as a member of the Supervisory Board of Pankl Racing Systems AG. On 1 November 2008, he joined the Management Board of Pankl Racing Systems AG. As of 1 November 2008, Pankl's Management Board will thus consist of two members: Wolfgang Plasser, Management Board member since 2004 and CEO since 2006, in charge of the Racing and Aerospace Division, and Alfred F. Hörtenhuber, responsible for the High Performance Division together with the subsidiaries Pankl Automotive and Pankl Schmiedetechnik.

On 22 October 2008, an extraordinary general meeting was convened via Adhoc release for 17 November 2008 in Kapfenberg, focusing on the authorisation of a share buyback programme.

(22) RELATED PARTIES TRANSACTIONS

Since the fiscal year 2006/2007, the Pankl Group has been fully consolidated in the consolidated financial statements of CROSS Industries AG, which is based in Wels, Austria. Due to business relations between the Pankl Group and CROSS Industries AG as well as its subsidiaries, revenues in the amount of € 810k were achieved (30 September 2007: € 111k). At the balance sheet date, there were receivables and payables amounting to € 97k (30 September 2007: receivables in the amount of € 9k) against CROSS Industries and its subsidiaries. All services rendered are invoiced at arm's length. For information on Management and Supervisory Board remuneration of Pankl Racing Systems AG please refer to Note (03).

(23) DISTRIBUTION OF PROFIT

According to the Austrian Commercial Code, the non-consolidated financial statements of Pankl Racing Systems AG as of 30 September 2008 form the basis for a dividend distribution. According to the financial statements of this period complying with Austrian GAAP, net profit amounted to € 9,498k (2006/2007: € 8,634k).

A dividend in the amount of € 2,332k was distributed from the net profit of the fiscal year 2006/2007, the remaining net profit was carried forward for new account. For the fiscal year 2007/2008, the Management Board recommends to distribute a dividend of € 0.50 per share and to carry the remaining amount forward into the next fiscal year.

(24) LEGAL REPRESENTATIVES OF PANKL RACING SYSTEMS AG

During the fiscal year 2007/2008 and until the preparation of the consolidated financial statements, members of the Company's Management Board were:

- Wolfgang Plasser, Kaltenleutgeben
- Alfred F. Hörtenhuber, Stadl-Paura (from 1 November 2008)

The Supervisory Board was comprised of the following persons:

- Stefan Pierer, Wels (chairman)
- Rudolf Knünz, Dornbirn (vice-chairman)
- Josef Blazicek, Perchtoldsdorf
- Alfred F. Hörtenhuber, Stadl-Paura (until 27 Oktober 2008)
- Gerold Pankl, Huntington Beach, USA
- Herbert Paierl, Bad Waltersdorf (substitute member)

Bruck/Mur, 14 November 2008

The Management Board

Wolfgang Plasser
Alfred F. Hörtenhuber

Consolidated Schedule of Fixed Assets per 30 September 2008

Pankl Group

	Historic cost 1/10/2007	Foreign exchange differences	Change in consolidation scope	Additions	Disposals	Transfer	Historic cost 30/9/2008
	in €k	in €k	in €k	in €k	in €k	in €k	in €k
INTANGIBLE ASSETS							
Goodwill	9,353	(158)	3,866	0	0	0	13,061
R&D expenses	1,716	0	0	0	0	0	1,716
Other intangible assets	4,527	24	1,165	719	(444)	0	5,991
Total intangible assets	**15,597**	**(134)**	**5,031**	**719**	**(444)**	**0**	**20,769**
TANGIBLE ASSETS							
Land and buildings	24,589	(22)	28	6,641	(1,800)	769	30,205
Plant, machinery and equipment	55,119	(465)	3,191	7,008	(2,831)	(19)	62,003
Other tangible assets	11,211	0	80	1,142	(535)	(750)	11,148
Total tangible assets	**90,919**	**(87)**	**3,299**	**14,791**	**(5,166)**	**0**	**103,356**
FINANCIAL ASSETS							
Share in associated companies	181	0	0	0	(158)	0	23
Equity investments	0	0	0	0	0	0	0
Loans	2,047	(25)	0	78	0	0	2,100
Other financial assets	394	0	0	0	(344)	0	50
Total financial assets	**2,621**	**(25)**	**0**	**78**	**(502)**	**0**	**2,172**
TOTAL FIXED ASSETS	109,137	(646)	8,330	15,588	(6,112)	0	126,297

Accumulated depreciation 1/10/2007	Foreign exchange differences	Change in consolidation scope	Additions	Disposals	Transfer	Accumulated depreciation 30/9/2008	Net book value 30/9/2007	Net book value 30/9/2008
in €k	in €k	in €k	in €k	in €k	in €k	in €k	in €k	in €k
(3,064)	0	0	0	0	0	(3,064)	6,289	9,997
(1,716)	0	0	0	0	0	(1,716)	0	0
(2,916)	1	(21)	(602)	444	0	(3,094)	1,611	2,897
(7,696)	1	(21)	(602)	444	0	(7,874)	7,900	12,894
(5,381)	2	0	(1,336)	77	0	(6,638)	19,208	23,567
(36,371)	467	(1,814)	(4,844)	2,191	(489)	(40,860)	18,748	21,143
(8,110)	(5)	(52)	(1,280)	452	489	(8,506)	3,101	2,642
(49,862)	464	(1,866)	(7,460)	2,720	0	(56,005)	41,057	47,352
0	0	0	0	0	0	0	181	23
0	0	0	0	0	0	0	0	0
(2)	0	0	0	0	0	(2)	2,045	2,098)
(17)	0	0	0	13	0	(4	377	46
(19)	0	0	0	13	0	(6)	2,602	2,166
(57,577)	465	(1,887)	(8,062)	3,177	0	(63,884)	51,559	62,412

Consolidated Schedule of Fixed Assets per 30 September 2007

Pankl Group

	Historic cost 1/10/2006	Foreign exchange differences	Change in consolidation scope	Additions	Disposals	Transfer	Historic cost 30/9/2007
	in €k	in €k	in €k	in €k	in €k	in €k	in €k
INTANGIBLE ASSETS							
Goodwill	6,115	(27)	3,850	0	(585)	0	9,353
R&D expenses	1,716	0	0	0	0	0	1,716
Other intangible assets	3,938	(119)	380	635	(327)	21	4,527
Total intangible assets	**11,769**	**(146)**	**4,229**	**635**	**(912)**	**21**	**15,597**
TANGIBLE ASSETS							
Land and buildings	22,994	(44)	37	1,725	(848)	724	24,589
Plant, machinery and equipment	50,010	(717	5,319	5,676	(3,868)	(1,302)	55,119
Other tangible assets	11,252	(191)	66	1,311	(1,784)	557	11,211
Total tangible assets	**84,256**	**(952)**	**5,423**	**8,713**	**(6,499)**	**(21)**	**90,919**
FINANCIAL ASSETS							
Share in associated companies	181	0	(613)	0	0	613	181
Equity investments	613	0	0	0	0	(613)	0
Loans	2,706	(246)	(488)	75	0	0	2,047
Other financial assets	416	(3)	0	0	(20)	0	394
Total financial assets	**3,916**	**(248)**	**(1,102)**	**75**	**(20)**	**0**	**2,621**
TOTAL FIXED ASSETS	99,941	(1,346)	8,550	9,423	(7,431)	0	109,137

Accumulated depreciation 1/10/2006	Foreign exchange differences	Change in consolidation scope	Additions	Disposals	Transfer	Accumulated depreciation 30/9/2007	Net book value 30/9/2006	Net book value 30/9/2007
in €k	in €k	in €k	in €k	in €k	in €k	in €k	in €k	in €k
(3,064)	0	0	0	0	0	(3,064)	3,050	6,289
(1,716)	0	0	0	0	0	(1,716)	0	0
(2,884)	58	(6)	(435)	351	0	(2,916)	1,052	1,611
(7,664)	**58**	**(6)**	**(435)**	**351**	**0**	**(7,696)**	**4,102**	**7,900)**
(4,872)	34	(4)	(959)	741	(321)	(5,381)	18,122	19,208
(33,643)	470	(2,588)	(4,296)	3,364	321	(36,371)	16,368	18,748
(8,024)	154	(64)	(1,511)	1,335	0	88,110)	3,227	3,101
(46,540)	**658**	**(2,655)**	**(6,766)**	**5,440**	**0**	**(49,862)**	**37,717**	**41,057**
0	0	0	0	0	0	0	181	181
0	0	0	0	0	0	0	613	0
(2)	0	0	0	0	0	(2)	2,704	2,045
(16)	0	0	(3)	2	0	(17)	400	377
(18)	**0**	**0**	**(3)**	**2**	**0**	**(19)**	**3,897**	**2,602**
(54,222)	716	(2,661)	(7,204)	5,793	0	(57,577)	45,717	51,559

Unqualified Audit Opinion

(Translation of the German independent auditors report)

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Pankl Racing Systems AG, Bruck/Mur, for the financial year from 1 October 2007 to 30 September 2008. Those financial statements comprise the balance sheet as at 30 September 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Managements Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 30 September 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

REPORT ON OTHER LEGAL REQUIREMENTS

Law and regulation applicable in Austria require us to perform audit procedures whether the group management report is consistent with the consolidated financial statements and whether the other disclosures made in the group management report do not give rise to misconception of the position of the group.

In our opinion, the Group Management Report is consistent with the consolidated financial statements.

Linz, 14 November 2008

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Cäcilia Gruber	Helge Löffler
Wirtschaftsprüfer	Wirtschaftsprüfer
(Austrian Chartered Accountant)	(Austrian Chartered Accountant)

Publication and disclosure of the consolidated financial statements with our audit opinion shall only happen in the version authorised by us. Article 281 para 2 UGB has to be applied for differing versions (e.g. summaries or translations).

Statement by the Authorized Representatives

The authorized representatives of Pankl Racing Systems AG hereby certify that to the best of their knowledge the annual financial report for 2007/2008 presents according to IFRS and audited fairly the Group's net assets, financial position and results of operations, and as a whole of the companies included in consolidation.

In addition, they certify that the management report portrays the business development and results for the companies included in consolidation as a whole in such a way that it gives as true and fair a view of net assets, financial position and results of operations, and that it describes the most important risks and uncertainties they are subject to.

Bruck/Mur, 14 November 2008

The Management Board

Wolfgang Plasser
Alfred F. Hörtenhuber

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In case of deviating interpretations between the German and the English language annual report, please note that the German version has priority.

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