kontron

# LIVING STRATEGY

KONTRON GROUP | ANNUAL REPORT 2015

POSSIBILITIES START HERE

# KONTRON IN FIGURES

| | | 2015 | 2014 |
|---|---|---|---|
| **RESULTS OF OPERATIONS AND PROFITABILITY** | | | |
| Revenues | € million | 467.7 | 456.8 |
| EBITDA [1] | € million | 29.9 | 19.2 |
| EBITDA margin [2] | % | 6.4 | 4.2 |
| EBIT [3] | € million | 6.2 | – 5.1 |
| EBIT [4] (adjusted for restructuring cost) | € million | 14.5 | 8.8 |
| EBIT margin [2] (adjusted for restructuring cost) | % | 3.1 | 1.9 |
| EBT | € million | 4.1 | – 6.9 |
| Income / loss from continuing operations | € million | – 2.7 | – 6.4 |
| Earnings per share (continuing operations) | € | – 0.05 | – 0.11 |
| **STATEMENT OF FINANCIAL POSITION** | | | |
| Total assets | € million | 441.9 | 421.8 |
| Equity | € million | 258.9 | 252.7 |
| Equity ratio | % | 58.6 | 59.9 |
| Financial debt | € million | 57.3 | 36.1 |
| **CASH FLOW [5]** | | | |
| Cash flow from operating activities | € million | 14.2 | 1.7 |
| **EMPLOYEES** | | | |
| Number of employees (as of 12/31) | | 1,286 | 1,342 |
| Revenues per employees | €k | 363.6 | 340.4 |

[1] EBITDA is defined as EBIT before depreciation and amortization.
[2] Margins refer to revenues.
[3] EBIT is defined as earnings before financial income and taxes.
[4] EBIT is adjusted for cost of restructuring and reorganization of the company.
[5] No breakdown of continuing and discontinued operations is made in the statement of cash flows.

TABLE 001

# LIVING STRATEGY









# LIVING STRATEGY

The Internet of Things (IoT) changes everything: The modern world demands technological innovation and the ability for it to be deployed quickly and at scale, and for it to be fully supported – any place, anytime.
As a global leader in embedded computing technology and trusted IoT advisor, Kontron works closely with customers, allowing them to focus on their core competencies. We create many of the standards that drive the world’s embedded computing platforms, bringing to life numerous technologies and applications.
In 2015, we presented our new strategy: A clear focus on middleware and an integrated portfolio secures our company’s long-term success. Our employees worldwide support the implementation of this strategy – and bring it to life each day.

# STANDARD PRODUCTS

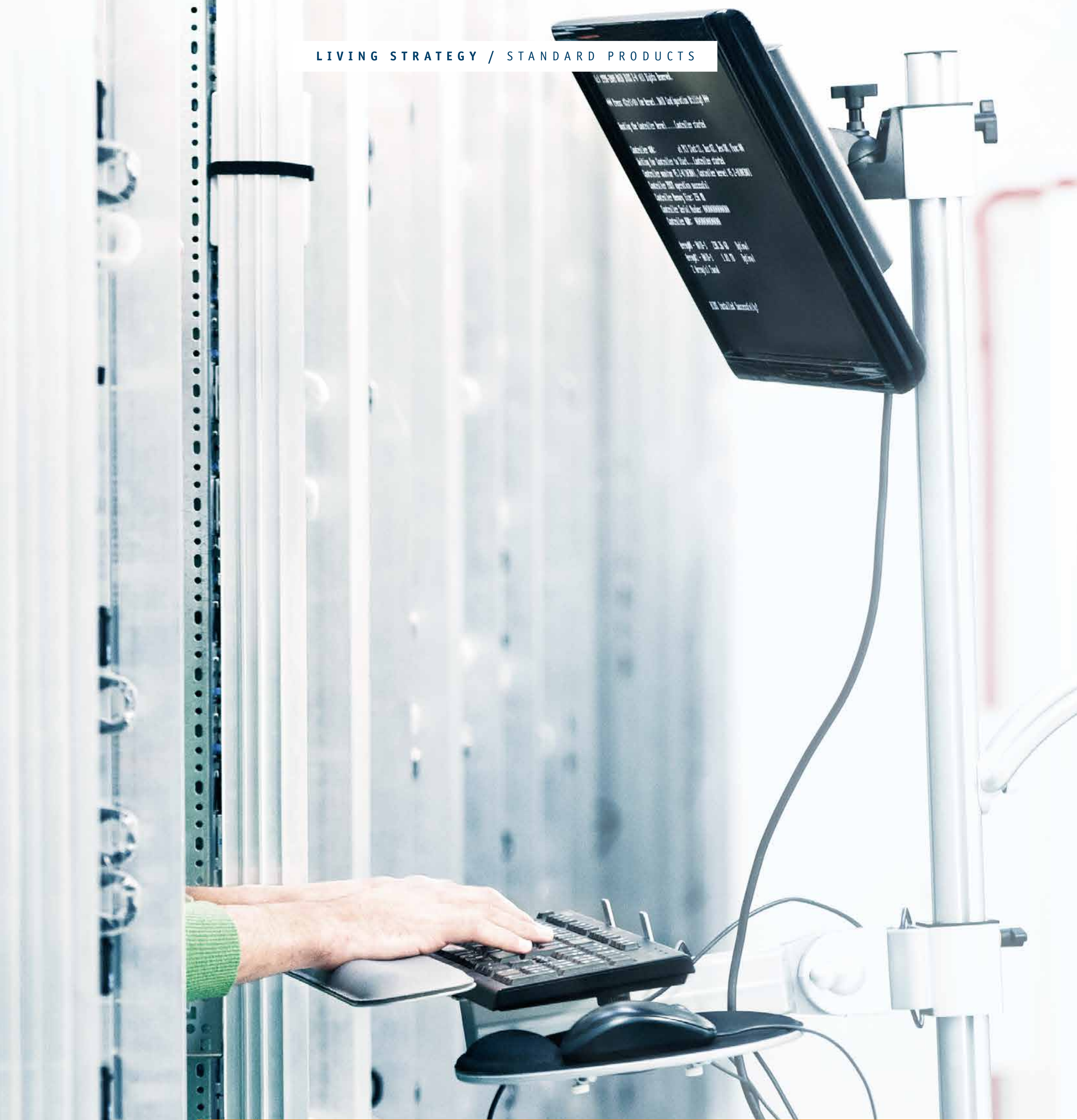
**Standard products are the backbone of our company. We have created numerous industry standards – and are working on the technologies of the future.**

Embedded motherboards and modules are the "unsung" heroes of the computer industry. Without them, computer systems simply wouldn't work as they're supposed to. Acting as the computer's central nervous system, they include the critical components for enabling essential system functions such as processing, memory management, connectivity and remote diagnostics, and perhaps most important of all, they provide the user interface to interact with the system via keyboard, mouse or touch-screen.

Their mission-critical role is precisely why embedded boards and modules are the core technologies that form the backbone of Kontron's business. With this, Kontron has been actively involved in setting numerous industry standards for embedded solutions over the years including those which were instrumental in the development of Kontron's highly successful COM Express® and SMARC™ modules.

Kontron's wide range of basic, compact and mini form factor products are packed full of design innovations and engineered to be of the highest quality. Furthermore, many of Kontron's standard products are frequently specified in our OEM category system solutions. These include the latest solutions such as the FusionClient HMI range as well as established Kontron computing platforms found in fields including Industrial Automation, Transportation, Communications and Medical.

Clearly, when it comes to all-around performance, Kontron industry-standard motherboard and module products are anything but "standard."



## SEVERAL 100,000 BOARDS & MODULES ARE MANUFACTURED FOR KONTRON PER YEAR

### KONTRON'S STANDARD PRODUCTS STAND FOR:

- HIGH QUALITY
  High design quality and production standards
- RISK-FREE INVESTMENT
  Long life cycle and design flexibility
- EXPERT SUPPORT
  Guidance at every project stage

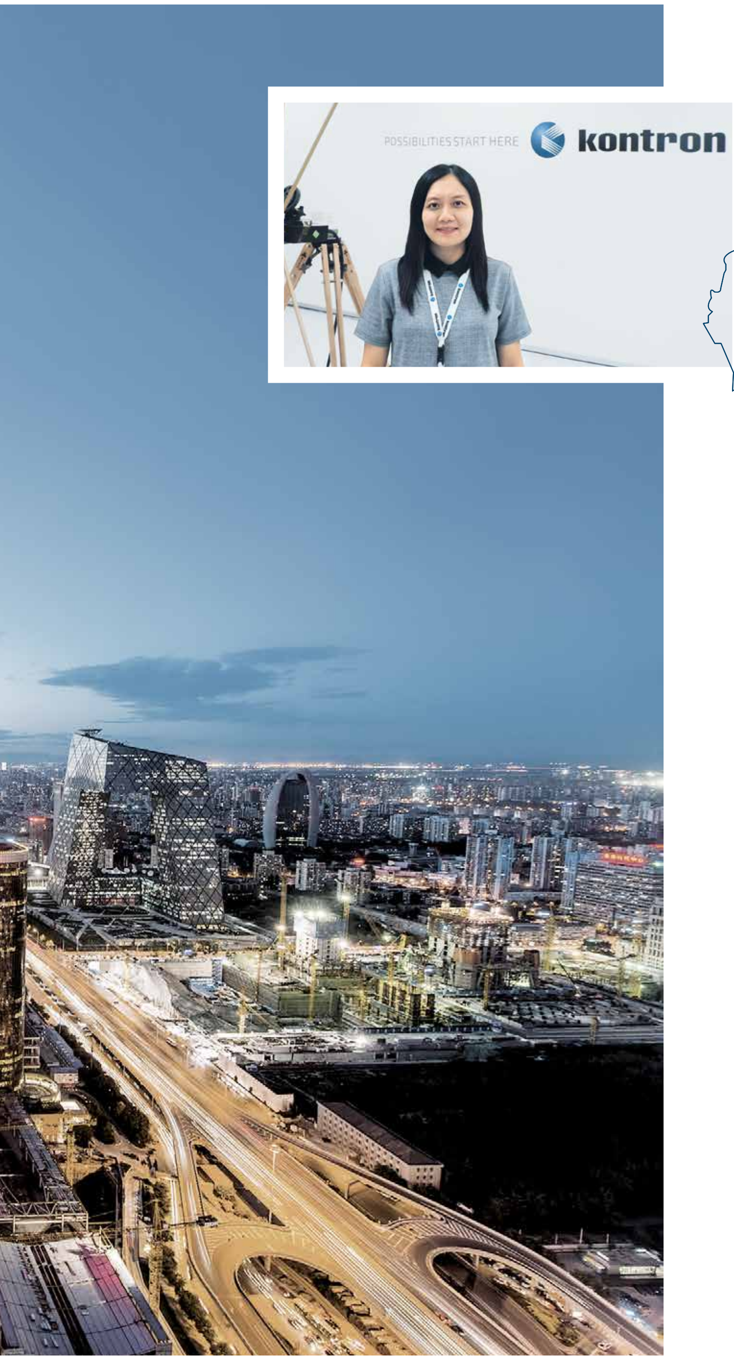
# SHAPING THE REVOLUTION

**Embedded Technology enables the IoT. Yeun Nee Tan works on innovative solutions in Malaysia.**

> "We know that every IoT application has different requirements. Thanks to our global manufacturing approach, we can serve our customers worldwide and individually."
>
> ▸ YEUN NEE TAN

With the integration of IoT-ready software and tools, Kontron's embedded board and module products now offer even more flexibility for enabling easy and rapid IoT system development and customization by Kontron and our partners.

"This is allowing customers to develop and bring to market commercial IoT solutions much faster and create new revenues more quickly," explained Yeun Nee Tan, Manager & Head of Hardware & Software, based in Kontron's R&D center in Penang, Malaysia. "Integrating software on our boardlevel products also offers us a key competitive advantage as this is essential for effective IoT enablement, for both new and legacy systems, as well as for providing the highest levels of security."




## YEUN NEE TAN

*Joined Kontron: October 2005*
*Position: Head of Hardware Engineering, Penang, Malaysia*


Kontron's IoT ready initiative is a very good example of how the company's R&D follows and responds to market, technological, sales and customer requirements.

"By operating a closed communications loop, R&D can always stay in tune with what the customer wants and ahead of the market," attests Tan. "While we recognize each IoT application will be different, our growing range of fully integrated hardware and software board products ensure customers can react more quickly to user requirements. Furthermore, they can deliver purpose-designed applications in all emerging IoT markets more quickly thanks to our global approach to manufacturing. Production can take place in close proximity to the customer location to ensure that logistics and customer support is fully optimized." ◂

## THE BIG DATA BANG

The Internet of Things is exploding. It's made up of billions of "smart" devices – from minuscule chips to mammoth machines – that use wireless technology to talk to each other (and to us). Our IoT world is growing at a breathtaking pace – from 2 billion objects in 2006 to a projected 200 billion by 2020.

**200 BILLION**
2020

**15 BILLION**
2015

**2 BILLION**
2006

Interview

# JUST WHAT THE CUSTOMER ORDERED!

**Georg Vogl, Product Manager Computer On Modules, R&D Product Management in Deggendorf, Germany, explains how Kontron differentiates its standard embedded products in a very competitive market.**

**GEORG VOGL**

*Joined Kontron: August 1999*
*Position: R&D Product Manager*

**Which are Kontron's most popular standard products?**
*All of our standard products are designed to meet specific customer needs, so all play a key part in our portfolio. However, it is clear from sales that some of the most popular of our products in the range this year have included those based on our COMExpress and SMARC form factor modules.*

**What sets Kontron apart from the competition?**
*Kontron board-level products are designed and developed in response to market and technological developments as well as direct feedback from our systems integrator and OEM partners. Combined with the benefit of Kontron's deep knowledge of embedded computer design, customers are assured of high quality, advanced technology products – backed by a truly global services and support network.*

*Our channel partners enjoy even further peace of mind when it comes to product quality and reliability. This comes with the knowledge our board and modules are at the heart of many of system products specified by major OEMs, and of course, for extended life cycle, our priority access to the latest processor and embedded component technology from the world's major manufacturers is a major advantage for optimizing product investment.*

*For example, the Intel® Atom™, based COMe and SMARC modules were designed into our standard products as well as full custom OEM designs where low heat dissipation, graphics and computing performance are very important. The high-end COMe modules, based on the latest Intel® Core™ and Intel® XEON® technology are successful in edge computing, where performance and graphics capabilities count.*

*Based on international standards, our Computer On Modules allow optimized investment in price, performance and longevity. This protects customer investment and sets premium quality standards due to the high production volume and state-of-the-art development processes involved.*

## FACTS

OUR SUPPLIERS MANUFACTURE IN VARIOUS REGIONS, PRIMARILY IN CHINA, TAIWAN, USA, CANADA, MALAYSIA AND GERMANY.

REINER GRÜBMEYER

*Joined Kontron: January 2008*
*Position: Head of R&D Product Management*

# IMPROVING THE STANDARD

**Reiner Grübmeyer, Head of R&D Product Management, discusses the importance of standard products for the company**

For over 20 years, Kontron's core enabling technologies have been at the very root of our growth and success. We have millions of boards deployed around the world and thousands of customers. Looking to the future, we will continue to evolve our standard products portfolio, otherwise we cannot expect to meet the future needs of our partners and OEM customers. Our global expertise in consistently developing, producing and distributing innovative, high-quality board-level products is the formula for our success. It impacts everything we do.

Our extensive range of off-the-shelf boards and modules provide the platforms and building blocks for our customers to easily design and bring to market their own complete solutions. They also benefit from the additional added value that Kontron provides through our worldwide professional services and support. Increasingly, they will be able to take advantage of our growing portfolio of middleware and software services, especially when designing and launching IoT solutions. This end-to-end capability is something our competitors are unable to match.

By closely following the market and listening to what our customers are telling us, we will continue to enhance our existing standard products while introducing new ones. At the same time, we will play an active part in setting future embedded technology standards while also leveraging our global presence in terms of offering worldwide production, availability, value-added services and support.

Apart from growing more sales, our proven strategy will differentiate us in this important segment of the market and ensure we always remain ahead of our competitors.

## WHAT ARE THE MAIN CHALLENGES OF THE IOT FROM AN EMBEDDED COMPUTER TECHNOLOGY PERSPECTIVE?

In the new IoT era, standardization on a global scale is the key. As Kontron is at the forefront of helping to drive this forward, it will significantly benefit the future sales potential of our products. For example, we are already experiencing strong demand for data capture and analysis (datability) and security – all areas where "standards" are still developing.

As a major player in the OEM market, where we are constantly exposed to the demands of various industries, we are in a strong position to leverage our hardware and software investments based on international standards.

# COMPETENCE CENTER FOR R&D

With the technology campus in Augsburg, Kontron paves the way for future innovations.

TECHNOLOGY CAMPUS SPREAD OVER

**22,500**

SQUARE METERS.

A TOTAL OF APPROXIMATELY 480 EMPLOYEES ON SITE.


# OEM BUSINESS

**At our technology campus in Augsburg, experts develop new solutions – including those for the OEM business.**

Original Equipment Manufacturer (OEM) customers are the lifeblood of Kontron's business. These are the organizations that specify our embedded products and systems as part of their own solutions. We strive to serve OEMs around the globe with the most innovative, flexible and open architecture Embedded Computer Technology platforms. At the same time, we are providing ease of customization for meeting their Internet of Things (IoT) and big data application needs and ensuring fast time to market.

Our new Technology Campus in Augsburg concentrates world-class R&D, manufacturing, logistics and further core competencies in one modern location. This optimizes the decision-making process to ensure the fastest possible response to customer requirements.

# INVESTING IN THE FUTURE

**In 2015, we invested in the development of our technology campus in Augsburg. The reorganized manufacturing and our competence center for medical technology prepares us for the future.**

STEFFEN WULF

*Joined Kontron: August 2014*
*Position: Head of Business Operations Excellence EMEA*

2015 saw many of the benefits of our new Technology Campus in Augsburg coming to fruition. The existing manufacturing facility was extensively redesigned while also being optimized to complement the newly opened Medical Competence Center.

## AUGSBURG 4.0 LEAN MANUFACTURING

Based on LEAN manufacturing principles, Kontron has successfully implemented a completely new shop floor, including infrastructure, workplaces and layout. This extends our capabilities to meet many different customer production requirements simultaneously.

“When it comes to meeting the exacting and often complex requirements of our many OEM customers, a ‘one-size-fits-all’ approach to production is not practical,” explained Steffen Wulf, Head of Business Operations Excellence, EMEA. “Applying LEAN principles enables us to respond to OEM customer requirements more quickly while at the same time maintaining the high standard of quality for which Kontron is renowned. And finally, this is also generating greater productivity and optimized lead times.”

“The positive feedback from our customers shows us they like what they see, a state-of-the-art facility capable of meeting their current and future needs,” added Steffen. “However, we can never afford to remain still! Modern day production is highly dynamic, which means we must be flexible and continually strive to achieve even further efficiencies and benefits for the company and our customers in the years to come.”

## MORE EFFICIENCY AND HAPPY CUSTOMERS

After completing the shop-floor redesign, Kontron is in a position to ramp up or scale down production within a matter of hours as well as react quickly to very specific production requirements at short notice and with unprecedented flexibility.

**WALTER GRUBER**

*Joined Kontron:*
*October 1996*
*Position: Head of Production and Logistics Germany*

## "With the new production setup, we realized efficiency improvements after only a few weeks."

▸ WALTER GRUBER


Walter Gruber, Head of Production and Logistics Germany, commented, "Setting up the new production facility so soon after the consolidation of the old manufacturing facilities was a significant challenge. However, we did it! All measures were implemented on a 'business-as-usual' basis, which meant no interruption to production during the whole process, and our daily business wasn't affected at all by the move. Within a matter of weeks, we were realizing the first efficiency improvements and receiving positive feedback and support from our customers – they could see we were on the right track."

Applying LEAN principles will also allow Kontron to continually identify areas of further improvement throughout the entire manufacturing process: supply chain, warehouse, production and assembly, and distribution. ◂

## BUSINESS OPERATIONS AND R&D

At our modern technology campus,
we combine all skills for a successful future:

- First-class design innovations and engineering
- Ultramodern, future-proof and flexible production
- Higher productivity, quick decisions
- Shorter lead times, faster time to market
- High standard of quality assurance

# MEDICAL COMPETENCE CENTER

**The development of new solutions for medical technology requires a close cooperation with customers worldwide.**

Our comprehensive team of global medical computer systems experts, including those involved in system development, validation, certification and production, are based worldwide – together with a dedicated team at the Medical Competence Center in Augsburg.

MAGNUS REIBENSPIESS

*Joined Kontron: May 2015*
*Position: Vice President &*
*Head of Business Line Medical*

There is a compelling business case for Kontron establishing a Medical Competence Center on the Augsburg Technology Campus. After all, the medical market is growing at double-digit rates. Not only this, most of the global top-20 medical equipment suppliers rely on Kontron technology, and many are also headquartered in Germany. The Center is therefore crucial to ensuring Kontron remains at the forefront of innovation and will help us increase revenues in the coming years.

Explaining the reasons behind this important initiative Magnus Reibenspiess, Vice President & Head of Business Line Medical said: “Our decision to closely combine the very best medical systems design and production talents with state-of-the-art manufacturing helps Kontron address key medical customer concerns. These include emerging regulatory requirements, device manageability, safety, reliability, time to market, not to mention major market disruptors such as the IoT. Integrated and scalable core competence is now a prerequisite in this sector.”

Dräger is a good example of Kontron’s ability to work closely with medical customers. Having collaborated so successfully for many years, it was a natural progression for Dräger to advise and assist Kontron with the specialist medical equipment manufacturing requirements for the new Augsburg facility. The level of trust and collaboration Kontron enjoys with customers like Dräger will enable continuous improvements to be made to the production setup for the benefit of all concerned. ◄

## DRÄGER – KONTRON COOPERATION PARTNER

*Dräger is an international leader in medical and safety technology. The company, based in Lübeck, Germany, is currently present in more than 190 countries.*

*“Kontron is certainly doing the right thing with their new production setup, preparing for future demands. We are continuously working together to further enhance and optimize our shared processes. The new setup of the shop floor provides a great foundation and will definitely help us to keep improving together. We are looking forward to the next phase of our trusted partnership.”*

► GUIDO WILLMANN

*Head of Global Commodity*
*Management Electronics*
*Strategic Purchasing Dräger Group*

Interview

# MAKING THE MOST OF OUR GLOBAL ASSETS

**Bernhard Braunmueller, Chief Operating Officer, provides a strategic view of the exciting operational developments taking place in Augsburg and around the globe.**

**BERNHARD BRAUNMÜLLER**

*Joined Kontron: April 2012*
*Position: Chief Operating Officer*

**Why was it necessary to build the new Technology Campus in Augsburg?**

*Our Technology Campus in Augsburg is the result of our "New Kontron" global efficiency program, which we commenced two years ago.*

*As part of the strategy, it was time to consolidate our various production facilities in Germany and significantly upgrade our Augsburg headquarters, including the manufacturing. Our customers, partners, shareholders and employees have all responded very positively to Kontron investing in a modern and state-of-the-art headquarters. It also sends a strong signal to the embedded computer technology industry as a whole and our customers especially: Kontron is totally committed to maximizing its future potential on the world stage.*

*While setting up our new infrastructure in Augsburg, we also made sure that we apply external best practices and use our own global experience and knowledge to get the best possible results in all key areas, including the production, warehousing, logistics and purchasing processes. This created benefits not only for our site in Augsburg but also for other manufacturing sites like Beijing. After all, we are an international company.*

**From an operational perspective, how is Kontron positioned for success?**

*As a global company, it is necessary to look at the bigger picture. Kontron has many valuable assets and talents around the world, both human and physical. In addition to Europe, we have world-class operations and competencies in North America and Asia, including R&D, production, distribution, service and repairs services. Consequently, this allows us to leverage our global presence to our and our customers' advantages and positions us ideally for future success.*

**What are these advantages?**

*For Kontron, by identifying where there are synergies and where there have been inefficiencies and unnecessary overlap, there are several important benefits.*

*First, our optimized global footprint gives us more scope and flexibility for reducing our production and distribution overheads. It is also conducive to increasing productivity and making us much more responsive and adaptable to individual customer needs. In turn, this makes the company more competitive in the global market and opens up opportunities, such as new addressable markets and the launching of new services, which may not have been so viable or easily accessible before.*

*Furthermore, being strategically located around the whole world with state-of-the-art manufacturing and competences also gives us far greater flexibility to meet customer needs and realize faster time to market.*

*All of this is good news for our business and of course, our customers and shareholders.*

# SERVICES

**Customer satisfaction is a top priority for Kontron. We therefore focus on both innovative products and extensive support and services.**

In today's fast-paced embedded technology business, where the fastest possible time to market is the name of the game, it is essential for Kontron products to be backed by an extensive global service portfolio that supports and enhances the overall customer experience. Increasingly, customer satisfaction, more than price and product, is the key differentiator.

But when it comes to services, Kontron goes far beyond the hardware level. This allows customers to also benefit from a wide range of support and software services as well as comprehensive training opportunities.

During 2015, by reaching out and listening to our customer requirements, Kontron successfully enhanced and extended our services portfolio even further. In addition, of critical importance in today's hyper-connected IoT world, Kontron has a truly seamless global technical support network in operation. Our team of highly skilled engineers is able to see all customer issues in real time, anytime, anywhere. With Kontron, our customers are never left on their own. ▸

**THE FOLLOWING SERVICE PORTFOLIO WAS INTRODUCED TO OUR CUSTOMERS IN THE SECOND HALF OF 2015:**

- Extended Warranty (relaunch)
- Support Services
- Professional Services
- Enhanced Repair Services
- Kontron Academy

# A PASSION FOR SERVICES

**Delories Wallace knows exactly the demands of her customers. "Product reliability and safety plays a key role," she says.**

DELORIES WALLACE

*Joined Kontron: February 2005*
*Position: Head of Global Service & Repair*

As a trusted technology innovator and global solutions provider, Kontron has always recognized the competitive advantage of combining long-term product availability with the peace of mind of a global support and repairs services network.

The mastermind behind a number of our latest service offerings introduced in 2015 is Delories Wallace. As Global Head of Service & Repair Operations, she has been instrumental in the launch of Kontron's Extended Warranty and Enhanced Repair Services as well as the Return Material Authorization (RMA) procedures for our ruggedized tablet range. Delories was also responsible for improving the RMA turnaround in all regions and ramping up RMA and Level 1 support in the APAC region.

"With globalization and the rapid emergence of the IoT, our customers are placing ever increasing emphasis on product reliability (MTBF), life cycle, total cost of ownership and peace of mind," said Delories. "By listening to their needs and then responding with practical, real-world services solutions, our sales and support teams are better equipped to offer them what they want, when and how they want it. In the end, providing service excellence is all part of delivering on Kontron's promise of high quality."

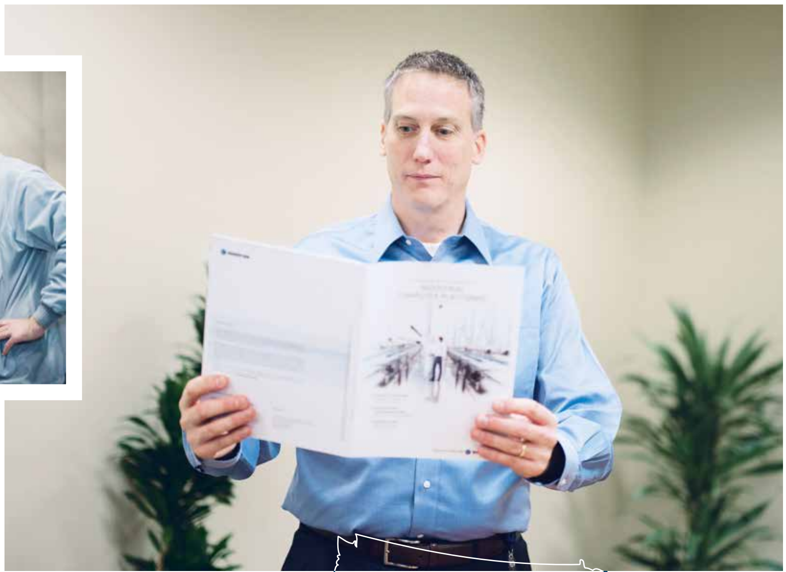
MORE THAN

**200**

SERVICE OFFERINGS

OUR PLATINUM SERVICE SUPPORT PROGRAM:

- Response time of 1 hour for critical issues
- One day response time for other problems
- 24/7 availability



**DAN SANITI**

*Joined Kontron: October 2013*
*Position: Key Account Manager*


# IMPROVING CUSTOMER SATISFACTION

**Dan Saniti was involved from the very beginning in the design of the sales strategy for our new value-added services.**

Kontron has always offered extended warranties, but now our direct sales teams are including these as part of the initial sales proposition to OEMs. This in turn allows them to offer longer warranties to their end customers, therefore increasing the time products remain active in the field. The Global Services Team has been working closely with Kontron's direct sales force with training and one-on-one coaching on how to go about selling these added-value services. It has quickly proved to be an extremely effective additional revenue-earning strategy, with a growing pipeline of opportunities.

Dan Saniti, Key Account Manager Kontron, NA, explained: "While OEMs are always hesitant to spend money, they do see the benefit of our shared success model. It's based on paying for additional services and seeing additional value provided as the development of their product progresses."

While Kontron looks to find new OEMs, these potential new customers are looking for a financially stable supplier who can support their short- and long-term needs. This shared success model benefits both the OEM and the supplier by not requiring large payments up front from the OEM or initial financial investments from the supplier while the product goes through development and seeing a return on investment after three years when production ramps up. Mutual success allows productive growth for both parties.

Interview

# LEADING THE WAY IN SERVICE INNOVATION AND QUALITY

**Klaus is responsible for the overall strategy and delivery of Kontron Global Services. Here, he discusses some of the most important initiatives and developments during 2015.**

**KLAUS HJORTH**

*Joined Kontron: January 2015*
*Position: VP & Head of Global R&D Service and Maintenance*

**How has the new Global Services strategy performed overall?**
*Our growing services portfolio and overall strategy to increase revenues by selling a range of differentiated services is delivering very encouraging results. Kontron now has over 200 service opportunities and nearly as many customers. We have also implemented more than 100 customization projects.*

**Please explain more about the new SLA initiative**
*Our OEM customers invariably have a "need for speed." They expect and demand a high level of support and fast turnaround when technical issues arise. Listening to their requirements, we have introduced a three-tiered Service Level Agreement that goes far beyond the standard free support service we have always provided.*

*Naturally, for these paid-for services there are additional customer benefits that are focused on guaranteed commitments to response times on reported issues – just 24 hours for critical issues with our Gold service. Using our Professional Service Team, customers receive a fixed price and commitment on the delivery date. All the services are provided by highly skilled teams that are centrally coordinated but globally distributed across our locations in Europe, North America and Asia. This ensures they will usually be in the same time zone as the customer, which clearly speeds up the whole communication process and action required to resolve issues.*

**What are some of the other Services highlights?**
*Based on the growing demand from our customers, our Professional Services is certainly one of these. This is our à la carte service offering design, integration and customization, testing, prototyping, training and after-market technical support. Our OEM customers can select on a case-by-case basis and really add significant value to their applications.*

*Offering extended warranties as part of the initial sales proposition is another good example. This allows our OEM customers to in turn offer longer warranties to their end customers, therefore increasing the time products remain active in the field and ensuring technology investments are fully protected.*

*Repair Services have also been enhanced with more choice available to customers for minimizing any disruption from system downtime. This includes expedited repairs guaranteed in less than 72 hours and simplified product replacement and returns options.*

*Our Kontron Training Academy has also taken off very quickly. It offers scheduled and custom training and hands-on sessions as well as tailored events for individual customers. Soon after the launch in October, we even had OEMs based in the USA requesting us to fly over from Germany to run our workshops! This clearly shows how much customers value high-quality training and how it helps them to fully maximize the benefits of using our products. It also builds and strengthens a mutual partnership based on trust.*

"We support our customers' success with high-quality support services and thereby our market position."

▸ KLAUS HJORTH

**What are your future plans for Kontron Services?**
*We are committed to providing a comprehensive, high-quality portfolio of support services that help our customers to increase their product life cycles and speed to market while reducing risk and total cost of ownership. This means we must continue developing and selling new services while also improving on existing ones. This strategy is already well proven and an increasingly profitable one for Kontron. It also reinforces Kontron's overall position in the market as a high-quality embedded computer solutions provider.* ◂

## KONTRON TRAINING ACADEMY

With the Kontron Training Academy, we provide individual training sessions and workshops which ensure our customers' success. The training sessions available include the following:

- Windows Embedded Training
- COM Baseboard Design Training
- TCA Training
- Network Switch Training

# GROWTH IN ASIA

**The APAC region is one of the most important future markets for embedded technologies. With numerous partnerships, Kontron is already well positioned here.**

The global aviation market presents Kontron significant growth opportunities in avionics, especially in the field of In-Flight Entertainment and Connectivity (IFE&C). Of course, avionics is an area in which Kontron has led the industry for many years with the supply of airborne file servers, wireless access points and communication units.

In the next few years, thousands of aircraft will require installation of the very latest Wi-Fi and satellite-enabled IFE&C systems as airlines strive to differentiate their services and offer passengers the ultimate customer experience.

Kontron is well positioned to take maximum advantage of these opportunities globally, and none more so than in the Asia Pacific region. With its strategically located state-of-the-art manufacturing facility in Beijing, local sales and support offices throughout the region, and an impressive local partner network of IFE&C systems integrators, it is clear the "high-flying" aviation industry in Asia is set to accelerate Kontron's future growth.

EVERY DAY MORE THAN

# 3,000

passenger and business aircraft are en route, equipped with in-flight entertainment products from Kontron.

*Kontron's ultra-modern new manufacturing facility in China*

# PREPARE FOR TAKE-OFF

**Sidney Wang drives Kontron's business in Asia. He develops new market opportunities out of China.**

"The growth of the aviation market in China and the rest of the region offer us a significant opportunity," explains Beijing-based Sidney Wang, Avionics Segment Manager. "We have anticipated this and positioned ourselves accordingly over the past three years. We have a dedicated avionics business unit, which is supported by our new state-of-the-art manufacturing facilities here in Beijing."

Sidney, who plays an important role in Kontron's IFE&C sales drive across the APAC region, believes Kontron's "think-global, act local" strategy is enabling Kontron to move more quickly and respond faster to market opportunities than its competitors. "In Asia Pacific, we already have many of the major airlines interested in our latest Wi-Fi in-flight cabin technology and have begun converting this potential into real business. Our recent successes at China's HNA Group and Spring Airlines are perfect examples. At the same time, our growing reputation in China is acting as a springboard for accelerating interest in the other APAC markets."

A crucial component of Kontron's IFE&C sales strategy is the partnering of local specialist solutions partners. "Each country in the region is very different in culture and the way business is done," said Sidney. "For example, in China, a partner relationship which began in 2012 has been instrumental in our recent and continuing success at Spring Airlines, where we have already installed our new cabin Wi-Fi platform on their A320 aircraft. In conjunction with our partner's operating software, media content and cabin application services, we offered Spring Airlines the most compelling, cost-effective and fully certified solution."

Outside China, Kontron is also forging partnerships with other complementary IFE&C specialists, and this is also starting to pay dividends at major airline operators including Air Asia.

## “The emerging aviation market in China and the APAC region provides us with significant opportunities.”

▸ SIDNEY WANG

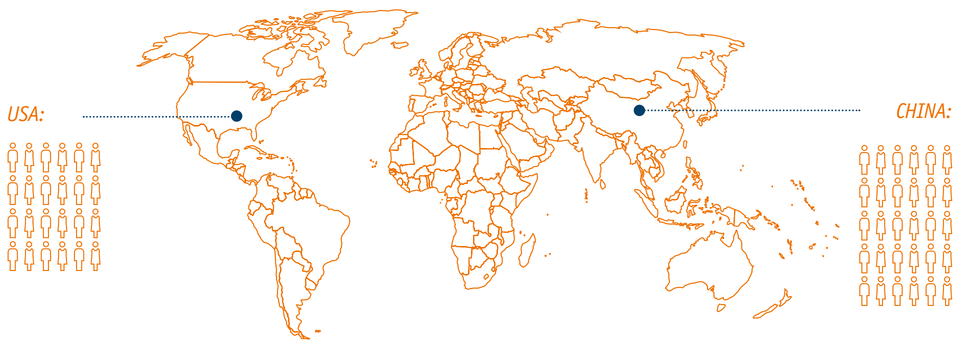
### SIDNEY WANG

*A Bachelor of Electronic Information & Computer Science, Sidney Wang works in Kontron’s Beijing office.*

*Joined Kontron: October 2010*
*Position: Segment Manager Avionics*


## GROWTH MARKET

In China, the number of local airline passengers per annum will exceed the U.S. by 2019.



*Warehousing at the location in Beijing*

# AT THE HEART OF NEXT GENERATION AVIONICS

**Kontron's open architecture systems enable our partners to offer air carriers complete solutions – worldwide.**

Kontron's open architecture systems allow our partners to deliver complete solutions to aviation companies around the world. The next-generation platforms they rely on are the culmination of our more than 30 years' experience in avionics engineering. However, as a leading provider servicing the growing and increasingly challenging requirements of the global aviation market, Kontron has to constantly innovate.

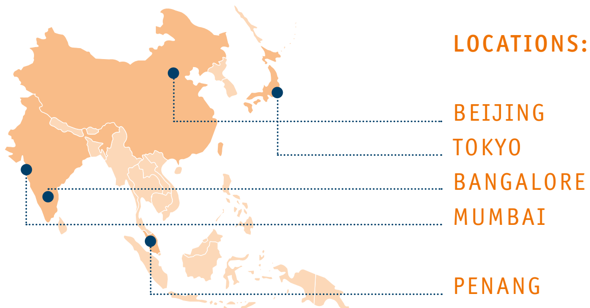
This year has seen a particularly important product engineering development come to fruition. It has been focused on the integration of the very latest 4G LTE and 802.11ac high-speed modem and wireless network connectivity technologies into our proven computing systems. This will ensure our customers can meet current and future passenger expectations for seamless, high-speed connectivity and media entertainment while in the air. As well as optimizing the in-flight entertainment experience, it also satisfies cockpit, maintenance operations and crew service communications needs – from a single, trusted source.

Our latest In-Flight Entertainment & Connectivity (IFE&C) solution is certainly proving to be a very attractive proposition to a growing number of airlines. In fact, during 2015 Kontron announced that several commercial airlines and business jet customers plan to deploy it. Essentially, it forms the backbone of their onboard Wi-Fi systems by enabling a range of innovative applications and services. These include crew and passenger web services, flight maintenance or manifest, connectivity, wireless content and in-flight entertainment. ◂

BY 2020, APPROX.

**5,000**

new airliners will start operatin in China



Interview

# APAC BUSINESS VIEW

A strong presence in APAC offers Kontron additional opportunities

**MARCEL VAN HELTEN**

*Joined Kontron: September 2013*
*Position: EVP Business Unit Industrial (IND)*

*Marcel van Helten, Head of Kontron Global Business Unit Industry, discusses how Kontron is well-positioned for taking advantage of the growing market opportunities in the APAC region.*

### How important is the APAC region for Kontron?

*By 2018, the APAC region is forecast to be comparable to North America in terms of the addressable market for embedded computer technologies. At the same time, many of Kontron's global accounts are moving their R&D and manufacturing into the region. These factors are making APAC of increasing strategic importance to the company, with growing demand for our solutions and services in all the industry sectors we address. We are already strategically positioned to take advantage of the favorable market conditions and therefore accelerate sales growth in the region.*

### What is Kontron's strategy in APAC?

*Kontron's comprehensive APAC growth strategy ensures our customers have easier access to our world-class engineering and support services, resulting in shorter design-in cycles and a faster time to market.*

*Therefore, 2015 saw us strengthen our regional presence with a number of important initiatives, including the opening of a state-of-the-art R&D and manufacturing facility in China and enhanced R&D and repair capabilities in Malaysia. This forms a key part of our future growth strategy. Acting as a regional hub, it allows us to become more self-sufficient, increasing our responsiveness to demands from customers across the region while also providing additional revenue-earning opportunities, such as service and repairs.*

### Will the slowdown in the Chinese economy impact Kontron's future growth?

*Despite the relative slowdown in the Chinese economy, this market continues to present enormous market opportunity for us. And our clear commitment to China, following the opening of the R&D and manufacturing facility, is assisting in creating strong demand. However, there is also significant potential for us throughout the region, most notably in Japan and India. In recognition of this, in 2015 Kontron acquired our joint venture partner in India and expanded our sales office in Japan.*

# MIDDLEWARE

## Software is the key: The Internet of Things requires complete solutions that provide users with maximum safety.

**As one of the world's leading embedded computer technology (ECT) providers, Kontron is renowned for the reliability and quality of its controller, module, gateway and system products. However, with the arrival of the Internet of Things (IoT) there are many new challenges and opportunities, not only for the users of embedded computer technologies but also for the vendors.**

In response, Kontron has embarked on a bold new strategy to capture a major share of the vast market opportunity that the IoT now presents to companies in the ECT sector. Moving forward, this will see Kontron undergo a rapid transformation from being a traditional "hardware" company into an end-to-end solutions provider offering closely integrated embedded hardware and software solutions. These will be IoT ready and supported by comprehensive professional software and support services – on a global scale.

## GLOBAL IOT MARKET 2014 – 2022

# 14.4

TRILLION USD

## MACRO ECONOMIC BENEFITS

- IoT will result in ~ $14 trillion added to the global economy by 2022.
- Device shipments will grow from $618 million in 2015 to $6.7 billion by 2019 with a CAGR of 61 %.
- Embedded-centric market will lead the IoT market.
- In the future, revenues can be generated by offering an IoT infrastructure with IoT-enabled devices and operational services (for example, Predictive Maintenance).

ROBBIN HUGHES

*Joined Kontron:*
*November 2014*
*Position:*
*Principal Software Architect*

# SHAPING THE FUTURE

**Kontron is transforming into a full-service provider. An important step in this direction is the development of software expertise. Principal Software Architect Robbin Hughes takes on a key position in the company.**

Kontron's Principal Software Architect for IoT, Robbin Hughes, is under no illusions about the technological challenges the new IoT "world order" presents to both Kontron and its global base of systems integrator partners and OEM customers. "They will now require their systems to scale and interconnect at unprecedented levels. There will also need to be seamless integration and streamlining of communication between on-premise or cloud-based enterprise IT systems, and Operational Technology (OT) – two traditionally separate worlds."

## SECURITY IS STANDARD

Last but not least, for the IoT to reach its full potential, users will demand rigorous security. This calls for a whole new approach for embedded products and systems security and one that Kontron is already developing. "End-to-end security from the simplest device such as a machine sensor to all manner of applications and networks will become the norm," explained Robbin. "We are investing considerable resources into innovating new layers of encryption that will prevent non-standard or unauthorized devices being connected."

Despite the challenges ahead, Robbin and his team are determined to keep Kontron's first mover advantage on track. In fact, they are already well on the way to implementing various initiatives that will see Kontron's hardware products being transformed into fully integrated, "out-of-the-box" IoT-ready embedded solutions. Not only will these offer customers the freedom to focus totally on designing and customizing their IoT applications, but they will also reduce complexity in the design, test and validation stages and therefore further reduce time to market.

## SOFTWARE STACK WITH ADDED VALUE

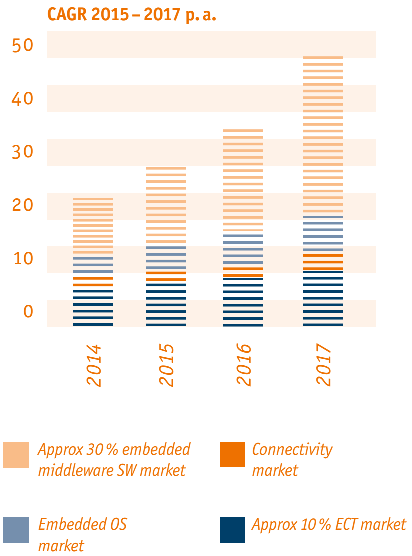
"We are creating a complete end-to-end software stack from board level to the application layer," added Robbin. "This enables Kontron to add new services and extra value to our many existing customers, which is good for both increased


## MARKET-CHANGING DEVELOPMENTS

- While the traditional ECT market (Kontron's current market) grows at 10%, adjacent markets offer better growth opportunities.
- Among adjacent markets, the market for embedded middleware software exhibits the strongest growth potential with a CAGR of 30% p.a.
- Overall, the convergence of the IT and OT markets has a huge total market potential for embedded players of more than $40 billion.

### MARKET FORECAST

*2015–2017, in USD bn*




## "We are investing considerable resources into innovating new layers of encryption."

▸ ROBBIN HUGHES

loyalty and incremental sales as they prepare for the IoT. It will also mean we will attract many new customers who will appreciate the flexibility of our ready-to-go IoT embedded solutions. We will have the competitive edge by allowing systems designers and developers make a fast start in building IoT solutions and realize the many opportunities it presents." ◂

Interview

# A WHOLE NEW BALL GAME

**Prem Kumar, Vice President Technology Platforms, IBT, is based at Kontron's North American headquarters in San Diego. Here, he provides an insight into how Kontron is shaping up for the release of major new software innovations – commencing next year.**

**PREM KUMAR**

*Joined Kontron: January 2014*
*Position: Vice President Technology Platforms*

**How is IoT impacting Kontron's future?**
*Without doubt, the IoT is the catalyst that is accelerating the evolution of our products into deeply integrated solutions, which will offer us and customers unprecedented opportunities and possibilities.*

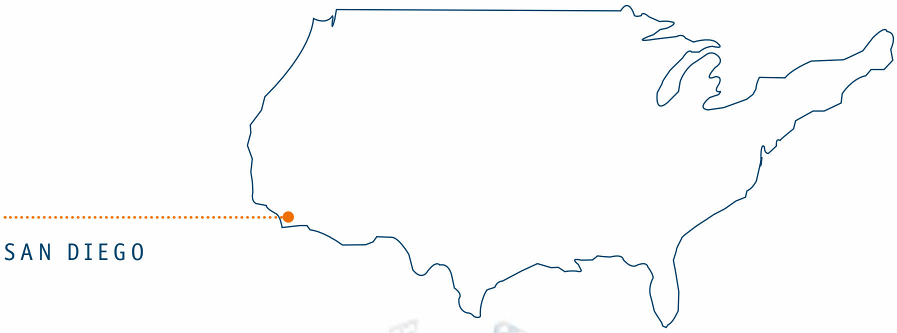
*We already have millions of our boards at the heart of controlling literally billions of dollars' worth of computer assets. However, the mass connectivity and scale of IoT is enabling us to enter a whole new ball game as we now have the ability to deliver out-of-the-box solutions allow customers to analyse and then utilize actionable data in real time. This will lead to improved, more accurate business decision making while also enabling remote management of all of their IT and Operational Technology (OT) assets.*

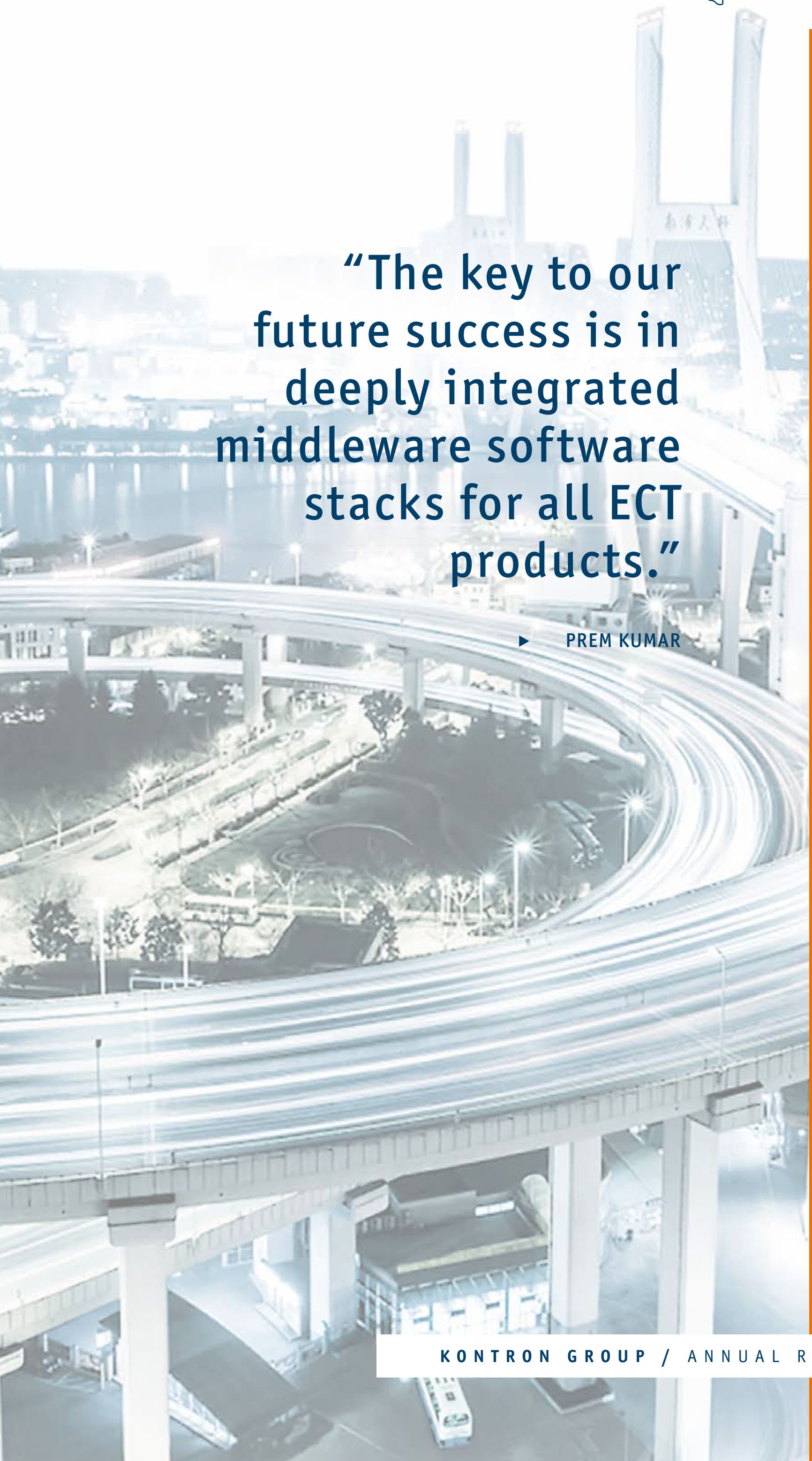
**How will Kontron achieve this?**
*We already have the know-how. Even before the term "IoT" was coined, Kontron's software services team was used to responding to individual customers requesting additional special features or "tweaks" as and when necessary. In today's terms, many of these may well have been labelled as IoT initiatives.*

*But the key to our future success is in deeply integrated middleware software stacks on all Kontron embedded products – boards, modules, gateways and systems – to make them IoT ready and therefore reduce complexity for our system integrators and OEM customers who are increasingly looking to rapidly design IoT-class computer solutions for deployment in a wide range of industry sectors.*

*At the same time, during the lifetime of our products, customer requirements will change, which means the new intelligent analytics software that Kontron is now developing will become mission critical. Our software will harness high-speed and lower-cost connectivity for deploying sophisticated remote diagnostics and debugging techniques, allowing us to conduct predictive and preventative maintenance with pinpoint precision and implement necessary board-level updates, revisions and modifications – before actual problems occur. This will significantly extend product life cycles and further increase reliability.*

*Virtualized "what-if" scenarios will also become viable by replicating how already deployed complex customer systems might perform with proposed customer modifications to our controller technology. Imagine, for example, a mid-air refuelling system. Clearly, for something like this, we couldn't contemplate a "what-if" exercise in practice as it would be far too risky. But by maintaining an exact duplicate of the deployed controller software in our labs and leveraging Kontron's deep domain knowledge, we are building capabilities to recreate virtualized scenarios and provide our customers with critical information.*



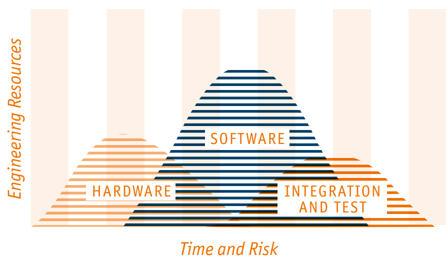
"The key to our future success is in deeply integrated middleware software stacks for all ECT products."

▸ PREM KUMAR

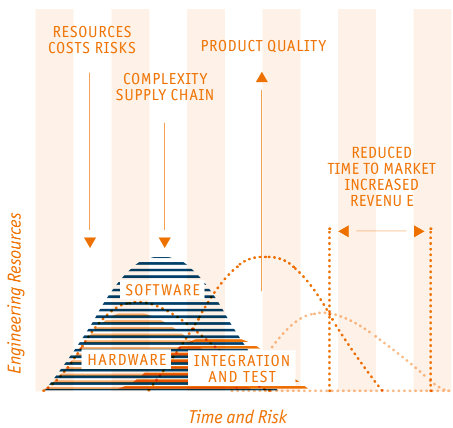
## IOT SOFTWARE FOR FASTER TIME TO MARKET

With standardized IoT software, Kontron provides its customers better scalability, faster time to market, improves quality and increase sales potential.

### TRADITIONAL PRODUCT LIFE CYCLE




### KONTRON APPLICATION READY ENABLED LIFE CYCLE



# CREATING TRUST IN AN IOT WORLD

**Jens Wiegand, Chief Technology Officer, explains how Kontron is on course for success as the world prepares for the Internet of Things.**

**JENS WIEGAND**

*Joined Kontron: January 2014*
*Position: Chief Technology Officer*

## KONTRONS IOT SOFTWARE STACK

In the future, Kontron will enable customers to combine a standardized IoT software stack with their hardware. This ensures a secure way of connect their devices and allows them to focus on their own applications.

CUSTOMER APPLICATION

▲

**IOT SOFTWARE STACK**

DEVICE TO CLOUD MIDDLEWARE
PLATFORM ABSTRACTION

▲

**KONTRON HARDWARE**

KONTRON IOT-READY HARDWARE

Our innovation in middleware and software, combined with our world-class hardware engineering and customer support organizations, offers Kontron very exciting opportunities for enhancing what we do and how we serve our customers.

An important part of our success in the new exciting but also technologically challenging IoT world will be in removing uncertainty and complexity for customers. We will do this by providing secure IoT ready products and real-time analytics, complemented by our global professional support services and best-of-breed partners. This will also allow our customers' investment in Kontron products to be maximized over the long term.

## COMMENT FROM KONTRON'S TECHNOLOGY PARTNER WIBU:

*WIBU-SYSTEMS AG, a privately held company founded by Oliver Winzenried and Marcellus Buchheit in 1989, is an innovative security technology leader in the global software licensing market.*

*"The unstoppable rise of the Internet of Things and our world's metamorphosis into a smarter place will certainly meet with widespread acceptance by governments, corporate actors and markets around the world – provided the IoT is made secure by design. The framework agreement between Kontron and Wibu-Systems is intended to champion security in the embedded world by providing a native best-in-class foundation layer of hardware and software protection against tampering and cyberattacks, with a CodeMeter secure element embedded directly into Kontron's boards. Intelligent device manufacturers are also empowered to monetize scalable and feature-based models that are ideal for today's app stores."*

▸ **OLIVER WINZENRIED**

*Co-founder and CEO*
*WIBU-SYSTEMS AG*

### SAFETY FIRST

As the criticality of real-time data grows, hugely multiplied by the mass scale of the IoT, so too does the level of security required. In fact, many reports suggest that security is the biggest obstacle to mass adoption of the IoT. This is why I have mandated that every product designed from late 2015 must be totally IoT secure.

We are looking at security across the entire product life cycle, from initial design all the way to commissioning and post deployment. This must cover all angles from the integrity of the components being provided to us by our suppliers for use in our hardware, and across the entire software stack including network communications.

An important part of Kontron's IoT security offering, which will commence rollout during 2016, will include high levels of encryption across every layer of the network. Real-time analytics software will also be deployed for alerting users to any potentially suspect or unauthorized devices attempting access or being connected to the network.

In order to implement such a comprehensive end-to-end IoT security capability, Kontron is forming partnerships on a global basis with a number of leading hardware, software and communications security providers. These will complement the company's established relationships with major IoT technology providers to ensure out of the box product compatibility.

Our strategy puts us firmly on course to be at the forefront of IoT enablement and be the most trusted embedded computer technology partner. ◂

# CONTENTS

# LETTER TO THE SHAREHOLDERS

Ladies and gentlemen,
dear shareholders,

There is no doubt that we had to contend with major challenges during the 2015 fiscal year. Coinciding with the publication of our third-quarter results, and for the first time since I was appointed Chairman of the Management Board of Kontron AG, we had to make a downward adjustment to our annual guidance. We did everything in our power to meet our original forecast until the very last minute, which made it all the more disappointing when we realized we had no other choice than to adjust the forecast during the second half of the year. However, the results posted for the fourth quarter, and the new strategic partnership with Ennoconn agreed in January 2016 give us reason to be optimistic for 2016.

But first, let me comment on 2015. As expected, our Communication division was not able to buck the downward trend seen in the sector around the globe. Indeed, revenues in this segment were even lower than our expectations, which were already conservative. To make matters worse, the Infotainment segment also put in a weak performance. However, based on the assumption that the other segments would grow proportionately stronger than expected, we remained optimistic of reaching our targets for the year after all. However this was not to be. During the second half of the year, our ATD (Avionics, Transportation, Defense) division also fell short of expectations. Only our largest division, Industrial, delivered results as expected, but this was not enough to compensate for the downturn in the other segments.

However, good results in the fourth quarter did allow us to meet our corrected guidance and close the year with a sound result. In the end, we met our original forecast in every respect apart from revenues. At € 467.7 million, we were even able to reach the upper end of our reduced corridor of € 460 – 470 million. At the same time, thanks to the completion of the New Kontron program, we now have our costs fully under control and were therefore able to generate a gross margin of 26.1 % and an operating margin of 3.1 % before interest and taxes and after eliminating restructuring cost.


Overall, we have once again made good progress in our operating activities over the course of the reporting period. First, we are much better positioned in Asia, our most important growth market, than we were at the beginning of 2015. We acquired full ownership of our Indian branch in July 2015. In China, we recorded revenue growth of roughly 20 % on the prior year to € 25.3 million, in spite of slowing growth in the country. Our investments in the region are thus clearly beginning to bear fruit. Second, we expanded the volume of our OEM and service business significantly. Third, we drove forward our business with standard products, as planned. Fourth, we explained our new strategy of aligning the company in the direction of middleware / software solutions to the capital markets and have already successfully started to implement this strategy. In fact, we are further down the road than we had hoped at the beginning of 2015. Finally, we made critical progress on our SAP project during the reporting period and laid the foundation for a global roll-out in 2016.

Although not formally agreed until January 22, 2016, I would like to mention the strategic partnership with Ennoconn on account of its significance for the future of Kontron AG. In the context of this partnership, Ennoconn, a subsidiary of the Foxconn Technology Group, acquired 49 % of Kontron Canada Inc., while Kontron AG retains the remaining 51 %. The partnership with Ennoconn, with which we have had a close business relationship for many years, allows us to simultaneously achieve a number of strategic and operational objectives: we become a leading provider of combined hardware and software solutions and gain a strong, lasting foothold via the Ennoconn / Foxconn network on the APAC market. In addition, we lower our material and production costs, opening up much brighter prospects for our Communication division in the process. Finally, the cash injection of almost € 50 million gives us greater financial headroom.

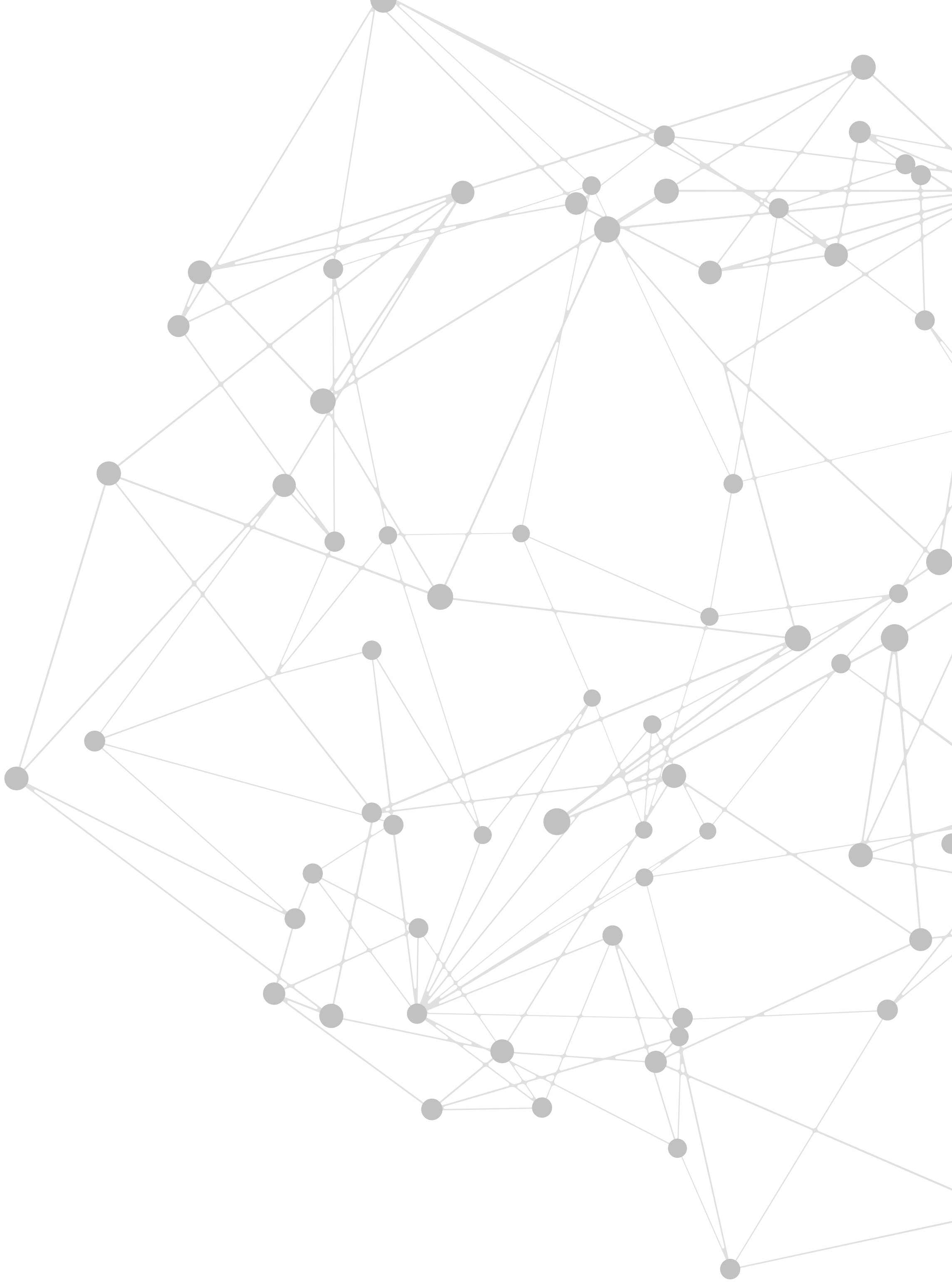
To summarize: this cooperation puts Kontron in an excellent strategic position to exploit the opportunities associated with the rapid development of the Internet of Things (IoT).

Will we be able to reap significant financial benefits from this cooperation in 2016 already? The lessons learned during the reporting period have made us even more cautious. For this reason, our forecast for the coming year deliberately does not take any 'Ennoconn effect' into account. We have set our sales target at € 460 – 480 million, but are more demanding in terms of profitability as we expect to see additional benefits from the now completed New Kontron program and will continue to pursue efficient cost management. We are forecasting a gross margin above 25 % and an EBIT between 3 and 5 % (EBIT after eliminating one-off-effects).

Having successfully completed our restructuring program, we have systematically pursued our new strategic alignment aimed at becoming a provider of combined hardware and software solutions for the IoT market. We will continue to work hard in 2016 on implementing this strategy. On behalf of the Management Board, I would like to thank our entire workforce for their extraordinary efforts. I would also like to thank you, dear shareholders. Kontron AG is on the right track and you can be sure that we will continue along this path with full commitment and optimism.

Yours,

**Rolf Schwirz**
Chairman of the Management Board of Kontron AG



# MEMBERS OF THE MANAGEMENT BOARD

## ROLF SCHWIRZ

CHAIRMAN OF THE MANAGEMENT BOARD

Rolf Schwirz has been the Chairman of the Management Board of the Kontron Group since January 2013.

Rolf Schwirz can look back on many years of experience in the IT industry. Before his role at Kontron he ran Fujitsu Technology Solutions as CEO, held the position of Head of Mature Markets for EMEA at SAP and performed a host of international management functions at the software group Oracle over a period of twelve years; among others as Senior Vice President of Western Continental Europe, Managing Director of Nordic-Germany and Vice President of Sales Germany. He knows the needs of the customers in a large company just as well as those in small- and medium-sized enterprises.

Rolf Schwirz began his career in 1983 as a system consultant at companies such as Siemens Nixdorf and Siemens AG, where he held various management positions. Rolf Schwirz acquired a degree in Business Administration Studies at the University of Applied Sciences Düsseldorf.

## MICHAEL BOY

MANAGEMENT BOARD MEMBER CORPORATE FINANCE

Michael Boy has been the Management Board Member for Corporate Finance of the Kontron Group since June 2014.

Michael Boy served as Faber-Castell AG's CFO (Finance and Controlling) from 2006. In this role, he was responsible for overseeing all commercial activities globally, and for setting up domestic and international companies. Among other things, the trained financial mathematician designed and optimised the company's finance and controlling functions, thus securing the funding of strong corporate growth.

Before that, Michael Boy was a member of the European management team at International Flavors & Fragrances in the Netherlands, where he was Finance Director for the EMEA region. The international scope of his activities was also evident while working for consumer goods company Unilever, where, between 1988 and 2002, he drove the company's internationalization as well as efficiency increases of individual divisions.

## ANDREAS PLIKAT

MANAGEMENT BOARD MEMBER

Andreas Plikat has been a Management Board member of the Kontron Group since September 2012.

After he completed his studies of physics Andreas Plikat worked for Procter & Gamble, a leading US consumer goods group worldwide, in the "Product Supply Organization", for ten years.

After management tasks at production locations in England and Germany he was, among other things, project manager Europe within the framework of the global design of the "Ultimate Supply System" of the P&G Group. Andreas Plikat subsequently managed the "Product Supply & Initiative Planning" of a business unit for the EMEA region at the European headquarters in Geneva. In 2002, Andreas Plikat transferred as head of the Supply-Chain-Management to Rohde & Schwarz, an international electronics group with registered seat in Munich. From 2004 as authorized signatory he also managed the purchasing segment. His area of responsibility, amongst others, included the design of the supply chain of two new production locations in Asia Pacific as well as the set-up of a purchasing office in Singapore. He was a member of the Supervisory Board of DVS GmbH (Hanover) as well as of R&S Asia Ltd (Singapore).

# REPORT OF THE SUPERVISORY BOARD

## Dear Shareholders,

I have summarized the activities of the Supervisory Board of Kontron AG and the work of its committees as well as report on the audit of the financial statements and consolidated financial statements for the 2015 fiscal year.

### COOPERATION BETWEEN THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

The Supervisory Board performed the duties and responsibilities with which it was entrusted in the 2015 fiscal year with utmost diligence and dedication. It monitored the leadership provided by the Management Board on an ongoing basis. The Supervisory Board was involved at an early stage in all decisions of fundamental importance. In terms of overseeing the management, the benchmark used by the Supervisory Board was primarily whether the Management Board had acted duly, expediently and efficiently at all times. The Supervisory Board reviewed the performance of the Management Board in all meetings on the basis of its reporting. No additional measures, such as inspecting the company's documents and records, were needed to review the performance of the Management Board. The Supervisory Board was satisfied that the management of the company acted duly, expediently and efficiently at all times.

The Management Board complied with its reporting duties in full and at all times. It informed the Supervisory Board of the business planning, its strategic development, operating business, and the position of Kontron AG and the Group in depth and promptly both in writing and verbally at regular intervals. This also extended to its risk position. There was also close contact between the Chairman of the Supervisory Board and the Management Board outside of the scheduled meetings, particularly with the Chairman of the Management Board, who reported on the latest developments, the state of business and the most significant business transactions. The Supervisory Board was informed of all deviations from the business plan without delay and in depth. It was involved in all decisions that were of immediate significance for the company.

In addition to the alignment of business operations, the focus of the work performed by the Supervisory Board in the 2015 fiscal year was primarily on the strategic goals of the company. In their deliberations, the Supervisory Board paid particular attention to the expansion of the software business and the Asian strategy.

After thorough examination and discussion, the Supervisory Board voted on the reports of the Management Board and its proposed resolutions where required to by the law and the Articles of Association.

Cooperation between the Supervisory Board and the Management Board was constructive and convivial at all times during the reporting period.


## MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board convened a total of eight times in the 2015 fiscal year and also passed resolutions by circulation four times outside of its meetings. Generally, all members of the Supervisory Board were present at the meetings of the Supervisory Board and its committees as well as when the respective resolutions were passed. Mr. Peter Bauer and Mr. Harald Joachim Joos both excused themselves from one meeting each, although Mr. Peter Bauer cast an absentee vote for the meeting he could not attend.

Based on the reports, presentations and motions submitted punctually to the Supervisory Board by the Management Board, the Supervisory Board was able to prepare itself well for the coming meetings in an efficient manner. This fostered the quality of the discussions with the Management Board, allowing the Supervisory Board to perform its oversight duties without any impediment.

The company is not aware of any conflict of interest affecting the Management Board that would be subject to mandatory disclosure to the Supervisory Board or the Annual General Meeting of Shareholders.

## MAIN TOPICS OF DISCUSSION

At its meetings, the Supervisory Board was regularly informed by the Chairman of the Management Board of the position of the Group and by the Management Board member for Corporate Finance on the net assets, financial position and results of operations of the Group. In addition to checking the current development of business, the Supervisory Board focused on the following issues:

At the two meetings in the first quarter of 2015, the Supervisory Board addressed issues relating to the operating activities and strategy of the company, the Supervisory Board's internal efficiency test, the budget of the Kontron Group and the approval of the budget for the 2015 fiscal year. At the meeting on March 23, 2015, the Supervisory Board ratified the financial statements of the company for the 2014 fiscal year. The declaration of independence was provided to the Supervisory Board by the date on which it passed the applicable resolution to elect the auditor, as required by Art. 7.2.1 of the German Corporate Governance Code.

The Supervisory Board met once in the second quarter. The focus of this meeting was on operating issues as well as the preparations for the Annual General Meeting of Shareholders on June 11, 2015.

In the third quarter, the Supervisory Board held two meetings. In these meetings it concentrated on the Asian strategy of the Management Board and the law on equal representation of men and women in leadership positions in the private and public sectors.

In the fourth quarter, the Supervisory Board focused on the budget planning process for the 2016 fiscal year as well as corporate governance issues and the declaration of compliance by the Management Board and the Supervisory Board.

## COMMITTEE WORK

The Supervisory Board delegated some of its tasks to three committees during the 2015 fiscal year: the Audit Committee, the Nomination Committee and the Strategy Committee.

The Audit Committee is composed of three members. In the 2015 fiscal year, Mr. Sten Daugaard was appointed Chairman of the committee and Mr. Martin Bertinchamp and Mr. Harald Joachim Joos were appointed as ordinary members. The Audit Committee met five times in the course of the 2015 fiscal year. The main points addressed by the committee were the development of the net assets, financial position and results of operations of the Group and the presentation of the interim reporting and the financial statements of Kontron for the 2014 fiscal year. The Audit Committee worked closely together with the external auditor in this regard. Moreover, the effectiveness of the internal control system, the risk management system, and the internal audit system was monitored and compliance issues discussed in depth.

At the first meeting in the 2015 fiscal year in January the Audit Committee called upon the external auditor to report on the status of the audit for the financial statements for the 2014 fiscal year. In addition, the Audit Committee addressed legal and compliance issues.

At its second meeting in March 2015, the separate financial statements of the company and the consolidated financial statements of the Group for the 2014 fiscal year were intensively discussed. The audit report issued by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was provided to the Audit Committee. The auditors also attended this meeting.

At the meeting in April 2015, the Audit Committee intensively discussed the quarterly report for the first quarter.

The focus of the fourth meeting held in July 2015 was on the internal auditing system and the risk report of the Group as well as the Q2-report issued at the end of the second quarter.

The third quarter report was discussed at the fifth meeting in October 2015. Other topics addressed by the meeting included the risk report, law and compliance and issues related to the hedging of interest risks and foreign exchange exposures.

The task of the Nomination Committee is to select suitable candidates for appointment to the Supervisory Board. At the meeting of the Supervisory Board in January 2015, Mr. Rainer Erlat was elected chairman of the committee and Mr. Harald Joachim Joos and Mr. Martin Bertinchamp were appointed as members. The Nomination Committee did not convene in the 2015 fiscal year.

At the meeting on July 27, 2015, the Supervisory Board passed a resolution to constitute a Strategy Committee in order to more intensively address issues of corporate strategy outside of the ordinary meetings of the Supervisory Board. Mr. Sten Daugaard, Mr. Martin Bertinchamp, Mr. Harald Joachim Joos and Dr. Harald Schrimpf were appointed as members of the Strategy Committee, and Mr. Rainer Erlat was appointed as its chairman. The Strategy Committee met three times in the 2015 fiscal year.

## REVIEW OF THE EFFICIENCY OF THE SUPERVISORY BOARD

The Supervisory Board initiated a review of the efficiency of its work at its December meeting. This self-assessment is based on a comprehensive questionnaire. The review found that the Supervisory Board and Management Board work well and efficiently together and that no significant changes are needed to the nature or methods of the cooperation. The self-assessment of the Supervisory Board also comes to the conclusion that its work is performed efficiently and that no changes are required to the working methods here either.

## PERSONNEL CHANGES WITHIN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

There was one change in the composition of the Supervisory Board of Kontron AG during the reporting period.

Effective August 31, 2015, Mr. Peter Bauer resigned from the Supervisory Board of Kontron AG. On September 22, 2015 Dr. Dieter Düsedau was appointed to the Supervisory Board by order of the District Court of Augsburg. The Supervisory Board had six members at the end of the reporting period.

## AUDIT OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft audited the separate financial statements compiled by the Management Board in accordance with the German Commercial Code and the underlying bookkeeping and management report for the period and rendered an unqualified audit opinion. The consolidated financial statements and the group management report were prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU, as required by Sec. 315a (1) HGB. Here, too, the auditor rendered an unqualified audit opinion. The audit engagement was awarded pursuant to a resolution of the Annual General Meeting of Shareholders on June 11, 2015.

The auditor of the financial statements also reported on whether the Management Board had complied with Sec. 91 AktG and established a suitable early warning system for the detection of any risks to the ability of the company to continue as a going concern. The audit revealed that the risk management system established by the company complied with the statutory requirements.

The documents relating to the financial statements and the auditor's report were submitted to the Audit Committee in good time. They were extensively discussed with the Management Board and the auditors at the meeting of the Audit Committee and the meeting of the Supervisory Board that ratified the financial statements on March 15, 2016. The auditor reported on the significant findings of the audit and was available to both the Audit Committee and the full Supervisory Board to respond to any questions. All questions posed by the Supervisory Board were comprehensively answered. After conducting our own review and discussing the financial statements, management report and audit reports at length, we do not have any objections and concur with the findings made by the auditor of the financial statements. We approved both the separate financial statements and management report and the consolidated financial statements and group management report compiled by the Management Board for the year ending December 31, 2015 at the meeting of the Supervisory Board on March 15, 2016 and subsequently ratified the financial statements and management report of Kontron AG. The Supervisory Board discussed the proposal made by the Management Board for the appropriation of the result for the year and concurs with the proposal.

The Supervisory Board would like to take this opportunity to thank all members of the Management Board and all of its employees around the world and their elected representatives for their efforts and achievements in the 2015 fiscal year.

**Rainer Erlat**
Chairman of the Supervisory Board

# MEMBERS OF THE SUPERVISORY BOARD

**RAINER ERLAT**
Chairman of the Supervisory Board
Since January 20, 2015
Chairman of the Nomination Committee
Since July 27, 2015
Chairman of the Strategy Committee

**STEN DAUGAARD**
Chairman of the Audit Committee
Since July 27, 2015
Member of the Strategy Committee

**MARTIN BERTINCHAMP**
Member of the Audit Committee
Since January 20, 2015
Member of the Nomination Committee
Since July 27, 2015
Member of the Strategy Committee

**HARALD JOACHIM JOOS**
Member of the Audit Committee
Since January 20, 2015
Member of the Nomination Committee
Since July 27, 2015
Member of the Strategy Committee

**DR. HARALD SCHRIMPF**
Since July 27, 2015
Member of the Strategy Committee

**DR. DIETER DÜSEDAU**
Since September 22, 2015
Member of the Supervisory Board

RETIRED FROM THE SUPERVISORY BOARD DURING THE REPORTING PERIOD:

**PETER BAUER**
Until August 31, 2015

# THE KONTRON SHARE

## STOCK MARKET DEVELOPMENTS

▶ The weakening of the economy, particularly in China, shaped stock markets.

The development of international capital markets was volatile in 2015. Uncertain geopolitical and economic conditions worldwide, the weakening economy and the resulting fall in share prices on Chinese stock exchanges as well as the drop in the price of oil in particular impacted confidence on global stock markets. Following the record highs initially reported at the start of 2015, the sovereign debt crisis in Greece and concerns surrounding the Chinese economy had a dampening effect at the end of the second quarter in particular as well as the entire third quarter. At the same time, the DAX was extremely volatile. As a result, there was a gap of more than 3000 points between the record high on the DAX of 12,390 points on April 11 and the annual low of 9,325 points on September 24. By contrast, the TecDAX reached its record high of 1,889 points on December 07.

Between August and October, both indices fell significantly. This is attributable primarily to the massive drop of share prices in China in August and the VW emissions scandal. However, the losses were rapidly erased from mid-October in light of a strong US economy. Share prices once again came under pressure from the start of December. The decisive factors for the slump at the end of the year included the continuing decline in oil prices, a stronger euro and the Federal Reserve's decision to raise the US base interest rate. The DAX closed the year at 10,743 points, representing a rise of slightly above 9 % over the course of the year. The TecDAX closed the year at 1,831 points, corresponding to an annual increase of more than 33 %.

## DEVELOPMENT OF THE KONTRON SHARE

After peaking at € 6.30 on March 11, 2015, the price initially remained stable, although it recorded losses from May onwards primarily due to the gloomier sentiment on the market in response to weaker economic data from the US, plummeting share prices on Chinese stock markets and the ongoing negotiations regarding the sovereign debt crisis in Greece.

The share price rose again slightly and remained stable after the publication of the 2014 annual report on March 25, 2015, in which Kontron announced its plans to divest the “Energy” project business, reported on the successes from the “New Kontron” measures and its outlook for the whole of 2015. At the end of the first six months, the share price stood at € 3.95, well below the price at the beginning of the year of € 5.19. Further price swings were seen in the third and fourth quarters. The price fell in August, reflecting the wider trend on the stock exchanges driven by the geopolitical crises and the sluggish development of the global economy.

On September 29, 2015, the share price fell to its annual low of € 2.46 before recovering to € 3.01 mid-October. It bounced back further as stock markets picked up in response to more positive economic data from the US. The Kontron share closed the year at a price of € 3.15, representing a decrease of just below 40 % over the whole year.

## KEY FIGURES OF THE KONTRON SHARE AT A GLANCE

| | | 2015 | 2014 |
|---|---|---|---|
| Share capital | € | 55,683,024 | 55,683,024 |
| Number of shares as of the reporting date | shares | 55,683,024 | 55,683,024 |
| Market capitalization as of 12/31/2015 | € million | 167.88 | 278.97 |
| Closing price (XETRA year-end) | € | 3.02 | 5.01 |
| Closing price high (XETRA) | € | 6.30 | 5.68 |
| Closing price low (XETRA) | € | 2.46 | 4.40 |
| Earnings per share | € | −0.05 | −0.13 |
| Equity per share | € | 4.65 | 4.54 |
| Operating cash flow per share | € | 0.26 | 0.03 |
| Dividend per share | € | 0.00 | 0.00 |
| Trading volume (XETRA) | million shares | 33.76 | 19.06 |

Source: Bloomberg

TABLE 002

DEVELOPMENT OF THE KONTRON SHARE COMPARED TO THE TECDAX


GRAPHIC 001

## PUBLIC LISTING AND TRADING VOLUME

The Kontron share is listed on the Regulated Market of the Frankfurt stock exchange and meets the transparency requirements of Deutsche Börse's Prime Standard. It is also traded over the counter at the regional stock exchanges in Berlin, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart.

▶ The month displaying the highest trading volume was July 2015 with 5.15 million shares traded.

In total, 33.76 million shares were traded during the reporting period (prior year: 19.06 million). This corresponds to an average daily trading volume of 133,429 shares (prior year: 75,647 shares). The month displaying the highest trading volume was July 2015 with 5.15 million shares traded and the weakest January 2015 with 1.14 million shares traded.

## KEY DATA ON THE KONTRON SHARE

| | |
|---|---|
| German securities identification number (WKN) | 605 395 |
| ISIN | DE 000 605 395 2 |
| Bloomberg code | KBC GR |
| Number and class of shares | 55,683,024 no-par bearer shares with an imputed share in share capital of € 1.00 each |

TABLE 003

## ANALYST RECOMMENDATIONS

During the course of the 2015 fiscal year, eight analysts regularly published updated recommendations on the Kontron share. At the end of the 2015 fiscal year, 50 % of the analysts (December 31, 2014: 45.4 %) recommended buying the Kontron share and 50 % recommended holding it (December 31, 2014: 27.3 %), and no analysts recommended selling the share (December 31, 2014: 27.3 %). The mean target price of the analysts at the end of the reporting period stood at € 4.75 compared to € 5.25 at the end of 2014.

## ANALYST RECOMMENDATIONS

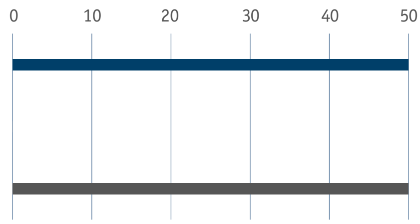
AS OF 12/31/2015

IN %

HOLD ▶ 50.0

SELL ▶ 0.0

BUY ▶ 50.0




GRAPHIC 002

## SHAREHOLDER STRUCTURE

▶ Almost 65 % of the Kontron shares are currently in free float.

At the end of the 2015 fiscal year, 64.87 % of the shares of Kontron AG are in free float. A substantial number of them are held by institutional investors Warburg Pincus and Triton. Warburg Pincus, a private equity investor, is the largest individual shareholder with a holding of 19.50 %. Triton, an investment company, holds a total of 15.63 % of the shares. As of December 31, 2015, Kontron AG held 111,976 treasury shares.

## DIVIDENDS

A net loss was generated in the fiscal year due to the company's forecast not being achieved and the burdens on the statement of financial position from restructuring measures. For this reason, the Supervisory Board agrees with the proposal for the appropriation of the net result made by the Management Board. From the perspective of the Management Board and the Supervisory Board, a dividend distribution for 2015 is not justified.

## ANNUAL GENERAL MEETING OF SHAREHOLDERS 2015

Approximately 150 shareholders attended the Annual General Meeting of Shareholders of Kontron AG at the SGL Arena in Augsburg, representing approximately 55.86 % of the voting capital. The focus was placed on the extensive cost savings and efficiency enhancing measures carried out within the framework of the "New Kontron" program and the strategic realignment. The Chairman of the Management Board, Rolf Schwirz, outlined the progress made regarding the successful implementation of individual measures. The Annual General Meeting of Shareholders approved the proposals made by the Supervisory Board and Management Board on the election of Mr. Harald Joachim Joos as a member of the Supervisory Board and the ratification of the acts of management of the Supervisory Board and Management Board with a large majority. The shareholders also adopted various changes to the Articles of Association, such as the creation of new authorized capital 2015. The next Annual General Meeting of Shareholders in the 2016 reporting year is scheduled for June 09 at the WKK Arena in Augsburg.

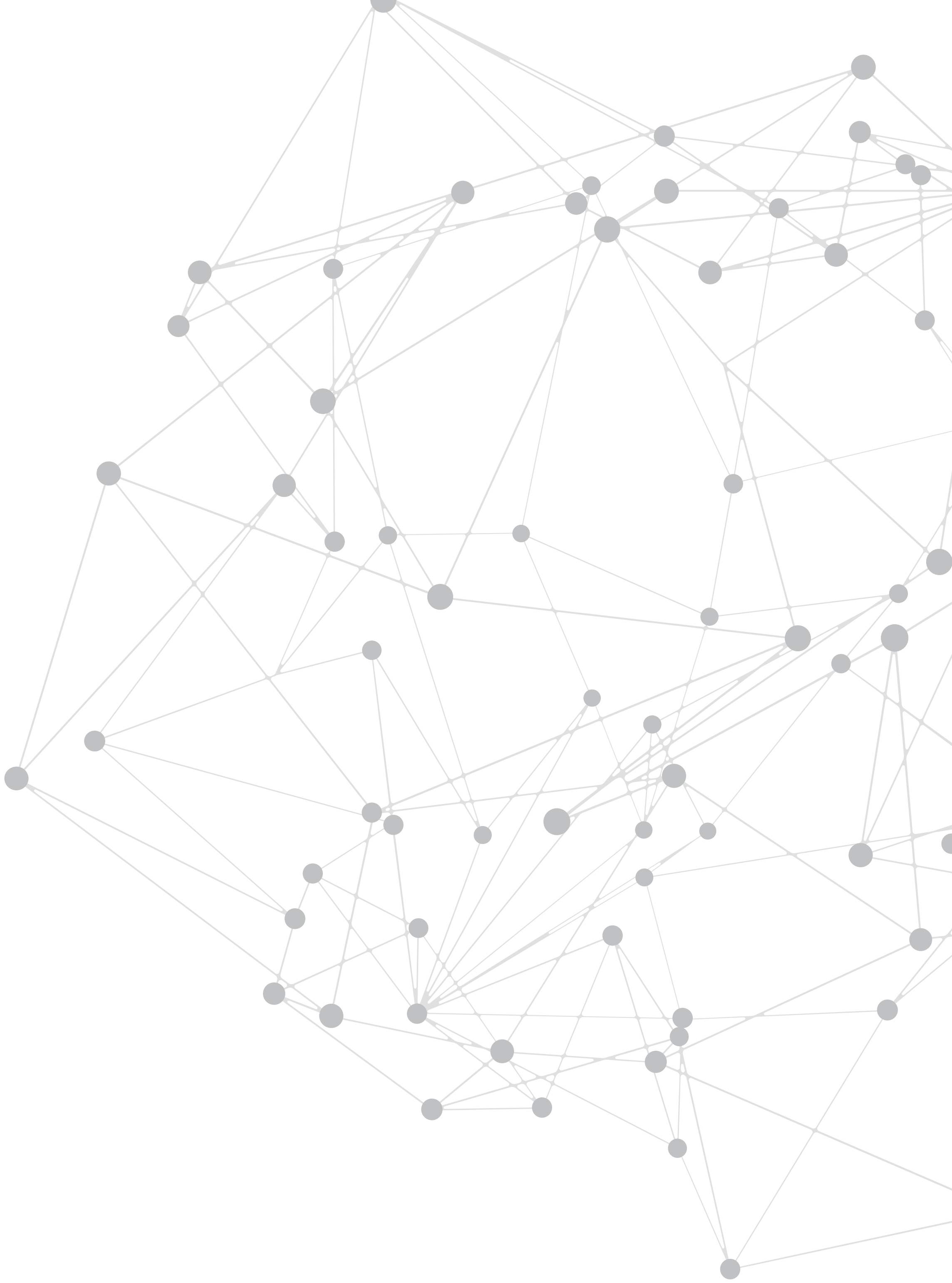
## INTENSIVE DIALOG WITH CAPITAL MARKETS

▶ We are in constant dialog with all relevant stakeholders.

We are committed to engaging in transparent and reliable communication with our shareholders, investors, analysts and members of the press, but also with employees and interested members of the public. To this end, the Management Board and the investor relations team are regularly available to talk about the questions of capital market players in one-on-one or group meetings or telephone conferences.

The investor relations pages of Kontron AG are available to the most important group of shareholders, private investors, on the company's website to use as a practical and central point of contact. We report comprehensively and promptly on any business developments on these pages. In addition, all relevant information on the Kontron share, financial reports, publications, dates and presentations are available on the company's website online or to download. Furthermore, all shareholders have an opportunity at the Annual General Meeting of Shareholders to obtain an understanding of Kontron AG and experience the Management Board in action.

*www.kontron.com/investor*



# GROUP MANAGEMENT REPORT

# CORPORATE INFORMATION

## Business model of the Group

### STRONG POSITION IN THE MARKET FOR ECT AND THE "INTERNET OF THINGS"

▶ Our focus is increasingly on the "Internet of Things" (IoT), which is a significant growth market.

Kontron is a global leader in the field of Embedded Computer Technology (ECT). Embedded computer technology is used in technical applications, for example to realize monitoring, management and controlling functions as well as special forms of data processing or data transmission. We also offer advice on the implementation of business models and applications for the "Internet of Things" (IoT), and our position is very strong here, too.

Our comprehensive portfolio of hardware, software and service solutions offers substantial benefits for our customers, helping to optimize their applications, shorten the time to market and reduce total cost of ownership. Our products improve long-term availability and allow comprehensively optimized applications based on leading, highly reliable embedded technology.

Kontron is an internationally renowned company with many long-standing and trusting partnerships and relationships with clients. Our engineers have in-depth expertise in the fields of development and problem-solving. They develop products and solutions that are as innovative as they are high-quality, and succeed on the market on account of their reliability, security and longevity.

There are a wide variety of potential applications for ECT, and the requirements each entails are correspondingly diverse. Our products have to meet prescribed certifications and detailed customer specifications, and be available without any changes to the technology for the entire product life cycle of the application. Our development work focuses on solutions and technological applications that require less and less space and energy while also being increasingly networked. Our customers' efforts to securely network their future products with respect to the "Internet of Things" are of crucial importance to us.

In the future, the "Internet of Things" will connect billions of people and smart devices in a wide variety of applications. As a leading global ECT provider and as a pioneer, we are constantly working on innovative and secure solutions that advance the IoT. This is how we are tapping into promising growth and strong prospects in these relevant market segments.

## GLOBAL PRESENCE

Together with its subsidiaries and sales offices, Kontron AG maintains a global presence. At the end of 2015, the Augsburg-based company had subsidiaries in 13 different countries including Germany, France, the US, Canada, China, India and Malaysia. Our subsidiaries and the international sales offices put us in close proximity to our customers and regional markets.

## CONTINUOUS DEVELOPMENT OF THE GLOBAL ORGANIZATION AND BUSINESS UNITS

Our global business is divided into the following three units:

- "Industrial" focuses on the markets for industrial automation, medical technology and infotainment.
- "Communications" covers the telecommunications market.
- "Avionics / Transportation / Defense" bundles the activities on the markets for civil aviation, transport, security and defense.

We already clearly defined our targets for introducing a global IT infrastructure back in 2014, and systematically pursued them during the reporting year as part of the SAP-ERP project. The new system was already successfully implemented in France during the reporting year. It will be ready for use worldwide from April 2016, just a few weeks later than originally planned. The introduction of the SAP – ERP system will promote further harmonization of our business processes and our collaboration throughout the Group.

We presented our new corporate design to the market in February 2015. Then, in May 2015, the company's website was relaunched as part of our new brand communications. Kontron is now marketing its technological services and experience in the market with the slogan "Possibilities start here". The new slogan and brand profile help the company to convey a more professional image toward its customers and partners.

In April 2015 we announced the opening of our new, much larger premises in Beijing, China. The almost doubling of the available floor space has created room for a larger production facility as well as a repair and service center in order to supply our customers throughout the APAC region as well as China in particular. We have also expanded our local research and development capacities to make the company more flexible. This allows us to respond quickly to our customers' new requirements, and serve the needs of customers and the market in the region with our reliable and long-lived products and solutions. The enlargement of our facility in China is part of our expansion strategy for Asia, which we already started implementing in 2014 with the opening of our sales office in Tokyo.

- With the establishment of our new location in Beijing we have expanded our development capacities.

In May 2015, at a capital markets day, our Management Board presented Kontron's future corporate strategy in which we are adding a new range of software / middleware to our hardware portfolio. In this way, Kontron is responding to changes in the ECT market, megatrends relating to the "Internet of Things" and the new challenges faced by its customers. As part of the strategic realignment, we have also restructured the company internally and set up a dedicated IoT team to promote the development of standardized middleware software for IoT solutions (you can read more about this in the "Research and development" section starting on page 80).

- The future corporate strategy is aligned to expanding our portfolio to include software and middleware.

In July 2015 we incorporated Kontron Technology India Pvt. Ltd. with facilities in Bangalore and Mumbai into the Kontron Group as a wholly-owned subsidiary. With this acquisition, we have boosted our presence in the region as part of our comprehensive APAC growth strategy, and are now also in a position to provide better local service to around 120 customers in the region.

► We have reinforced our channel business with standard products in Australia by entering into a new distribution partnership agreement.

In December 2015 we sold our 90 % share in Kontron Australia Pty. Ltd. to the local management. At the same time, Kontron concluded a long-term partnership agreement with the newly created company Embedded Design and Distribution Pty Ltd for the distribution of Kontron products in Australia and New Zealand. With this agreement, we are reinforcing our channel business in this region with standard products and making targeted use of our local distribution partners' know-how. Through this distribution partnership agreement, we are marketing our products exclusively in the vertical markets of industrial automation, aviation, transport, defense and communications.

## Legal structure

### GROUP ORGANIZATION

Kontron AG is the parent company of the Kontron Group. It steers the Group and performs the classical management functions of a corporate headquarters, such as corporate strategy, mergers and acquisitions, corporate accounting, controlling, finance, risk management, internal auditing, legal and compliance, treasury, human resources, IT, marketing, corporate communication and investor relations.

Kontron AG holds a direct or indirect equity investment in 14 entities (prior year: 16 entities). All of these entities were included in the consolidated financial statements and consolidated in full in the reporting year.

### CHANGES TO THE LEGAL STRUCTURE OF THE GROUP

The following changes were made to the legal and organizational structure of the Group led by Kontron AG in the 2015 fiscal year:

By means of an agreement dated March 31, 2015, Kontron AG stepped up its holding in Kontron Technology India Pvt. Ltd., Mumbai, India, which was already fully consolidated, acquiring another 45 % of the shares to give it control over 100 % of the shares in this entity.

With the initiation of liquidation proceedings, Kontron Compact Computers AG, Luterbach in the canton of Solothurn, Switzerland, was deconsolidated as of September 30, 2015.

Kontron AG sold its 90 % share of the issued capital of Kontron Australia Pty. Ltd., Sydney, Australia on December 15, 2015.

## TAKEOVER LAW DISCLOSURES

Details according to Secs. 289 (4), 315 (4) HGB and at the same time explanatory report:

### a) Composition of issued capital

The issued capital of Kontron AG totaled € 55,683,024 as of the reporting date of December 31, 2015 (unchanged on the prior year). It is split into 55,683,024 (unchanged on the prior year) no-par bearer shares with an imputed share in capital of € 1.00 each.

All shares of the company have the same rights and duties attached. Each share entitles the bearer to one vote at the Annual General Meeting of Shareholders and determines the bearer's share in the profits of the company. In addition, the shareholders have administrative rights, e.g., the right to attend the Annual General Meeting of Shareholders, and the right to pose questions and to table motions. Other rights and duties enjoyed by the shareholders are founded in the German Stock Corporation Act, in particular, Secs. 12, 53 et seq. and 118 et seq. AktG.

### b) Restrictions relating to the voting rights or the transfer of shares

There are no restrictions of any kind on the exercise of voting rights and the transfer of shares which can therefore be carried out within the normal framework of the law and Articles of Association. The Management Board is not aware of any agreements between shareholders that give rise to restrictions on voting rights or the transferability of shares.

### c) Direct or indirect participations in the capital, which exceed 10 % of the voting rights

The largest shareholder remains Warburg Pincus, a private equity firm, which, according to its latest securities notification dated March 18, 2011, holds a total of 18.62 % of the shares in Kontron AG via WP International II S.à r.l., based in Luxembourg (corresponding to 10,369,000 voting rights). Furthermore, according to a notification dated August 14, 2014, Triton, an investment company, holds 15.01 % of the share capital of Kontron AG via Komondor S.à r.l., Luxembourg (corresponding to 8,356,500 voting rights).

### d) Appointing and dismissing members of the Management Board, changes to the Articles of Association

The appointment and dismissal of members of the Management Board complies with the legal provisions of Secs. 84 and 85 AktG. These legal requirements have been further specified in Art. 8 of the Articles of Association of Kontron AG. According to the Articles, the Management Board comprises at least two members. The Supervisory Board may appoint a higher number of members to the Management Board and also appoint a chairman (or spokesman) and a deputy chairman (deputy spokesman) of the Management Board. In addition, the Supervisory Board can appoint deputies of the members for the Management Board.

The shareholders pass resolutions to amend the Articles of Association at the Annual General Meeting of Shareholders. In accordance with the option provided for by Sec. 179 AktG, Art. 26 of Kontron AG's Articles of Association stipulates the following: Resolutions of the Annual General Meeting of Shareholders are passed by simple majority of the votes cast or, where a capital majority is required, by simple majority of the voting rights present at the meeting, unless the law or the Articles of Association require otherwise. Resolutions to amend the Articles of Association and to implement capital adjustments may be passed by simple majority, where permitted by the law. According to Art. 18 (4) of the Articles of Association of Kontron AG, the Supervisory Board is entitled to amend the Articles of Association where only the wording is involved. The current Articles of Association of Kontron AG can be inspected at the website of the company at *www.kontron.de/investor*.

### e) Authorizations of the Management Board for the issue and repurchase of shares

Kontron AG's Management Board has the following authorizations to issue shares:

- According to the resolution of the Annual General Meeting of Shareholders of June 11, 2015, the Management Board is authorized to increase the nominal capital of the company with the approval of the Supervisory Board by June 10, 2020 once or in partial installments by a total of up to € 27,841,512.00 by issuing up to 27,841,512 new individual share certificates denominated in the holder's name in exchange for cash contributions and / or contributions in kind (authorized capital 2015). The shareholders are principally entitled to a subscription right to the new shares that, according to the provisions of Art. 4 (3) of the Articles of Association, can be excluded with the approval of the Supervisory Board. The Management Board has so far not exercised the authorization to increase the nominal capital from authorized capital.

- The nominal capital is increased conditionally by up to € 22,200,000.00 by the issue of up to 22,200,000 individual share certificates denominated in the holder's name (conditional capital 2015). The conditional capital increase serves to grant shares to the holders or creditors of option bonds, convertible bonds, participation rights and / or income bonds or combinations of these instruments. Said instruments are issued by the company or an entity in which the company holds a direct majority interest on the basis of the authorization issued under agenda item 7 of the Annual General Meeting of Shareholders held on June 11, 2015, and grant a conversion or option right for the bearer shares or specify a conversion / option obligation. The issue of new shares is carried out at the conversion or option price, which is to be determined according to the authorization in each case. So far, the Management Board has not exercised the authorization granted by the Annual General Meeting of Shareholders on June 11, 2015 under agenda item 7 to issue option bonds, convertible bonds, participation rights and / or income bonds (or a combination of these instruments) with a total nominal value of up to € 260,000,000.00 and with or without a limit on their terms (referred to collectively as "bonds") in accordance with the specified requirements and with the consent of the Supervisory Board by June 10, 2020, and in so doing granting the holders or creditors of bonds option or conversion rights for a total of up to 22,200,000 no-par bearer shares in the company with a share of the company's nominal capital of up to € 22,200,000.00 in accordance with the more detailed specifications of the respective option or convertible bond conditions, or made use of the conditional capital 2015 created to service these.

- In addition, the nominal capital of the company is increased conditionally by up to € 1,104,850.00 by the issue of a total of up to 1,104,850 new individual share certificates denominated in the holder's name (conditional capital 2003 I). The conditional capital increase exclusively serves to fulfill options, which were issued within the framework of the 2003 stock option program. With the resolution of the Annual General Meeting of Shareholders of June 09, 2010, the term of the issued and not yet exercised stock options was extended until December 31, 2013. Some of the stock options issued under the 2003 stock option program have already lapsed, been forfeited or settled in cash or, in some cases, settled by issue of treasury shares. No stock options are outstanding as of the reporting date.

- Finally the nominal capital of the company is increased conditionally by up to € 1,500,000.00 by the issue of a total of up to 1,500,000 new individual share certificates denominated in the holder's name (conditional capital 2007 I). The conditional capital increase is only carried out to the extent that the holders of options, which were issued within the framework of the 2007 stock option program, exercised their option. With the resolution of the Annual General Meeting of Shareholders of June 09, 2010, the term of the stock options issued and not yet exercised within the framework of the 2007 stock option program has been extended until December 31, 2013. No stock options are outstanding as of the reporting date.

Kontron AG's Management Board has the following authorization to acquire treasury shares:

- The Annual General Meeting of Shareholders on June 11, 2015 authorized the company up to and including June 10, 2020 to acquire up to 10 % of the share capital existing as of the date of the resolution, subject to the proviso that at no time may the acquired shares together with other treasury shares in the possession of the company or attributable to the company pursuant to Sec. 71a et seq. AktG account for more than 10 % of share capital. The acquisition of treasury shares can be carried out via the stock exchange or by means of a public purchase offer, which is directed at all shareholders of the company. The Management Board is authorized to use, with the approval of the Supervisory Board, treasury shares acquired based on the above authorization or any prior authorization, for one or several purposes as provided for in the authorization resolved by the Annual General Meeting of Shareholders on June 11, 2015 under agenda item 8, which includes the following uses: They can be sold through an offer to all shareholders or via the stock exchange, or they can be canceled or they can be offered to third parties as consideration in connection with mergers, the acquisition of other companies, participations in other companies or parts of other companies or the purchase of receivables owed by the company. Further, such treasury shares can be sold to third parties against cash or used within the scope of employee stock option programs. As of the reporting date, the company held a total of 111,976 treasury shares (prior year: 111,976) on the basis of earlier authorizations. The company has not yet exercised the authorization to acquire treasury shares, granted by the Annual General Meeting of Shareholders on June 11, 2015.

### f) Significant agreements subject to the condition of a change of control for the event of a takeover bid

The revolving loan facility agreed by Kontron AG in April 2012 provides the lenders with a right to terminate the agreement if Kontron AG is acquired as a subsidiary of another entity or if one person or a group of persons collectively purchase at least 50 % of the shares or voting rights of Kontron AG, either directly or indirectly. In this case, all outstanding amounts become due for immediate repayment.

The agreements made with the members of the Management Board and individual executives also include change-of-control clauses. These are described in the section "Basic features of the remuneration system and remuneration report" starting on page 69.

## Governance and control

Kontron AG has a dual system of governance, consisting of a Management Board and a Supervisory Board, in keeping with the German Stock Corporation Act and its provisions. The Management Board had a total of three members during the reporting period: Mr. Rolf Schwirz, Mr. Michael Boy and Mr. Andreas Plikat. There were no changes to the composition of the Management Board during the reporting year.

COMPOSITION OF THE MANAGEMENT BOARD AS OF DECEMBER 31, 2015

| | |
|---|---|
| Rolf Schwirz | Chairman of the Management Board |
| Michael Boy | Management Board Member Corporate Finance |
| Andreas Plikat | Management Board Member Corporate Development and Technology |

TABLE 004

There was one change to the composition of the Supervisory Board during the reporting year. Mr. Peter Bauer stood down from the Supervisory Board with effect from August 31, 2015. Dr. Dieter Düsedau was appointed to the Supervisory Board by order of Augsburg district court dated September 22, 2015.

The Supervisory Board had six members at the end of the reporting year.

## Declaration of compliance and corporate governance report

Our values-based corporate governance is founded on creating value responsibly and sustainably.

At Kontron, corporate governance means responsible, values-based management and control that is geared toward the sustainable creation of value. This primarily involves efficient cooperation between the Management Board and the Supervisory Board, open and transparent corporate communication, respect for shareholders' interests, a responsible and forward-looking approach to all business decisions and an appropriate approach to risks. The Management Board and Supervisory Board consider good corporate governance to be vital for the success of the company. Compliance with national and international laws, regulations and guidelines is of central importance to us, as well as the principles of the German Corporate Governance Code.

## DECLARATION OF COMPLIANCE PURSUANT TO SEC. 161 AKTG

The members of the Management Board and the Supervisory Board once again examined the topic of good corporate governance at Kontron AG and within the Kontron Group in detail during the past fiscal year, and included the recommendations of the German Corporate Governance Code in their deliberations. The two governing boards issued the following declaration of compliance with the German Corporate Governance Code on December 08, 2015:

"The Management Board and Supervisory Board of Kontron AG herewith declare pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] that since the last declaration of compliance of December 10, 2014 the recommendations of the German Corporate Governance Code (the "Code") from June 24, 2014 published in the official notices section of the Federal Gazette on September 30, 2014 and from May 05, 2015 published in the Federal Gazette on June 12, 2015 have been complied with and will continue to be complied with in the future, with the following exceptions:

*No deductible in the D&O insurance policy for the Supervisory Board (No. 3.8 (3) of the Code).* The D&O insurance policy (pecuniary loss liability insurance for governing boards and certain managers) in place for the members of the Supervisory Board does not include a deductible. The Management Board and Supervisory Board of Kontron AG are not of the opinion that a deductible could improve the responsibility with which the Supervisory Board performs its duties. The Management Board complies with this statutory requirement.

*Filling managerial positions (No. 4.1.5 of the Code).* The Supervisory Board approved a resolution for the Management Board and Supervisory Board on September 23, 2015 and the Management Board approved a resolution for the two management levels below the Management Board on September 14, 2015 in which a target of a 30% female quota by June 30, 2017 was set for each of the above groups, meaning that this recommendation has been complied with since then and will continue to be in the future.

*Specifying concrete objectives regarding the composition of the Supervisory Board (No. 5.4.1 (2) and (3) of the Code).* With exception of the target agreed on September 23, 2015 to reach 30% female representation by June 30, 2017, the Supervisory Board of Kontron AG has not defined concrete objectives regarding its own composition. In proposing candidates for the Supervisory Board, to date the Supervisory Board has been guided exclusively by the suitability of the candidates with the aim of a Supervisory Board composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks. The Supervisory Board is of the opinion that this approach has proved successful. For this reason, we do not see any necessity to change this practice. As a result, the respective recommendations pursuant to No. 5.4.1 (3) were not complied with.

*Deputy Chair position of the Supervisory Board, Chair position and membership of the Nomination Committee not considered in Supervisory Board compensation (No. 5.4.6 (1) Sentence 2 of the Code).* The Chair position of the Supervisory Board and the Chair position and membership of the Audit Committee are considered in Supervisory Board compensation, in contrast to the Deputy Chair position in the Supervisory Board and the Chair position and membership in the Nominations Committee. The Management Board and Supervisory Board believe that the current consideration of the various functions is commensurate with the responsibility of the respective Supervisory Board members and the time and work involved."

The latest declaration of compliance and the declarations for the last seven years are permanently accessible to the public on the company's website at *www.kontron.com/investor/corporate-governance*.

## RELEVANT CORPORATE GOVERNANCE STANDARDS AND PRACTICES

Professional corporate governance is based on a leadership style that obeys the rules and embraces the organization's values in addition to the constant and systematic management of risks. This, together with the sense of responsibility and integrity of the entire workforce, lays the foundation for the commercial success of the company.

Our goal is to raise the business value of the company over the long term while simultaneously satisfying the interests of our customers, partners, employees and investors as well as fostering business integrity. The Management Board of Kontron AG always acts in accordance with the law and the guidelines defined by the group-wide Code of Conduct, and categorically rejects any breaches of the same. This makes the function of the Compliance organization, which monitors compliance with statutory requirements and internal regulations, a correspondingly important one. It is an indispensable instrument of good corporate governance, and helps the Management Board continue to develop our effective compliance management system and systematically investigate indications of misconduct.

▶ A Code of Conduct that requires all our employees to orient themselves towards legal and ethical standards, lays the foundation for all our actions.

The Code of Conduct requires all employees of the Kontron Group worldwide to comply with high legal and ethical standards. At the core of this Code of Conduct are binding minimum standards with respect to areas such as doing business honestly and properly, compliance with the law, integrity and fairness, data protection, third-party rights and accurate reporting. The Code of Conduct also defines rules for avoiding corruption, bribery and conflicts of interest as well as how gifts and other inducements should be treated. In addition, a whistleblower guideline has been introduced to give employees the opportunity to confidentially report any infringements within the company to an external ombudsman. Any employee who reports an infringement in good faith will be protected. This means that Kontron will not take or threaten any action with regard to a whistleblower that could result in a disadvantage for them.

## WORKING METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD AND COMPOSITION AND WORKING METHODS OF EXECUTIVE COMMITTEES

The Management Board and the Supervisory Board worked closely together in the reporting year and maintained constant contact to reach the goals for the 2015 fiscal year and keep developing the business.

### a) Composition and working methods of the Management Board

The Management Board of Kontron AG has responsibility for the executive management of the company. It is obliged to further the interests of the company. Its management duties extend primarily to the strategic alignment, management and monitoring of the business as well as corporate planning and financing. The guidelines for corporate governance are primarily laid out in the Rules of Procedure of the Management Board.

The Chairman of the Management Board coordinates the work of the Management Board. He is in direct and regular contact with the chairman of the Supervisory Board and represents the company in dealings with the public. The allocation of duties among the members of the Management Board is defined in a formal schedule of responsibilities. Each member of the Management Board has been assigned responsibility for managing the functions assigned to them on their own initiative in keeping with the resolutions of the Management Board. However, overall responsibility for managing the company is held jointly by all members of the Management Board. The full Management Board decides on matters including the strategic alignment of the company and its business policy, as well as any other issues of material significance for the company and the Group. These kinds of particularly important transactions also require the prior approval of the Supervisory Board. The members of the Management Board work together constructively, coordinate regularly and inform each constantly about any significant measures and events within their sphere of responsibility.

The Management Board reports to the Supervisory Board at regular meetings that are held at least once each quarter to discuss business development and any significant activities of the company. Transactions that may be of particular significance for the development, profitability and liquidity of the company must be reported to the Supervisory Board in good time to allow it to take a position before the event. The Supervisory Board must also be informed immediately of any important events as required by Sec. 90 (1) No. 3 AktG.

### b) Composition and working methods of the Supervisory Board

The Supervisory Board of Kontron AG consists of six members who are elected by the Annual General Meeting of Shareholders.

The Supervisory Board appoints and dismisses the members of the Management Board and is responsible for setting management remuneration. Its tasks and cooperation with the Management Board are governed by the Rules of Procedure of the Supervisory Board.

The Supervisory Board advises and monitors the Management Board in their management of the company and is involved in all decisions of fundamental significance by the Management Board. In addition, the Supervisory Board has drawn up a catalog of transactions requiring the approval of the Supervisory Board. This specifies which matters the Management Board must submit to the Supervisory Board and is an integral component of the Rules of Procedure of the Management Board. The Supervisory Board has two dependent members, Mr. Harald Joachim Joos and Mr. Martin Bertinchamp, each of whom has a business relationship with a shareholder with more than 10% of the shares with voting rights. The four other independent members of the Supervisory Board are Mr. Rainer Erlat, chairman of the Supervisory Board, Mr. Sten Daugaard, chairman of the Audit Committee, Dr. Harald Schrimpf, and Mr. Peter Bauer until August 31, 2015, who was suceeded by Dr. Dieter Düsedau (according to a ruling of Augsburg district court dated September 22, 2015). This means that, as recommended by the German Corporate Governance Code, the Supervisory Board has what it considers to be a suitable number of independent members to ensure the independence of the monitoring of the Management Board and the advice given.

The Supervisory Board is available to the Management Board for consultation and discussion and performs the duties incumbent upon it in accordance with the law and Articles of Association. The activities of the members of the Management Board and the extended management team are monitored by means of regular reports from the Management Board, other information and joint meetings.

To facilitate its work, the Supervisory Board has set up a number of committees.

### c) Composition and working methods of Supervisory Board committees

The Management Board of Kontron AG has not established any committees.

The Supervisory Board has installed an Audit Committee, a Nomination Committee and a Strategy Committee.

The Audit Committee supports the Supervisory Board with the following tasks, in particular: monitoring the accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, the statutory end-of-year audit, including the auditor's independence and any other services rendered by the independent auditor as well as overall compliance. Details on its tasks and duties are contained in the Rules of Procedure for the Audit Committee. Mr. Sten Daugaard is chairman of the Audit Committee. The other members of the Audit Committee are Mr. Martin Betinchamp and Mr. Harald Joachim Joos.

The task of the Nomination Committee is to select suitable candidates for appointment to the Supervisory Board. At the meeting of the Supervisory Board in January 2015, Mr. Rainer Erlat was elected chairman of the committee and Mr. Harald Joachim Joos and Mr. Martin Bertinchamp were appointed as members.

The Supervisory Board also established a Strategy Committee to look closely at matters relating to the company's strategy outside the ordinary meetings of the Supervisory Board in the 2015 fiscal year. Mr. Sten Daugaard, Mr. Martin Bertinchamp, Mr. Harald Joachim Joos and Dr. Harald Schrimpf were appointed as members of the Strategy Committee, and Mr. Rainer Erlat was appointed as its chairman.

### d) Resolutions to promote the proportion of women in management positions in accordance with Sec. 76 (4) and Sec. 111 (5) AktG

▸ Female representation in both the Management Board and the Supervisory Board is to be increased to 30 % by June 30, 2017.

The law stipulating the equal representation of men and women in management positions for certain companies in both the private and public sectors entered into force in Germany in May 2015. This requires the Supervisory Board and Management Board of Kontron AG to set targets for the proportion of women on the Supervisory Board, on the Management Board and in the next two management levels. A deadline also needs to be set for when the respective ratios are to be achieved by.

The Supervisory Board of Kontron AG has set a target of 30 % for the proportion of women on both the Supervisory Board and Management Board, and specified June 30, 2017 as the deadline for implementation.

The Management Board of Kontron AG has also decided to implement a target of 30 % for the first and second levels of management below the Management Board by June 30, 2017.

# Basic features of the remuneration system and remuneration report

## BASIC FEATURES OF THE REMUNERATION SYSTEM PURSUANT TO SEC. 289 (2) NO. 5, SEC. 315 (2) NO. 4 HGB

The remuneration system for the Management Board of Kontron AG and the remuneration paid to individual members of the Management Board was set by the Supervisory Board and was reviewed regularly over the course of the fiscal year. The remuneration system comprises both fixed and variable elements to provide an incentive to foster sustainable and successful development of the company.

The criteria on which Management Board remuneration is measured include the responsibilities and performance of the individual members as well as the global alignment and economic position of the company. Management Board remuneration at peer group entities in Germany and abroad is also considered when setting compensation levels. We describe the essential features of the remuneration system in more detail in the following remuneration report.

## REMUNERATION REPORT

The remuneration report follows the current recommendations of the German Corporate Governance Code. It describes the basic features used to set Management Board and Supervisory Board remuneration at Kontron AG and the income of the individual members of the Management Board and Supervisory Board.

### Report on the remuneration paid to the members of the Management Board

The full Supervisory Board is responsible for setting Management Board remuneration. Remuneration is structured to foster the sustained development of the company, in accordance with the requirements of the German Stock Corporation Act and the recommendations of the German Corporate Governance Code. In detail, it comprises the following main elements:

The fixed components correspond to the annual salary that is paid out in equal monthly installments after deducting the statutory levies.

Variable components are paid in the form of management bonuses if certain earnings targets are met. They are dependent on certain minimum goals being met and are also capped. The earnings targets for the individual members of the Management Board are set each year in advance by the Chairman of the Supervisory Board. The point of departure is a target bonus. The actual bonus can be higher or lower than this. In the reporting year, variable compensation was pegged to the operating result (EBIT) adjusted for the Kontron Group's restructuring cost, as well as the Group's figures for revenues and net debt.

The members of the Management Board received the following total remuneration in the 2015 fiscal year:

It should be noted that the following tables diverge from the presentation of Management Board remuneration in the notes to the financial statements in this annual report (note (38)). This is due to the differences in presentation requirements between the German Corporate Governance Code and IFRSs.

## MANAGEMENT BOARD REMUNERATION – BENEFITS GRANTED

| IN €K | Rolf Schwirz Chairman of the Management Board | | | |
|---|---|---|---|---|
| | 2014 | 2015 | 2015 (Min.) | 2015 (Max.) |
| Fixed remuneration | 600 | 600 | | |
| Fringe benefits | 79 | 85 | | |
| **Total** | **679** | **685** | | |
| One-year variable remuneration | 500 | 500 | 0 | 1,000 |
| Multi-year variable remuneration | | | | |
| POP 2014 (number) | 300,000 | | | |
| POP 2014 (measured) | 259 | | | |
| POP 2015 (number) | | 300,000 | | |
| POP 2015 (measured) | | 85 | | |
| **Total** | **759** | **585** | **0** | **1.000** |
| **TOTAL REMUNERATION** | **1,438** | **1,270** | **0** | **1.000** |

TABLE 005

| Michael Boy<br>Management Board Member Corporate Finance | | | | Andreas Plikat<br>Management Board Member | | | |
|---|---|---|---|---|---|---|---|
| 2014 | 2015 | 2015 (Min.) | 2015 (Max.) | 2014 | 2015 | 2015 (Min.) | 2015 (Max.) |
| 163 | 300 | | | 250 | 250 | | |
| 55 | 62 | | | 26 | 39 | | |
| **218** | **362** | | | **276** | **289** | | |
| 82 | 150 | 0 | 300 | 150 | 150 | 0 | 300 |
| | | | | | | | |
| 100,000 | 0 | | | 100,000 | | | |
| 103 | | | | 103 | | | |
| | | | | | 100,000 | | |
| | | | | | 35 | | |
| 185 | 150 | 0 | 300 | 253 | 185 | 0 | 300 |
| 403 | 512 | 0 | 300 | 529 | 474 | 0 | 300 |

MANAGEMENT BOARD REMUNERATION – ALLOCATION

| IN €K | Rolf Schwirz<br>Chairman of the Management Board | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2015 (Min.) | 2015 (Max.) | |
| Fixed remuneration | 600 | 600 | | | |
| Fringe benefits | 79 | 85 | | | |
| **Total** | **679** | **685** | | | |
| One-year variable remuneration | 404 | 274 | | | |
| Multi-year variable remuneration | | | | | |
| POP 2014 (number) | | | | | |
| POP 2014 (measured) | | | | | |
| POP 2015 (number) | | | | | |
| POP 2015 (measured) | | | | | |
| **Total** | **404** | **274** | | | |
| **TOTAL REMUNERATION** | **1,083** | **959** | | | |

TABLE 006

The performance options serve as variable compensation and have the character of a long-term incentive and risk sharing model. They were extended to the members of the Management Board within the framework of a “Performance Options Plan” (POP) as well as “Basis Performance Options” and “Premium Performance Options”. Their final value is determined by the long-term performance of the business measured on the price of the Kontron share. They will be paid in cash after a holding period of four years or after the contract has expired respectively. Their value is measured on the difference between the average share price over a period of 20 days of trading before the respective exercise date and the agreed exercise price.

| | Michael Boy<br>Management Board Member Corporate Finance | | | | Andreas Plikat<br>Management Board Member | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2015 (Min.) | 2015 (Max.) | 2014 | 2015 | 2015 (Min.) | 2015 (Max.) |
| | 163 | 300 | | | 250 | 250 | | |
| | 55 | 62 | | | 26 | 39 | | |
| | 218 | 362 | | | 276 | 289 | | |
| | 0 | 45 | | | 121 | 82 | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | 0 | 45 | | | 121 | 82 | | |
| | 218 | 407 | | | 397 | 371 | | |

In the 2015 fiscal year, the members of the Management Board received the following deferred compensation from the Performance Options Plan 2015:

VARIABLE COMPONENTS OF MANAGEMENT BOARD REMUNERATION PAID IN PERFORMANCE OPTIONS

| NO | Basis Performance Options | Premium Performance Options |
|---|---|---|
| MANAGEMENT BOARD | Number of POs granted and issued | Number of POs granted and issued |
| Rolf Schwirz | 200,000 | 100,000 |
| Michael Boy | 0 | 0 |
| Andreas Plikat | 100,000 | 0 |
| TOTAL | 300,000 | 100,000 |

TABLE 007

The provision recognized in the fiscal year to cover the payment of long-term components of remuneration from the performance options plan comes to a total of € 250k for the members of the Management Board. Of this amount € 180k can be allocated to Mr. Schwirz, € 59k to Mr. Plikat and € 11k to Mr. Boy.

Another component of variable compensation with the nature of a long-term incentive and risk-sharing character relates to the phantom stock options which were issued to members of the Management Board and the employees of Kontron AG and the entities in the Group in the 2012 fiscal year within the framework of the performance share unit plan. The provision reported for the 2015 fiscal year to cover the payment of long-term incentives from this plan includes € 1k for Mr. Plikat.

### Benefit obligations and Management Board pensions in the 2015 fiscal year

The members of the Management Board have not been issued any fixed pension entitlements in their respective agreements. Consequently, there was no need to recognize a provision for pensions as of December 31, 2015.

In the 2015 fiscal year, Mr. Schwirz received a contribution of € 50k to his private pension plan and Mr. Boy a contribution of € 45k.

### Fringe benefits and other benefits paid to the Management Board in the 2015 fiscal year

- The members of the Management Board did not receive any fringe benefits other than those components of remuneration already listed above.

- Severance payments have been agreed on with the members of the Management Board, Mr. Rolf Schwirz, Mr. Andreas Plikat, and Mr. Michael Boy, that comply with the German Corporate Governance Code. On this basis, severance payments to be paid in the event of premature termination of the respective service agreements for no due cause may not exceed the sum of total remuneration paid in two years or the total remuneration paid for the remainder of the service agreement.

- Under a change-of-control arrangement, Mr. Michael Boy and Mr. Andreas Plikat have the right to terminate their service agreements prematurely in the event of a takeover. Their contractual rights to receive remuneration remain in place until the termination of their respective service agreements. In this case, the board members receive a severance payment not exceeding the sum of total remuneration for two years.

- Mr. Rolf Schwirz also has the right under a change-of-control arrangement to terminate his service agreement prematurely in the event of a takeover. In this case, his right to termination remains until the expiry of the notice given but may not exceed the regular expiry of his service agreement. Upon expiry of the notice given, the board member receives a severance payment equal to his annual remuneration.

- The company did not extend any loans to the members of its Management Board.

- The company has taken out D & O insurance for the Management Board. In the event of a claim, the Management Board member must pay a deductible of 10 % of the loss limited to one and a half times the annual fixed remuneration.

- The members of the Management Board did not receive any benefits from third parties in connection with their activities on the board, nor were any promised to them.

### Report on the remuneration paid to the members of the Supervisory Board

The remuneration paid to the Supervisory Board is oriented towards the size of the company, the tasks and responsibilities of the members of the Supervisory Board and economic position and development of the company. The remuneration of the Supervisory Board is governed in Art. 20 of the Articles of Association of Kontron AG. On this basis, each member of the Supervisory Board receives fixed remuneration of € 41k per fiscal year (Art. 20 (1) of the Articles of Association). In addition, any out-of-pocket expenses incurred by board members in the performance of their duties are reimbursed.

The chairman of the Supervisory Board receives an additional bonus of € 46k per year (Art. 20 (2) of the Articles of Association), the chairman of the Audit Committee receives an additional € 20k and the other members of the Audit Committee receive € 4k (Art. 20 (3) of the Articles of Association). The members of the Supervisory Board receive remuneration of € 4k for membership of a Nomination or Personnel Committee (Art. 20 (4) of the Articles of Association). If a member of the Supervisory Board sits on the board for only part of the fiscal year, he or she receives a portion of the remuneration as shown in more detail below (Art. 20 (5) of the Articles).

The members of the Supervisory Board are covered to a suitable extent by the D & O insurance in the company's own interests. The company pays the respective premiums (Art. 20 (7) of the Articles of Association).

If members of the Supervisory Board are entitled to charge statutory VAT in addition (Art. 20 (6) of the Articles of Association), they will be reimbursed for the VAT on any out-of-pocket expenses they are reimbursed for and on their remuneration as board members.

The members of the Supervisory Board received the following total remuneration including travel expenses in the 2015 fiscal year:

### SUPERVISORY BOARD REMUNERATION

| IN €K | Fixed remuneration | Variable remuneration | Total remuneration |
|---|---|---|---|
| **MEMBER OF THE SUPERVISORY BOARD** | | | |
| Rainer Erlat | 137 | 0 | 137 |
| Sten Daugaard | 74 | 0 | 74 |
| Martin Bertinchamp | 71 | 0 | 71 |
| Harald Joachim Joos | 79 | 0 | 79 |
| Dr. Harald Schrimpf | 59 | 0 | 59 |
| Dr. Dieter Düsedau (since September 22, 2015) | 19 | 0 | 19 |
| Peter Bauer (until August 31, 2015) | 42 | 0 | 42 |
| **TOTAL** | 481 | 0 | 481 |

TABLE 008

- The company did not extend any loans to the members of its Supervisory Board.

- The company has taken out D&O insurance for the Supervisory Board. At present, this does not include any deductible – as explained in the Declaration of Compliance issued by the Management Board and Supervisory Board on December 08, 2015 – as the members of the Management Board and Supervisory Board are not of the opinion that a deductible could improve the motivation or enhance the sense of responsibility with which the Supervisory Board performs its duties.

- No other remuneration, such as for consulting and brokerage services rendered by members of the Supervisory Board, was paid nor was any agreed.

## Objectives and strategies

Thanks to our position as market leaders, our global positioning and our innovative products, we are exceptionally well-placed to benefit from the potential growth of the ECT market around the world. Our business units are thoroughly acquainted with their customers' industries, and our R & D unit boasts extensive expertise in a wide range of technologies and technological trends. Our recognized know-how is based in part on our long-standing and close relationships with our customers and partners. These core skills and our diversification between various different sectors make us one of the few globally active full-line suppliers in the ECT market. Our portfolio of products and services is also supplemented with the latest new developments in connection with the IoT.

▸ We are one of the few full-line suppliers in the ECT market and we are constantly expanding our portfolio with products for the IoT market.

The ECT sector is increasingly being dominated by the "Internet of Things" megatrend (IoT), which essentially describes the networking of smart devices. This opens up a large number of new fields of business and opportunities for us. Other market opportunities are arising for example as a result of trends in the field of mobility, "green" technologies (especially with respect to energy-efficiency) and the miniaturization of electronics.

### "NEW KONTRON" PROGRAM MEASURES IMPLEMENTED: TAKING ADVANTAGE OF THE EFFECT IN THE LONG TERM

"New Kontron" was introduced in 2013 as a comprehensive program to cut costs and enhance efficiency. In the 2015 fiscal year we successfully implemented all of the program's main measures. The effects primarily relate to our cost structure, which continuously improved during the reporting year. Even following the conclusion of the program, our focus is still on optimizing our cost structure and corporate infrastructure. We are continuing our efforts to consistently develop our internal cost and efficiency management, and we will reproduce and continue to optimize the effects of the measures beyond the 2015 fiscal year.

▸ We have improved our cost structures by bringing the New Kontron program to a successful conclusion.

In 2015, we reached a milestone in connection with the number of contract manufacturers we work with. As part of the "New Kontron" program, we reduced the number of strategic partners from its previous level of more than 20 to just five. This allows us to bundle higher order volumes with a smaller number of contract manufacturers and reduce complexity on the operating side – resulting in lower costs, higher quality and reduced delivery times.

### MEDIUM AND LONG-TERM GOALS IN CONNECTION WITH THE NEW CORPORATE STRATEGY

Our goal is still to become the leading global provider of ECT products and solutions. To this end, we intend to not only anchor our market leadership in the strategically important segments, but to build on it and significantly increase revenues and our EBIT margin in future.

▸ We intend to extend our market leadership by expanding in the strategically important segments and raising both revenues and the EBIT margin.

The foundation for the implementation of our strategic goals lies in the global management structure and the alignment of the business units to the market and our focus on the markets for the relevant applications. The company currently maintains locations for sales and marketing, research and development (R&D) and its global operations on three continents (North America, Europe and Asia). These reinforce our market, customer and production profile. In the future we will continue to focus on all relevant markets and serve our customers as the innovation leader on the market and a provider of strong and reliable standard and bespoke solutions.

On May 19, 2015, we unveiled our new corporate strategy to the capital market at a capital markets day in Augsburg. We intend to develop Kontron into an integrated hardware and software provider in order to fully exploit the enormous growth potential associated with the "Internet of Things". Our hardware products are already very successful on the market, and give us excellent access to customers. We want to develop specific embedded software solutions with our existing customers and in so doing enable them to develop suitable software and middleware solutions for their IoT hardware that enable secure networking and data transfer.

▶ The IoT platform strategy is the foundation for our future IoT products.

In this context, we defined a strategy for an IoT platform and made progress toward its implementation during the reporting year. With an integrated set of highly relevant components for embedded software – from security software and various software packages through to data analytics – we are responding to rising customer requirements and demand in connection with the Internet of Things. Innovations in this field are becoming increasingly important for our customers, and reinforce us in our strategy of developing software / middleware IoT solutions in addition to hardware. In this context, the IoT platform strategy is the foundation for our future IoT products. You can read more about this in the section "Research and development" starting on page 80.

We also want to add further services to our portfolio of products. Our customers already benefit from the wide range of support services we offer, as well as numerous training products. We also offer our services to customers in connection with product development processes, as well as in connection with their application and operation.

Our top priorities include access to the market and successful customer support. We are also constantly expanding every area of our business by making more use of existing structures and tapping into more indirect distribution channels. We aim to achieve this by means of intensive market cultivation and the global acquisition of customers with a special focus on selected regions in Asia.

▶ The strategic partnership with Ennoconn will have a positive impact on our ability to meet our goal of becoming a leading provider of combined hardware and software solutions.

We made decisive progress on our Asia strategy in 2015. For example, we enlarged and substantially modernized our facility in Beijing, and acquired a 100 % share in our Indian subsidiary. The Management Board also held intensive talks with potential strategic partners in the region. As a result, Kontron intends to enter into a strategic partnership with Ennoconn Corporation in Taiwan (as announced on January 22, 2016). Ennoconn is a subsidiary of Foxconn, one of the world's largest producers of electronics and hardware. As part of this partnership, Ennoconn plans to acquire a 49 % share in Kontron Canada Inc. (KCI), with Kontron retaining the other 51 %. Ennoconn is paying $ 57.3 m (about € 52.5 m) for the share in KCI, which greatly enhances our financial flexibility.

The partnership will put us in an outstanding strategic position to become a leading provider of combined hardware / software solutions in the medium term. The Ennoconn / Foxconn network also greatly improves our access to the market in the APAC region. We also expect the partnership to reduce our costs for materials and production, and therefore significantly improve our market opportunities in the field of communications in particular. We believe that the access to production capacities in Asia that this gives us offers clear opportunities to develop our channel business.

Taken as a whole, the aforementioned developments and projects as well as other selected initiatives serve to consistently develop our business model and make the best possible use of opportunities in a dynamic market environment.

## Corporate management

To steer its operations, Kontron uses a mix of different financial and non-financial indicators that provide insight into the current status of operations and allow the right decisions to be made regarding the future development of the company. These take account of both short-term and long-term factors.

The Management Board of Kontron AG is responsible for the overall planning and measures taken to realize operating and strategic corporate goals. The primary objective is to increase the business value in a sustained fashion by generating profitable growth. The long-term planning is mainly based on technological developments and trends, market studies, analyses of the competition, developments on the procurement markets, the current business development and the most recent reports from our three business units. In the planning process, the heads of the business units make assumptions for the relevant forecast periods. Thereafter, the Management Board and management accounting then check the plausibility of the assumptions and methods used, also in planning meetings with the respective heads, before drawing up a plan for all units of the Kontron Group.

The key performance indicators in this respect are revenues, gross profit margin, EBIT, EBIT adjusted for restructuring cost, and net debt (current and non-current financial liabilities less cash and cash equivalents). As of the 2016 fiscal year, in addition to restructuring cost, adjusted EBIT also contains non-recurring costs, which will be incurred primarily with regard to the partnership with the Ennoconn Corporation. Other supporting management indicators include, for example, sales-oriented figures used in the planning of operations, such as the order intake and order backlog, or non-financial indicators, such as the headcount.

To date, for historical reasons, our global group IT environment has been made up of a number of different Enterprise Resource Planning (ERP) systems provided by SAP and other providers. In the 2015 fiscal year we laid the foundation for the introduction of a new, global SAP-ERP system with which we are establishing a single effective and standardized IT system for the entire Group. We have already successfully introduced the system at our French company, and we will be switching the six largest group entities to the standardized system in April 2016 in order to incorporate the majority of the Kontron Group into a single IT landscape. The new system will make a crucial improvement to transparency and productivity in the company by enabling standardized global processes.

▶ In the past year, we also laid the foundation for a uniform IT system for the entire Group. It has already been rolled out in France. The next six largest group entities will follow in April 2016.

We analyze any deviations from plans in our monthly reports to measure and compare the achievement of the goals we have set. This is an important source of information for the Management Board, the Supervisory Board and the respective executives when monitoring the current development of the company. In addition, information is obtained from finance, sales and distribution, research and development, and global operations. Analyses of budget variance reveal the main causes for any significant discrepancy to budget and allow us to take prompt counteraction where necessary.

The treasury department also reports monthly (or weekly if necessary) on the financial position of the Group. These reports show the latest development of important financial indicators such as liabilities to banks, liquidity, net debt and the extent to which credit lines have been drawn.

We prepare a quarterly risk management report as a supplement to the corresponding monthly report. The entities and functions assess their risks in both quantitative and qualitative terms. The risk management report allows us to react promptly and effectively to changes in the risks and opportunities we face.

With all these elements, we have a management and reporting system in place that makes the monthly business development transparent.

DEVELOPMENT OF RELEVANT PERFORMANCE INDICATORS

| | | 2015 | 2014 |
|---|---|---|---|
| Revenues | € million | 467.7 | 456.8 |
| Gross margin | € million | 121.8 | 118.5 |
| EBIT | € million | 6.2 | –5.1 |
| EBIT (adjusted for restructuring cost) | € million | 14.5 | 8.8 |
| Net debt | € million | 29.4 | 20.3 |

TABLE 009

## Research and development

We continue to see ourselves as a technological pioneer in the field of embedded computing. The key to this are the experienced and capable employees in our research and development (R&D) department. Their innovative strengths and technological expertise give us various unique selling propositions in an increasingly competitive global market. Thanks to our global presence, we are also able to identify any key trends at an early stage and use this knowledge to develop competitive products for our customers.

▶ We made significant progress in the 2015 fiscal year in implementing our strategy of developing innovative modularization and platforms concepts.

2015 was a particularly important year for us with respect to our technological positioning in the changing embedded market. During the reporting year, we made significant progress with respect to the strategy introduced in the prior year of developing innovative modularization and platform concepts. Our even stronger focus on standardized products and platform solutions allows us to cater to our customers' individual preferences even better and faster. Our standardized products and platform solutions stand out in particular on account of their reusability, flexibility and interoperability.

The focus of our strategy during the reporting year was on the implementation of an IoT platform, because we are constantly registering new customer requirements and inquiries for innovations relating to the "Internet of Things". The trend toward networked machines and devices is becoming increasingly important for our customers, which is why we want to reinforce our activities in the field of software / middleware in addition to hardware. With our strategy for an IoT platform, we are laying the foundation for our future IoT products in the field of software / middleware.

▶ The trend toward networked machines and devices becoming increasingly important. In this regard, we are working intensively on implementing an IoT platform.

Many of the highly complex IoT innovations are based on ECT technologies. The main challenge posed by these new technologies lies in connecting intelligent devices that have so far been developed in isolation in terms of their connectivity, programming, data formats and security. The majority of products in the ECT business are not yet prepared for this. The more devices are connected with each other, the greater are the demands placed on combined hardware and software solutions, particularly with respect to the speed at which data is transferred as well as its security and capacity for analysis. That is why innovations, particularly in the field of security, are becoming increasingly important, and more and more frequently constitute a decisive factor for our customers. The challenge for our R & D department is to develop reliable, scaleable and energy-efficient products and solutions for our customers or optimize existing products and solutions. IoT products and services are becoming a key segment for our company – and therefore a decisive innovation factor that facilitates significant growth.

An effective service organization is important for success in both the embedded and IoT businesses. In the spring of 2015 we significantly expanded our service program and presented it to our customers. With this significant addition to our extensive portfolio of products, we are promoting customer loyalty and satisfaction. We see our services as an even more important factor for our future success since they also allow us to help our customers to use our hardware and software products.

In 2015 we achieved another milestone in our IoT strategy in Malaysia. Together with our partners Cisco, Dell, IBM, Intel and the University of Science, Malaysia, we opened the CREST "Internet of Things" Cloud Data Center and Research Lab (ICDC Research Lab) in Penang. The ICDC Research Lab allows Malaysian companies to promote the development and marketing of innovative IoT products and solutions, which we then also use to implement new customer projects and standards around the world. The focus is on the global marketing of medical products, solutions and services. The ICDC Research Lab has also set itself the goal of training new IoT specialists to meet local demand. This also benefits our locations in the region – and therefore the entire Group.

In addition to benefits in terms of costs, the CREST project and the general expansion of our capacities in Asia also give us good access to local colleges in order to attract highly qualified engineers to our company. Other advantages include proximity to our Asian customers as well as the opportunity to develop customer and market-specific products.

## GLOBAL DEVELOPMENT APPROACH

During the reporting year we continued to consistently harmonize our R&D databases around the world with the aim of transitioning all global R&D teams from their stand-alone, individual planning to an overall, strategic planning system. The entire global R&D unit now works with the product planning function on a single platform. This results in synergies in the collaboration between our global centers of competence, as well as reductions in R&D expenses.

As part of our group-wide harmonization activities, we also improved the coordination of processes and planning of resources between the various global development teams, as well as their cross-border collaboration. At our company, many development projects are worked on by international teams of engineers working together, which significantly improves productivity and therefore contributes to the success of our company. To maximize customer service and bind customers to our company, projects are worked on by experts with the relevant experience located closest to the customer. The global organization serves as the backbone for the regional units.

We continued to expand our ECT development capacities in Asia in 2015. Motherboard development was relocated to Penang in Malaysia in the spring of 2015 by which smaller R&D units were transferred to a large development center. The new motherboard development center was fully functioning within just a short space of time, and is already handling a large number of modifications for customers. The center is also where we are working on the development of our standard road map for motherboards for the entire Group.

▶ We redefined the responsibilities of our global R&D organization during the reporting year, which have now shifted from pure hardware solutions to include software and system solutions.

In order to further improve productivity and support the new strategy of developing software / middleware, we redefined the responsibilities of our global R&D organization during the reporting year. This involved distributing expertise more evenly between the various units and shifting capabilities away from pure hardware and increasingly toward software and systems solutions in future. We can now also align our R&D capacity more specifically to supporting customers' system and solution needs.

We employed 405 people in our research and development function as of December 31, 2015 (prior year: 419 employees). We added middleware / software capabilities to the R&D department.

## HIGHLIGHTS: INNOVATIONS AND DEVELOPMENTS IN THE 2015 FISCAL YEAR

2015 saw a number of exciting innovations in the fields of hardware and software.

During the reporting year, we further expanded our portfolio in the field of board-level products in order to be able to offer our customers an even broader range of products and build up our strong position in the market for modular processor boards even more. The introduction of the new Braswell, Broadwell, Skylake and XEON-D server product lines added various new forms to our successful product lines. These new architectures have reduced energy requirements, which will make it possible to develop even more powerful systems with even greater energy efficiency in the future. These platforms also meet the requirement for greater security and improved connectivity, both of which are particularly important with respect to the IoT.

Our new FusionClient generation of displays allows industrial IoT solutions for display systems to be integrated into modern industrial automation facilities. The scaleable and robust Human Machine Interface (HMI) is a particularly powerful, latest-generation display system and therefore an important member of our "IoT-ready" family of industrial computer platforms. The FusionClient is based on our holistic HMI design methodology which we use to improve the user-friendliness and functionality of our latest display solutions.

▶ HMI: development of particularly high-performance next generation display system.

We launched the first product in our new range of tablet products onto the market in the form of the 10" Endurance tablet. Endurance differs from other tablets available on the market on account of its extreme robustness and a display that is easy to read even in direct sunlight. Like commercial tablets, it also features comprehensive multi-touch functions.

We also unveiled the new TRACe™ HMI for rail transport during the reporting year. The fanless display, which is certified in accordance with the rail standard EN50155, was developed specifically for rail transport systems and features state-of-the-art touchscreen technology. The basic components can be used in a number of different ways, allowing the developers of train safety systems to make individual modifications and original equipment manufacturers (OEM), and systems integrators to rapidly realize the applications they want. This in turn reduces the time-to-market and certification costs.

▶ TRACe™ HMI: a fanless display designed specifically for rail transport systems.

The COBALT 904 avionics server is a new addition to our established COBALT family of compact systems for the global aviation industry. The Kontron COBALT 904 was developed specifically for the rapid development and implementation of in-flight entertainment and ground-based radio communications systems in the field of avionics. The system stands out on account of its comprehensive support for a range of different interfaces, which is a requirement for commercial flight operators as well as the operators of business and VIP jets. We also expect certification in accordance with the DO-160G avionics standard to be awarded in the first half of 2016.

▶ COBALT 904: developed specifically for the rapid development and implementation of avionic systems.

In the reporting year, we reached some important milestones on the path to a solid and innovative IoT platform with our software / middleware project. We designed data and bus architectures that offer effective and flexible solutions relatively independently of the operating system used. Our goal is to present our new software / middleware platform to the market and roll it out to the first key customers in 2016.

We are playing a central role in developments in the fields of technology and standardization by actively participating in standardization bodies such as the PICMG and SGET. Various standards were put in place or enhanced during the reporting year in order to standardize the latest technologies and be able to offer customers versatile and cost-effective processor solutions. The PICMG COM Express Type 7 and SGET SMARC 2.0 specifications, which are being published in 2016, should be mentioned in this regard.

# ECONOMIC SITUATION

## General economic and industry-specific conditions

▶ In 2015, global GDP rose by 3.1 %. Growth was strongest in the USA.

Although the global economy continued to grow in the 2015 fiscal year, the speed at which it grew fell short of expectations as it has done in previous years. This was mainly due to the persistent crisis in countries such as China, Brazil and Russia. This could in turn be partly attributed to the sharp decline in the price of oil, which continued throughout the entire reporting year. This was exacerbated by underlying sources of uncertainty, which in addition to the continuing geopolitical turbulence included factors such as the significant overall decline in commodity prices and the looming raising of interest rates in the US. Even the booming US economy had no impact on the overall trend. The International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) calculated that the GDP of the global economy grew by just 3.1 %* in 2015 (2014: 3.4 %).

The trend in the US (the world's largest economy) was much more robust. The country's economy grew faster than experts had anticipated in 2015, with GDP growing by 2.5 %. Growth was still fueled by private consumption, which grew by more than 3.0 %* for the first time since the financial crisis. However, the pace of investment had fallen noticeably by the end of the year.

The pace of growth in China, Asia's biggest market, continued to slow. The GDP growth of 6.9 %* calculated by the IMF for the reporting year was its lowest level since 1990. The government's target of 7.0 % was missed yet again. For 2016 the IMF once again lowered its forecast for China to just 6.3 %. Stronger private consumption and higher demand in the service sector could compensate for some of the structural problems facing the world's second-largest economy in the medium term.

The economic recovery in the EU and eurozone continued into its third successive year. However, the trend in the eurozone is still modest in comparison to the growth of the global economy, with GDP increasing by just 1.6 %* (according to the European Commission). This growth was supported by an increase in domestic demand in most eurozone countries. In the fall, the European Commission expected GDP in the EU to rise in the short term as a result of additional public investment in light of the refugee issue, which has been at the center of attention since the summer of 2015. In the long term, however, the European Commission expects the impact on growth to be minor.

The German economy grew slightly faster than the average for the EU in the reporting year. GDP rose by 1.7 %, exceeding the ten-year average of 1.2 % for the second year in a row. The economy benefited from both private and state consumption. Many economists classify public spending on refugees as an economic stimulus program – including with respect to 2016. According to experts, consumption will remain the main driving force behind Germany's economic recovery. Growth in 2016 is expected to be on a par with 2015.

* As of March 2016

## DEVELOPMENTS AND TRENDS IN THE ECT MARKET

The traditional ECT market is growing at rates that are consistently in the high single-digit range around the world. Growth in certain regions is even stronger and reaching double digits, in Asia in particular.

Growth is still being driven by trends relating to the "Internet of Things" (IoT), for example in connection with networked production (Industry 4.0.). There is demand for more and more smart devices and machines to be securely and effectively networked. We develop innovative products and solutions for our customers that meet these growing requirements.

▶ A major driver of the ECT market is the "Internet of Things" (IoT).

Overall, the development of new IoT concepts and solutions offers a variety of opportunities for our company. Unlike the conventional ECT market, growth in the field of cyber security alone, as a sub-segment of IoT solutions, i.e., embedded middleware / software, is estimated to be as much as 25 % per year. That is why, in 2015, we focused on developing an IoT platform as a stable basis for further innovations for the IoT environment. Our main focus is on developing a complete embedded software / middleware solution in order to gain market share in this segment in the medium term. In this way, we are responding to our customers' rising demand for ECT / IoT software solutions, which is a trend that we see as an important source of growth.

Industrial networking is a significant challenge for our clients. The consultancy firm Frost & Sullivan expects there to be 50 billion networked systems around the world by the year 2020. Considering this, our clients face the task of developing suitable software for their products and solutions (or having it developed by someone else). The substantial and challenging complexity of developing and integrating software for ECT solutions often delays the introduction of new products. As a result, clients are looking with growing urgency for external solutions that allow them to network their devices quickly and securely in order to be able to focus on their own core capabilities. That is why we are working hard to make our IoT platform – which serves as the basis for the development of software and middleware solutions – market-ready. Our IoT platform and corresponding solutions benefit our customers in a number of different ways, for example by reducing operating complexity, accelerating market launches and eliminating sources of instability.

The security of data management plays a pivotal role in this context, and serves as the basis for secure networking in the IoT environment for our customers. That is why the focus of our basic development activities during the reporting year was on connectivity solutions that are based on international standards and security mechanisms in the field of hardware and software development. Considering the often very large volumes of data involved, we also looked closely at data processing solutions within IoT concepts.

The trend toward miniature formats such as SMARC, COM, Express-Mini and Pico-ITX is also having a positive impact on market growth. Requirements for energy and space-saving designs are becoming increasingly complex but at the same time are raising the demands made on the processors used. Against this backdrop, Kontron offers a full range of modular and cost-effective products that integrate seamlessly into IoT products. This is another area in which platforms offering full scalability are gaining ground.

## TRENDS IN THE BUSINESS UNITS AND STRATEGICALLY RELEVANT MARKETS

Kontron is divided into three business units, each of which operates at a global level and focuses on a different market. The “Industrial” business unit concentrates on markets for industrial automation, medical technology and infotainment. The “Communications” business unit covers the telecommunications market. The “Avionics / Transportation / Defense” unit bundles our activities on the markets for civil aviation, transport, security and defense.

### INDUSTRIAL

The market for industrial products saw renewed strong growth during the reporting year. This trend benefits us in two ways: in 2015 we increased the volume of revenues we generate in our Industrial business unit and gained market share in two verticals; “Industrial Automation (IA)” and “Medical (ME)”.

▶ We are positioning ourselves with ever increasing success as a technology partner of the largest providers of automation and OEMs in the field of industrial automation.

The Industrial Automation business line continues to outperform the market. The strategic focus as a technology partner for the main automation suppliers and the large OEM’s continues to gain momentum. As the largest non-Asian based embedded computer vendor we continue to make inroads into the three main industrial countries: Germany, Japan and the US. In 2015 we continued to leverage our Industrial Computer Platform strategy. The main value propositions of this strategy are “Smart Automation”, “Maintenance-free” and “Forever Young”. With these propositions we are meeting the expectations of our industrial customers and help them reduce their total-cost-of-ownership. The revolutionary new FusionClient HMI platform received positive customer reviews since its introduction in the reporting year.

For 2016 we expect to grow the business slightly above market growth rates due to two major factors: the ongoing trend towards outsourcing CPU technology and the new applications required by the Internet of Things.

Our Medical business line delivered strong growth in 2015. Customized solutions integrating efficient standard or modified HMI and computer platforms were the major growth drivers. Also our high-end medical servers for graphic applications continued to grow despite the fierce competition from other market players.

We have started initiatives for the medical technology market in all regions. Unique lifecycle management combined with a flexible and controlled supply chain continues to deliver customer value. In 2016, we assume that new product programs will be initiated in conjunction with customers and expect to continue to outperform the market average. Our focus on design wins at the TOP-30 medical OEM’s will be further strengthened by further extending the focus to this initiative.

The Infotainment (IN) business line consists of the two sub-segments: gaming and retail. The weak replacement parts market and a lack of new casinos meant that the gaming market fell substantially short of expectations in 2015. Kontron is not expecting any radical innovation in this segment in the near future. Skill-based gaming is a potential catalyst, but not likely for another few years. We expect the gaming segment to remain weak and will plan accordingly.

Digital innovation is driving the retail market, with new concepts for Interactive “Digital Out of Home Advertisement” (DOOH). The next generation of vending machines, fitness devices and digital signage will provide interactive content, mobile / wearable integration and advanced analytics. Various retailers have started to develop new products on the basis of Kontron technologies. We expect the first products to be launched in the course of 2016 and that this will boost our revenues in the future.

### AVIONICS / TRANSPORTATION / DEFENSE

In the Defense business line of the Avionics / Transportation / Defense business unit, the commercial off-the-shelf (COTS) or modified COTS trend continues to provide defense contractors with lowest cost solutions which nevertheless meet the requirements for their applications. The business line is using common platforms with standard building blocks to provide flexibility in multiple use cases which drives economies of scale with increased margins. Higher performance CPUs, thanks to our standard modules, are winning greater acceptance, also as computing solutions in embedded defense applications. Again, our strategy using our common platforms puts us in a strong position to gain traction with customers in “make versus buy” decisions.

In 2015, the Avionics business line developed next generation Wi-Fi cabin connectivity for narrow body airplanes and business jets. The In-Flight Entertainment (IFE) market continues to demand increased wireless bandwidth using faster CPUs, increased memory and next generation Wi-Fi technology. Development of application-ready platforms using the latest generation of Intel CPUs allows customers to take advantage of increased performance while decreasing time to market and certification costs. Thanks to this strategy we have positioned ourselves as the leading solutions provider for on-board connectivity in the field of aviation and expect this to have a positive effect on our earnings in coming years.

The rail and in-vehicle market segments continued to show growth in North and South America as passenger safety and freight security continue to be the drivers for solutions in video surveillance and positive train control (PTC). Modern systems increasingly rely on safety critical ECT solutions which have stringent requirements and certification barriers for market entry. Our expertise in these areas with innovative solutions platforms has and will benefit us in this growing market. In addition, our IFE solutions for aviation are easily transferable to passenger entertainment solutions via wireless internet on trains and buses, which allows us to realize economies of scale and share development costs across our business lines and optimizes development costs.

▶ The rail and in-vehicle market segments greatly improved their position on the markets in North and South America.

In sum, we assume that our Avionics / Transportation / Defense business unit will improve at an above-average rate in the 2016 fiscal year due to customer orders postponed from the past fiscal year, thus making a contribution to the success and profitability of the company in the future.

## COMMUNICATIONS

During the reporting year, the telecom industry maintained its aggressive path towards the advancement of SDN (Software-Defined Networking) and NFV (Network Functions Virtualization). The opportunity for service providers to achieve an unprecedented level of service agility, combined with a reduction in operating expenses was too great to miss. These cloud-based network technologies are very significant and will lay the foundation for the upcoming roll-out of 5G wireless networks by 2020. With the introduction of "Internet of Things" (IoT) use cases across multiple markets, the technology behind 5G has meaningful and positive implications for revenues.

▶ In telecommunications we are actively seeking cooperations that will allow us to expand our offering to our customers.

The result is a telecom market in transition – a shift from single vendor lock-in to an ecosystem of open source and collaborative ISV vendors. Kontron is actively expanding its partnerships to jointly offer end customers a fuller range of versatile and distinct solutions. In the video space, the Kontron portfolio of solutions and services continues to expand, offering cable and carrier operators customer premise cloud-based video and TV programming, as well as network-level video transcoding.

New opportunities have risen in the hosting and cloud service provider segments due in large part to recent Kontron product launches and collaboration with SDN solutions. The focus is two-fold: realizing greater efficiencies by automating networks with software and implementing a greener approach with high density computing solutions that supply higher performance levels using considerably less power.

In terms of the outlook, the market is expected to hold positive growth opportunities as Kontron continues to strengthen its position as a specialized 'go-to' infrastructure partner for 4G / 5G, IoT, video and cloud computing.

# Results of operations, net assets and financial position

## RESULTS OF OPERATIONS

### Summary of the results of operations

Due to the excellent performance in the fourth quarter of the reporting year we were able to meet our revised revenues forecast for 2015 of between € 460 and 470 million. The revenues generated of € 467.7 million are therefore at the upper end of the revised sales forecast, albeit still below the revenues forecast made in the financial statements for the 2014 fiscal year of between € 490 and 510 million. However, both the gross margin and adjusted EBIT (after eliminating restructuring cost) lie within our original forecast: the gross margin of 26.1 % is above the target of 25 % and also the figure recorded in the prior year (26.0 %). Adjusted EBIT after eliminating restructuring cost of € 14.5 million, which translates into an EBIT margin of 3.1 %, is also within the corridor of 3 to 5 % originally forecast and therefore above the revised expectations.

In the fiscal year 2015, we generated revenues of € 467.7 million, a gross margin of 26.1 % and an adjusted EBIT of € 14.5 million.

As planned, we implemented all of the essential measures associated with the New Kontron program to cut costs and enhance efficiency in the reporting year and have therefore improved our cost structures and gross margin in comparison to the prior year. On the other hand, the associated restructuring cost continued to burden earnings, as in the prior year.

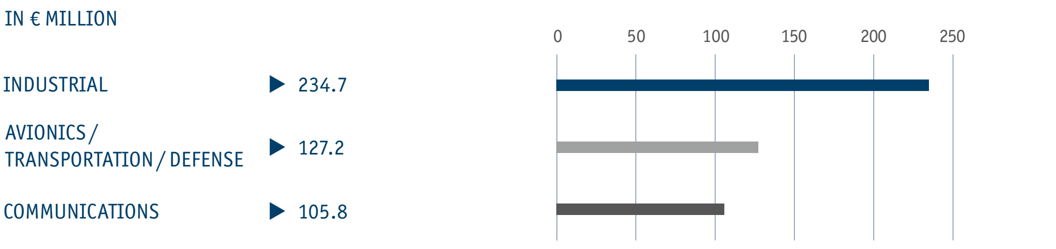
Income / loss from continuing operations improved significantly in the reporting year, coming to a net loss of € 2.7 million compared to a net loss of € 6.4 million in the prior year.

### Development of revenues

We increased revenues by 2.4 % in the 2015 fiscal year to € 467.7 million (prior year: € 456.8 million) with the developments of the individual business units varying.

In comparison to the prior year, we managed to increase revenues by 2.4 %.

REVENUES 2015

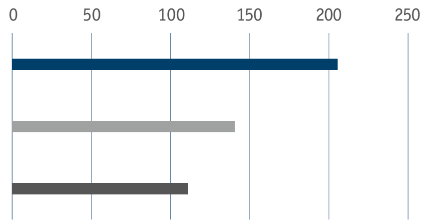



GRAPHIC 003

REVENUES 2014

IN € MILLION

| | |
|---|---|
| INDUSTRIAL | 205.4 |
| AVIONICS / TRANSPORTATION / DEFENSE | 140.4 |
| COMMUNICATIONS | 111.0 |




GRAPHIC 004

By promoting business with key customers, the Industrial segment generated revenues growth of 14.3 %.

When viewed by business unit, Industrial recorded growth of 14.3 % to € 234.7 million (prior year: € 205.4 million). The segments of medical technology and industrial automation recorded growth that exceeded expectations. This was more than sufficient to offset the decline in revenues from the Infotainment segment. As in the past, our business with key customers contributed to this growth. In addition, we adapted our business model, as is customary in the sector, by selling those products that have reached the end of their life cycle to a specialized dealer. This involved increasing the production in a final batch and selling the entire batch to the dealer. The dealer assumes the risk of storage and sale to the respective customers on its own account. The total contribution to revenues from the adjustment in the business model for end-of-life products came to € 19.0 million in the 2015 fiscal year. Avionics / Transportation / Defense generated revenues of € 127.2 million (prior year: € 140.4 million), a decrease of 9.4 %. This is largely due to the project business in Poland, which was no longer pursued in the reporting year. Communications also saw declining revenues, which at € 105.8 million were below the level of the prior year (€ 111.0 million). This is a reflection of the decline in business with hardware-based solutions for the telecommunications market.

From a regional perspective, revenue trends varied from one region to the other. Significant growth was recorded by North America and APAC.

Revenue trends varied from one region to the other. While sales grew in North America and APAC, they contracted in EMEA. However, the revenues of € 232.9 million generated in the EMEA region nevertheless made it the largest region for the Group, despite the decrease of € 24.6 million (prior year: € 257.5 million). It therefore accounted for 49.8 % of total revenues (prior year: 56.4 %). In North America, revenues rose from € 172.6 million to € 205.1 million. This increase is mainly due to the adjustment of the business model described above and exchange rate gains. As a result, the share of total revenues accounted for by this regions increased to 43.9 % (prior year: 37.8 %). The APAC region grew over the reporting period, with revenues jumping 11.2 % to € 29.7 million (prior year: € 26.7 million). Its share in total revenues rose to 6.3 % accordingly (prior year: 5.8 %).

## REVENUES BY BUSINESS UNIT

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | € million | % | € million | % |
| Industrial | 234.7 | 50.2 | 205.4 | 45.0 |
| Communications | 105.8 | 22.6 | 111.0 | 24.3 |
| Avionics / Transportation / Defense | 127.2 | 27.2 | 140.4 | 30.7 |
| **TOTAL** | **467.7** | | 456.8 | |

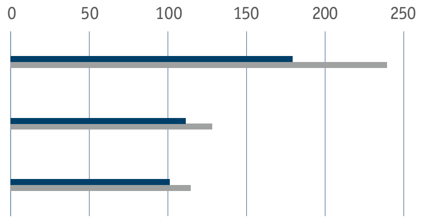
TABLE 010

### Order situation

The order situation, which comprises both the order intake and order backlog, was disappointing in the reporting year. The order intake fell to € 391.8 million, which led to a negative book-to-bill ratio of 0.84. It should be noted that the order intake is booked at the full amount on the date of the order, even if the order involves a master agreement for a number of years. A higher number of master agreements was recorded in 2014 which led to a rise in the order backlog of € 45.0 million in the 2014 fiscal year. However, these will not be executed until later accounting periods. We have already initiated measures to manage the order intake and order backlog. In this regard, we began to realign sales and distribution accordingly.

## ORDER INTAKE

| IN € MILLION | 2015 | 2014 |
|---|---|---|
| INDUSTRIAL | 179.4 | 239.2 |
| AVIONICS / TRANSPORTATION / DEFENSE | 111.3 | 128.1 |
| COMMUNICATIONS | 101.1 | 114.4 |




■ 2015
■ 2014

GRAPHIC 005

### Cost reductions show first tangible results

Manufacturing costs increased from € 338.3 million to € 345.8 million, more or less directly in proportion to revenues. In spite of the higher exchange rates, the ratio of the cost of goods sold to revenues in 2015 was kept at 73.9 %, comparable to the prior year.

▶ The strength of the USD had a negative impact on the cost of materials. By contrast, other production costs were reduced.

The cost of materials increased by € 24.4 million to € 303.1 million (prior year: € 278.7 million) with revenues rising simultaneously. As a result, the ratio of the cost of materials to revenues increased to 64.8 % (prior year: 61.0 %). This reflects the negative impact of the USD exchange rate. We managed to reduce other production costs from € 30.6 million to € 27.5 million in the 2015 fiscal year. In relation to revenues, this represents another improvement of 0.8 % to 5.9 %.

The amortization of capitalized development projects remained virtually unchanged on the prior year at € 15.6 million (€ 15.2 million). This includes impairment losses of € 2.3 million (prior year: € 3.3 million) arising from the annual impairment test of development projects that have already been capitalized.

Because the project business in Poland was no longer pursued in the reporting year, order-related development expenses have been virtually eliminated.

As a consequence, gross profit increased from € 118.5 million to € 121.8 million – a plus of 2.8 % in comparison to the prior year. The gross margin of 26.1 % was marginally higher than in the prior year of 26.0 %.

### Slight increase in operating costs

▶ Operating expenses rose marginally in the fiscal year. Selling and marketing cost still account for the largest share.

In spite of the negative currency effects in the reporting year, operating expenses only increased slightly by € 1.4 million to € 111.6 million (prior year: € 110.2 million). However, they have decreased relative to total revenues, slipping from 24.1 % to 23.9 % in 2015.

The largest share of operating expenses is accounted for by selling and marketing cost which rose in the reporting year by € 0.9 million to € 45.4 million, primarily on account of higher personnel expenses. Research and development cost decreased in the 2015 fiscal year to € 30.0 million (prior year: € 32.8 million). However, the overall cost of research and development (i.e., prior to the capitalization of development cost) decreased by € 2.1 million to € 42.0 million (prior year: € 44.1 million). However, capitalized development cost rose from € 11.3 million to € 12.0 million. The reduction in primary development expenses is due to the decrease in employees in this area and efficiency gains on account of the new global alignment of R & D. The ratio of research and development cost (excluding order-related development cost) to revenues came to 6.4 % in the reporting year (prior year: 7.2 %).

General and administrative cost amounted to € 36.2 million, up € 3.2 million on the prior year. The increase is chiefly due to higher legal expenses and consulting fees as well as an increase in depreciation and amortization of IT.

### Decrease in restructuring cost as planned

After amounting to € 13.9 million in the 2014 fiscal year, restructuring cost came to € 8.3 million in the reporting year. This mainly consists of personnel-related measures (e. g., severance benefits, retention incentives, and the benefits agreed on in the socially compatible redundancy plan such as travel allowances and shuttle buses), consulting costs as well as the loss on the disposal of properties.

▸ Restructuring cost of just € 8.3 million are well down on the prior year.

Other operating income amounted to € 26.7 million in 2015 compared to € 11.6 million in the prior year. This significant increase is primarily due to the rise in exchange rate gains to € 23.0 million (prior year: € 11.0 million) as well as income from the deconsolidation of subsidiaries of € 2.0 million. Other operating expenses increased from € 11.1 million to € 22.4 million, with exchange rate losses of € 22.2 million (prior year: € 10.6 million) accounting for the majority.

In sum, operating income before financial result and income taxes (EBIT) from continuing operations improved by € 11.3 million, closing the year at a profit of € 6.2 million, compared to a loss of € 5.1 million in the prior year.

Finance income net of finance expense deteriorated slightly to a net expense of € 2.1 million (prior year: a net expense of € 1.8 million) and can be attributed chiefly to interest and similar expenses as well as costs for the credit facility.

The tax expense increased in comparison to the prior year by € 7.3 million to € 6.8 million, mainly on account of the findings of tax field audits and impairments of deferred tax assets recognized on unused tax losses.

There was no net income / loss from discontinued operations in the reporting period as the Energy project business was sold before the end of 2014 fiscal year.

The Group's net loss after aggregating both continuing operations and discontinued operations came to € 2.7 million (prior year: net loss of € 7.2 million). The share of this loss attributable to the equity holders of Kontron AG comes to € 2.5 million compared to € 6.3 million in the 2014 fiscal year. Accordingly, earnings per share came to € – 0.05 (prior year: € – 0.13).

## FINANCIAL POSITION

### Principles and goals of financial management

Our Group's financial management is monitored and steered centrally by the global treasury department. The main goals of our financial management are to ensure the solvency of the Group at all times by efficiently managing liquidity, continually improving the financial strength of the Group and minimizing foreign currency exposures by using financial instruments.

At the core of corporate finance is a revolving credit facility entered into with a banking syndicate (five banks) in 2012 for a total volume of € 170.0 million, which expires on April 19, 2017. The credit volume was adjusted downwards in the reporting year to € 119.1 million to accommodate changes in the business environment – also with regard to discontinued operations – that have occurred since the 2014 facility was extended and the associated changes in financing requirements.

Since the previous loan agreement merely provided for the joint liability of important subsidiaries of Kontron AG with respect to the lending banks, we agreed on additional collateral with the syndicate in 2014. In addition to mortgages, this includes a blanket assignment of non-current assets and current assets as well as collateral assignments. The agreed financial covenants remained largely unchanged.

A further reduction in the volume of credit to € 116.3 million was agreed with the syndicate of banks in 2015 in connection with the sale of a property.

Under the loan agreement, the bank consortium is obliged to agree to the partnership with Ennoconn. In this regard, we expect the credit line to be reduced by € 25.0 million.

The credit facility comprises a cash line of € 101.1 million and a bank guarantee of € 15.2 million. We draw on the cash line as necessary, either as a fixed term loan of three or six months or via ancillary lines, which refer to bilateral overdraft facilities with the individual banks in the syndicate. The foreign subsidiaries which cannot be financed using intercompany loans on account of national restrictions have an opportunity to arrange credit facilities locally via the branch offices or subsidiaries of the syndicate banks (subsidiary lines). As of the reporting date, a total of € 1.1 million from Kontron AG's cash line was assigned to two credit facilities for subsidiaries in other countries, one of which is a local bank guarantee facility. It is important to bear in mind in this respect that bank guarantee facilities granted to subsidiaries as part of this subsidiary line concept are drawn from Kontron AG's cash line.

As of the reporting date, our Group has a cash line of € 70.6 million available for fixed term loans, of which € 45.0 million had been drawn on. These fixed term loans all mature in three months. An amount of € 11.4 million was drawn on the ancillary lines of € 29.6 million as of the reporting date. € 0.1 million of one of the subsidiary lines amounting to € 0.9 million granted to a foreign subsidiary had been drawn.

Taking account of the currency translation differences, the Kontron Group had cash lines totaling € 101.1 million available from the facility, € 56.5 million of which had been drawn. Our Group therefore has sufficient credit facilities available to it.

In addition to the cash lines granted under this long-term credit facility, the Group also has access to further credit of € 2.7 million from bilateral, credit lines arranged with foreign subsidiaries. Of this amount, € 2.0 million is due to cash lines, € 0.7 million of which had been drawn by December 31, 2015, and € 0.7 million to bank guarantees, € 0.5 million of which had been used.

In sum, the Group has cash lines of € 103.1 million available to it, of which € 57.3 million were drawn on. This means that our Group still had access to up to € 45.8 million.

The credit facility requires compliance with a number of covenants, such as the ratio of net debt to EBITDA after adjusting for extraordinary effects, the ratio of net financial income to adjusted EBITDA and a specified minimum equity ratio.

We met all covenants during the reporting period and have complied with them over the term of the credit facility to date. We assume that we will continue to do so in the future as well.

Our subsidiaries are funded by means of intercompany loans, generally in the form of overdraft facilities. Some existing bilateral credit lines which were set up prior to the syndicated loan facility have been continued without Kontron AG assuming liability. In isolated cases, and after consulting global treasury, these may be drawn on as overdrafts for short-term financing. Liquidity surpluses that are not directly used to reduce existing liabilities to banks are invested at banks at market rates. Short-term availability and a high degree of security are given more weight than maximizing earnings. This gives us the greatest possible flexibility.

## COMMENTS ON THE STATEMENT OF CASH FLOWS

▶ The cash flow from operating activities rose dramatically from € 1.7 million to € 14.2 million.

### Significant increase in cash flow from operating activities

Cash flow from operating activities rose by € 12.5 million to € 14.2 million in the reporting year (2014: € 1.7 million). In addition to a € 4.5 million increase in net income for the year, this effect was brought about in particular by a decrease of € 11.1 million in the change in trade receivables. Further positive effects resulted from the decline in other receivables, which made an additional € 5.4 million available, as well as lower tax payments (€ 2.9 million). One negative effect, on the other hand, stemmed from the reduction in liabilities and provisions (€ – 11.2 million), which can be attributed to the reduction of trade payables and the utilization of the provision created in the prior year for restructuring cost.

### Rise in investing activities

The increase of € 8.4 million in cash flows from investing activities in comparison to the prior year can largely be explained by higher capital expenditures on intangible assets (development projects and investments in the global IT infrastructure) of € 5.1 million. In addition, the inflow of € 7.1 million from the sale of subsidiaries in the comparative year of 2014 also contrasts with an outflow of just € 0.2 million related to the entity sold in 2015 since price will be settled over a number years, commencing in the 2016 fiscal year. The sale of properties classified as assets held for sale in the reporting period led to a cash inflow of € 4.1 million.

### Significant increase in cash flow from financing activities

Cash flow from financing activities amounted to a cash inflow of € 20.9 million in 2015, which was € 23.8 million higher and therefore substantially above the net cash outflow of € 2.9 million recorded in the prior year, which is mainly attributable to the € 20.4 million drawn on the credit facility.

### Explanation of net debt and gearing

As of December 31, 2015, the Group carried cash and cash equivalents of € 27.8 million, up € 12.2 million on the amount carried on December 31, 2014 (2014: € 15.6 million). While short-term liabilities to banks remained almost unchanged, long-term liabilities to banks increased by € 20.6 million. Regardless of the way the funds are drawn from the credit facility, we present loans under long-term borrowings as the credit line has been provided for the long-term. In sum, net debt at the end of 2015 rose to € 29.4 million (2014: € 20.3 million).

The gearing ratio of 70.5 % is 3.6 percentage points above the level of the prior year of 66.9 %.

## NET ASSETS

### Total assets in decline

The statement of financial position as of December 31, 2015, classified by maturity:

STATEMENT OF FINANCIAL POSITION CLASSIFIED BY MATURITY

| | 12/31/2015 | | 12/31/2014 | | Change | |
|---|---|---|---|---|---|---|
| | € million | % | € million | % | € million | % |
| Current assets | 250.5 | 56.7 | 242.2 | 57.4 | 8.3 | 3.4 |
| Non-current assets | 191.4 | 43.3 | 179.6 | 42.6 | 11.8 | 6.6 |
| | 441.9 | | 421.8 | | 20.1 | 4.8 |
| Current liabilities | 114.4 | 25.9 | 120.9 | 28.7 | –6.5 | –5.4 |
| Non-current liabilities | 68.6 | 15.5 | 48.2 | 11.4 | 20.4 | 42.3 |
| | 183 | 41.4 | 169.1 | 40.1 | 13.9 | 8.2 |
| Equity | 258.9 | 58.6 | 252.7 | 59.9 | 6.2 | 2.5 |
| | 441.9 | | 421.8 | | 20.1 | 4.8 |

TABLE 011

Total assets as of December 31, 2015 came to € 441.9 million (prior year: € 421.8 million), an increase of 4.8 % in comparison to 2014. The total volume of current and non-current assets has risen year-on-year. Liabilities have also increased overall. While current liabilities fell, there was a substantial increase in long-term liabilities. Equity mainly rose on account of currency translation effects.

Total assets rose by 4.8 % to € 441.9 million.

## COMMENTS ON CURRENT AND NON-CURRENT ASSETS

### Increase in current assets

Cash and cash equivalents increased by € 12.2 million, and amounted to € 27.8 million as of December 31, 2015 (prior year: € 15.6 million).

Inventories were reduced to € 83.3 million with the help of improved working capital management (prior year: € 85.7 million). Trade receivables of € 122.7 million were up € 7.6 million on the prior year when they came to € 115.1 million. The main reason for the increase can be found in the strong revenues in December 2015, which were up 31.8 % compared to December 2014. The maturity structure of receivables has hardly changed in comparison to 2014.

Income tax receivables were carried at € 2.8 million on December 31, 2015 (prior year: € 3.3 million) and were therefore € 0.6 million below the level of the prior year. Other current receivables and assets fell by € 3.7 million to € 10.5 million, mainly due to lower claims for rebates on the purchase volume and lower security deposits.

The € 4.8 million decrease in assets held for sale is due to the sale of property in Germany that is no longer used on account of the consolidation of facilities in 2014.

### Increase in non-current assets

Property, plant and equipment rose by € 0.9 million to € 11.8 million, due in particular to investment in the expansion of the production facility in Beijing. In addition to assets related to the new IT system, other intangible assets primarily consist of capitalized development expenses. Intangible assets rose to € 67.4 million (prior year: € 61.1 million), which was mainly due to investment in the global IT infrastructure as well as the acquisition of software licenses. The increase in goodwill from € 91.2 million to € 94.5 million can be attributed to currency effects.

The balance of deferred tax assets and deferred tax liabilities increased from € 7.3 million in the prior year to € 8.5 million. Deferred tax liabilities are reported under non-current liabilities.

## DEVELOPMENT OF CURRENT AND NON-CURRENT LIABILITIES

### Decrease in current liabilities

At € 70.9 million, trade payables as of the end of 2015 were down € 5.4 million on the comparable figure for the prior year. Current provisions fell by € 2.7 million to € 8.2 million, mainly due to the utilization of the provision for restructuring. Other current liabilities also fell from € 25.3 million to € 22.4 million, mainly due to lower purchase commitments and lower liabilities for outstanding invoices. Income tax payable however increased by € 6.3 million, mainly due to provision for taxes for the current year as well as for tax audits.

### Increase in non-current liabilities

Non-current liabilities primarily comprise loans from banks related to the credit facility. The liabilities arising from long-term financing increased by € 20.6 million in 2014 to € 56.5 million.

### Slight decrease in the equity ratio

The equity ratio came to 58.6 % at the end of the fiscal year and was therefore slightly below the prior year.

The carrying amount of equity on the reporting date for 2015 came to € 258.9 million, a year-on-year increase of € 6.2 million (prior year: € 252.7 million). The equity ratio of 58.6 % is therefore 1.3 percentage points lower than in the prior year (prior year: 59.9 %). The net loss of € 2.7 million for the reporting year was offset by positive exchange rate effects amounting to € 11.2 million.

# Non-financial performance indicators

## EMPLOYEES

### Global improvement in efficiency within the Group

On the reporting date of December 31, 2015, Kontron employed a total of 1,286 people around the world plus 27 trainees. This compares with 1,342 employees and 32 trainees at the end of 2014.

EMPLOYEES BY FUNCTION

| | 2015* | 2014* | Change |
|---|---|---|---|
| Production | 336 | 351 | – 15 |
| Research & Development (R & D) | 405 | 419 | – 14 |
| Sales & Marketing | 359 | 373 | – 14 |
| Administration & IT | 186 | 199 | – 13 |
| Group | 1,286 | 1,342 | – 56 |

* Headcount as of December 31 (per capita)

TABLE 012

Following the completion of the consolidation of locations in 2014, the focus in the reporting year was on improving efficiency in the Group around the world. This is reflected in particular in the improved global networking of our research and development locations. The measures we took in this regard included introducing a global “practice” concept that allows us to manage our global R & D capabilities in a way that is coordinated and based on uniform standards.

EMPLOYEES BY REGION

| | 2015* | 2014* | Change |
|---|---|---|---|
| EMEA | 682 | 720 | – 38 |
| North America | 409 | 450 | – 41 |
| APAC | 195 | 172 | + 23 |
| Group | 1,286 | 1,342 | – 56 |

* Headcount as of December 31 (per capita)

TABLE 013

Changes in the headcount at our company were influenced by ongoing optimization measures in 2015. We also exercised restraint with respect to new hires. Only the APAC region saw a slight increase, mainly in order to reinforce the workforce at the Beijing location which was expanded during the reporting year.

### Active involvement of employees in the development of the company

We conducted our second global employee survey in December 2015. As in the prior year, the response rate was high at around 70% (2014: 85%). This shows the great interest among our employees to participate in shaping the future of our company. Improvements made in 2014 became apparent in the fields of communications and information, for example, as well as the style of management. According to the survey, there is still potential for improvement with respect to standardized company processes, the clear allocation of roles and responsibilities, and the global organization of work in teams.

▶ The second worldwide employee survey revealed that we have made significant progress. Work is still needed on standardizing processes.

The results of the 2014 survey were published globally at the start of 2015, and discussed at all levels of the company. The results for each country were presented at local employee events before being discussed in small groups. The priority issues mentioned above were raised in the interest of coming up with concrete suggestions for improvement. Measures were developed and implemented on the basis of the proposals. Managers discussed the results with their teams. On the whole, we consider the employee survey to be a crucial element for shaping the culture at the company together with all of our employees around the world.

### Management development

Our annual global management convention was held in Germany in September 2015. In addition to discussing economic issues, we drew up specific management principles on the basis of our corporate values and ratified them. These principles form the basis for our Group's concept of management, which is itself the foundation for a management training course developed specifically for us.

### Representation of women

In 2015, the Supervisory Board and Management Board defined targets for the proportion of women at our company. The Supervisory Board of Kontron AG has set a target of 30% for the proportion of women on both the Supervisory Board and Management Board, and specified June 30, 2017 as the deadline for implementation. The Management Board also set a target of 30% female representation for the first and second levels of management below the Management Board, and specified June 30, 2017 as the deadline for implementation.

In addition to conventional recruitment measures (the filling of vacant and new positions), our program to promote the employment of women includes coaching and specific training measures. This is supplemented by initiatives like "Girls' Day", with which we hope to identify women with outstanding talent at an early stage and retain them within our company.

### Introduction of standardized career paths

The long-term creation of development opportunities for employees remained a priority in 2015. To this end, we restructured the various career paths at Kontron and incorporated them into a consistent global framework. This first involved harmonizing and standardizing the functions, as a result of which we were able to significantly reduce the complexity of job titles at the company. This harmonization provides the basis for the introduction of a "Global Grading System" that evaluates every function in every unit at our company around the world using a single standard and assigns them to a regional remuneration system. This allows us to offer tailored career paths on the basis of a harmonized, overall concept that applies throughout the Group. A balance is also struck between opportunities for personal development and competitive remuneration structures.

### Global IT infrastructure as the mainstay of international HR work

In the reporting year, we introduced a cloud-based IT solution worldwide as the basis for implementing group-wide HR programs in a way that is efficient and sustainable. We also put the conditions in place to summarize HR indicators and other information in a standardized global database that we will continue to add to in the fiscal year ahead. For example, we want to introduce and establish complementary modules for the organization of global recruitment, learning and performance management.

### Training as an entry opportunity

We actively promote young people's vocational training. Our aim is to develop motivated and talented young people from within our own ranks and support them with challenging new responsibilities. In total, we trained 27 young women and men in seven different trades at our German locations in 2015, focusing on electronic engineers for devices and systems, industrial clerks and warehouse logistics specialists. We have employed an electronics student in Deggendorf since August 2015, and are training him as part of a combined course of study for a Bachelor's degree.

▶ Apprenticeships in seven trades were offered at the German locations. For the first time we have offered a combined work / study Bachelor's degree.

## SUSTAINABILITY

We view sustainability to mean steady global growth while simultaneously acting responsibly towards both the environment and society. For this reason, social engagement, entrepreneurial responsibility and promoting science and research are integral to our self-image. Ecological concerns and a conservative approach to natural resources are given just as much importance. In this way, we are supporting sustainable growth worldwide.

We offer our customers reliable, integrated and self-contained embedded solution platforms that facilitate unique solutions. Our key ambition is to develop innovative products and solutions that exhibit very low energy consumption, while at the same time can still be produced in an economic manner that conserves resources.

Our portfolio already heavily features energy-saving ECT solutions, and their share of the portfolio is set to continue growing due to the constant rise in demand from customers. Now more than ever, the aspect of ecology is at the center of our innovative development as well as our economic deliberations and decisions. That is why we are constantly at pains to conserve natural resources, for example by avoiding waste and using efficient recycling solutions.

We promote science and research by working with various colleges and universities. This involves intensive cooperation, frequently over many years, with such institutes as the University of Applied Sciences in Deggendorf, universities in the Czech Republic such as in Prague, Pilsen and Brno, as well as with universities in the US, Canada, and Australia. We also intensified our collaboration with the colleges and universities around Augsburg as part of the relocation of our facilities to Augsburg. We provide both financial support and human resources to selected technical research projects.

▶ We support a number of colleges and universities in Germany, the Czech Republic, Australia, Canada, and the US within the framework of cooperation agreements.

### Environmental protection

Our management is constantly aware of its responsibility for the environment. Another very important corporate goal of ours is therefore a responsible approach to environmental and climate protection, which are integral to our corporate strategy. Our management actively raises the awareness of employees for environmental issues in the course of their daily work. Furthermore, we aim to develop effective solutions to protect our natural resources, the environment, our employees and people who work with our products – for example by using substances that are non-hazardous to people or the environment.

▶ A responsible and forward-looking approach towards the environment is an integral element of our corporate strategy.

In order to meet our responsibilities, our management has defined a dedicated environmental policy for our company. This ensures that we fulfill our environmental obligations within the framework of an environmental management system. Our environmental policy covers the monitoring, assessment and evaluation of our environmental performance, the consideration given to our impact on the environment at our locations, and compliance with local and national statutory requirements. It is also aimed at achieving transparent internal and external communications, as well as motivating and training our employees to act in a way that is not harmful to the environment.

In the reporting year, we significantly expanded our Service & Repair Center at our location in Penang, Malaysia. Since then we have repaired many products for our Asian customers locally. These products would previously have been sent to America or Europe for processing and then back to Asia, at great expense. In this way, we can now offer our customers shorter processing times, avoid unnecessary logistics costs and transportation, and reduce the resulting $CO_2$ emissions.

### Environmental management

We have developed an environmental management system for all of our important operations in Europe and North America to evaluate and continuously improve their performance with respect to the protection of the environment. The system is based on our environmental policy, which is used to derive both overriding and specific environmental targets. Our most important production facilities around the world, including outsourced processes, are also certified in accordance with ISO 14001. This certification process will be rolled forward and reviewed indefinitely into the future.

Identifying and analyzing relevant and significant issues relating to the environment at each of our locations is an important part of our environmental management system. The environmental issues identified are assessed for each location and classified accordingly in order to take specific action targeted at improving the situation. The assessment will be reviewed and updated at least once a year.

We continued to pursue the harmonization of our certified environmental management system in Europe and completed this in 2015. In this context, our French facility in Toulon was incorporated into our matrix certification pursuant to ISO 14001. This aids comparability between locations while also creating synergies. Our environmental management system is structured so that it helps us to identify and control all relevant changes in environmental and statutory requirements in a particular country or location, and ensure compliance with the applicable laws. We also use internal audits to identify the strengths and weaknesses of environmental management at each location.

We expect our suppliers to also comply with ecological and social standards. We check this by conducting audits at all of our suppliers.

It is our stated goal to continuously improve our environmental performance. We therefore derive annual environmental goals for each location from the environmental policy of our company. Management reviews and assesses to what extent these goals are reached. In this way we can ensure the effectiveness of the program, initiate countermeasures as needed and set appropriate new goals. At the same time, we are working on finding indicators for each environmental goal to make them even more measurable. Examples include power consumption per employee, heating requirements per square meter, or the carbon footprint of business trips per employee.

### CDP – Carbon Disclosure Program

As a global player, we are aware of our responsibility to society with regard to climate change and greenhouse gas emissions. We have therefore participated conscientiously in the public reporting forum, the Carbon Disclosure Projects (CDP), since 2010. The CDP program reveals at an early stage any risks and opportunities for our company arising from climate change and thus allows us to take counteraction.

▶ Since 2010 we have participated in the Carbon Disclosure Project (CDP).

In the course of our CDP reporting, we measure our global $CO_2$ emissions that are caused either directly, by devices such as air conditioners and stationary heating, or indirectly by heating and power purchased from external suppliers as well as business trips and logistics.

The CDP report displays the emissions in relation to another selected parameter (per employee, per € million of revenues) and therefore makes them comparable, including between the individual locations.

In the course of CDP reporting, we complete a detailed survey each year on climate change and greenhouse gas emissions. This also involves communicating measurable information, key figures and planned / implemented measures. Following CDP's evaluation, all participating companies are assessed with a Climate Disclosure Score and a Climate Performance Band.

In 2015 we achieved an improvement of around 15 % in comparison to 2014 with respect to the CDP reporting. This encouraging result very clearly shows the success of our efforts as well as our measures to reduce greenhouse gas emissions and actively combat climate change. We were able to reduce direct $CO_2$ emissions (scope 1: vehicle fleet, air conditioners, stationary heating) by approx. 29 % and indirect $CO_2$ emissions (scope 2: district heat and electricity from service providers) by about 3 %. A score of 81D puts us to fourth place for the Information Technology sector in the DACH region.

CDP REPORT OF KONTRON

| YEAR | Disclosure Score | Performance Band |
|---|---|---|
| 2014 | 69 | D |
| 2015 | 81 | D |

TABLE 014

You can read the full report at *www.cdproject.net*.

### Quality management

We are aware of the huge significance and importance of outstanding quality for our customers. We are therefore constantly striving to achieve an impeccable and high standard of quality for our entire portfolio. We assess and improve the quality of our products, solutions and services at every level of the value creation process. A desire to continuously improve the development and production process is what drives us forward every day.

▶ Our global quality management system is based on uniform standards and processes relating to quality, safety and environmental protection.

Kontron has established a global quality management system, in which group-wide uniform standards and processes on the topics of quality, safety and environmental protection are defined. The quality management system steers our operating processes, thus ensuring that we are always providing our customers the highest quality possible.

Our group management system is evaluated and certified on a standardized basis by global certification companies in accordance with the ISO 9001 (quality) and ISO 14001 (environmental protection) standards. The production location in Poway, California, USA, has also been certified in accordance with the medical device standard ISO 13485 since 2013. All of our products meet the relevant standards and specifications such as UL (computer-on-modules), CSA, CQC, VDE and TÜV tested safety. In order to ensure that we always meet all specific regulatory requirements, we are automatically informed via an online legal registry about changes to laws or directives such as RoHS, EMC, WEEE, REACH and conflict minerals.

### Declaration of materials

We aim to avoid using hazardous materials in our components and to design environmentally friendly products. For this reason, we are informed by our suppliers regarding the composition of components we use in our own products, and we communicate this list to our customers at all times. In this way, we are also pursuing our goal of environmentally friendly product design. Specific customer requirements are met within the wider regulatory framework as laid out by such laws as the German Electrical and Electronic Equipment Act (ElektroG) or the Restriction of Hazardous Substances (RoHS). Numerous measures were once again initiated during the reporting year in order to transition our internal processes (and above all our supply chain) to products that comply with RoHS 2. Kontron also reports on REACH and conflict minerals. For further information on this topic, refer to our website at: *www.kontron.com/about-kontron/corporate-responsibility*

### Procurement

Prices in the procurement market for electronic parts and components remained largely stable again in the 2015 fiscal year. We expanded our global organizational structures for buying and procurement during the reporting year, and made our procurement function even more efficient throughout the Group. We maintained close and constructive partnerships with our suppliers, seeking intense dialog on the rising demands of the market with respect to quality, delivery performance, innovation and costs. Our procurement team was reinforced in Asia in particular, and the efficiency of our teams around the world was further reinforced by the constant improvement of processes and system support.

The high quality standards which Kontron applies to its own processes and technological solutions must also be met by our suppliers. Only in this way can it be ensured that the customers receive the best possible quality at all times. However, environmental aspects and sustainability also play a major role when it comes to selecting suitable suppliers. These factors also explain why we conduct annual audits of our suppliers. In the reporting year this extended to all Electronic Manufacturing Services serving Kontron worldwide, all strategically significant distributors and some critical suppliers serving Kontron regionally.

### Brand building

The Kontron brand stands for reliability, safety and longevity as well as innovative strength and high quality. We use our flagship brand, Kontron, on the ECT market and the other markets we target to market our goods to OEM customers and also to market standard products via indirect distribution channels. Our standard products and our customized and bespoke products are integrated into the products, solutions and applications of our customers and marketed under their own brands.

# SUBSEQUENT EVENTS

On January 22, 2016, Kontron AG and Ennoconn Corporation, a leading provider of motherboards and hardware solutions as well as complete systems, agreed to enter into a strategic partnership in the field of communications. Ennoconn is based in Taiwan and is a subsidiary of the Foxconn Technology Group.

Within the framework of the partnership, Ennoconn acquires a share of 49 % in Kontron Canada Inc., Boisbriand, Canada, for a price of $ 57.3 million (approximately € 52.5 million) which was paid to Kontron AG. Kontron AG retains the remaining 51 % stake in KCI. The transaction is subject to obtaining regulatory and corporate approvals, for which decisions are expected in the second quarter of 2016.

The cooperation with Ennoconn will help the Kontron Group lower its costs of material and production costs, giving the Communications business unit much brighter prospects for the future. Moreover, access to production capacities will reinforce the channel business in particular.

# RISK AND OPPORTUNITY REPORT

## Basic principles of risk and opportunity management

For Kontron, risk and opportunity management is an integral aspect of corporate governance.

Kontron is exposed to risks that are directly related to its business activities. We have set up a group-wide risk management system in order to identify risks at an early stage, evaluate them appropriately and limit them using suitable measures. The risk management system also helps us achieve our corporate goals. It raises awareness of risks, promotes confidence in the company among our stakeholders and puts our planning and decision-making on a firmer footing. By closely integrating risk management into our financial processes and constantly refining the evaluation, management and reporting of risks, we ensure that the Management and Supervisory Boards are kept promptly and fully informed about our company's current risk situation.

▶ Our group-wide risk management system also helps us identify opportunities.

Business activity also involves recognizing opportunities, taking advantage of them and in so doing safeguarding and improving the company's ability to compete. We consider this to be an integral component of our strategy. Our systematic risk and opportunity management allows us to also identify opportunities in addition to risks.

## Risk management system

Our internal risk management system complies with the policies for dealing with corporate risks as agreed with the Supervisory Board and Management Board, and is assigned for organizational purposes to the internal audit function, which reports directly to the Management Board Member for Corporate Finance.

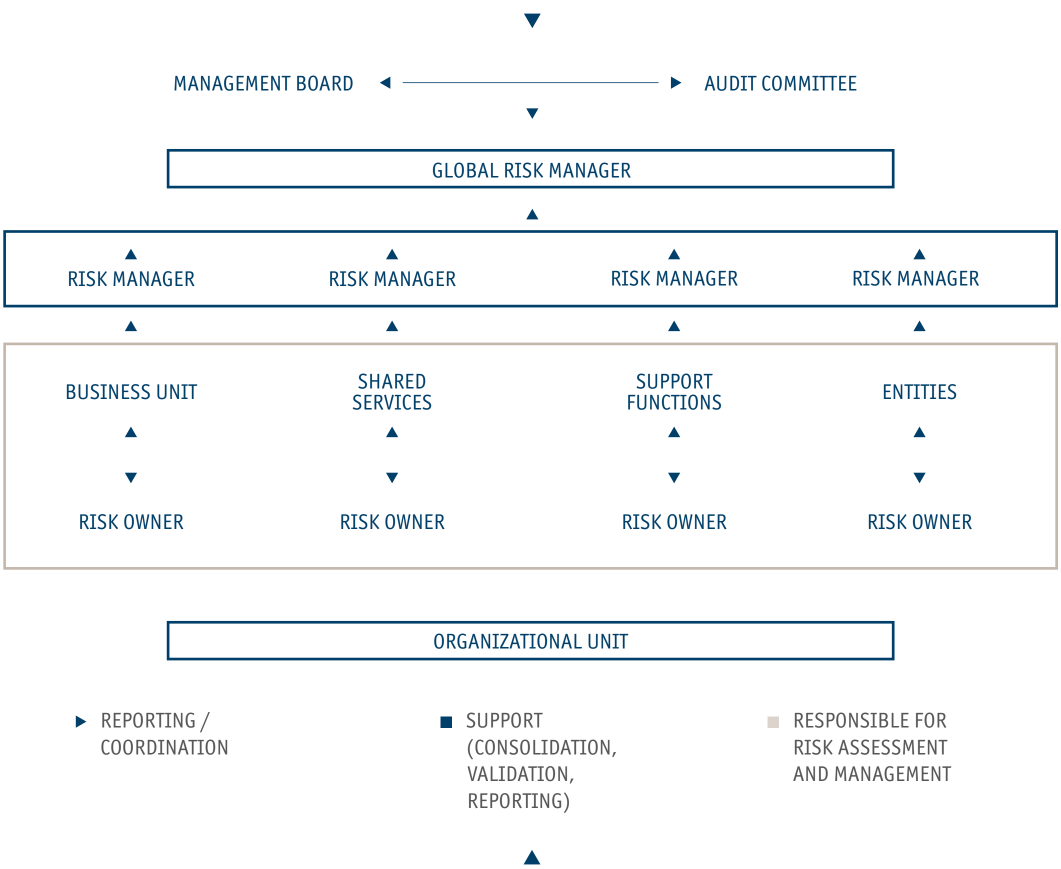
We overhauled our risk management process in 2014 and continuously optimized it in 2015. The Group's risk management organization is headed by a Risk Manager. He coordinates constantly with the Management Board, those officers within the company with organizational responsibility (heads of business units, shared and support functions and the executive managers) and local risk owners, and monitors compliance with the implemented processes and reporting routines.

▶ Having overhauled our risk management processes in 2014, we worked on improving them further in the reporting year.

Over the course of the reporting year, all operating units and entities evaluate and report on their risks on an ongoing basis and designate a "risk owner" for their main risks. This person is responsible for the risk in question, and monitors the measures aimed at managing that risk. Risk appraisals are monitored and updated in quarterly reports, which are discussed with the Management Board and presented to the Supervisory Board at least once a quarter.

## The organization and methodology of risk management at the Kontron Group

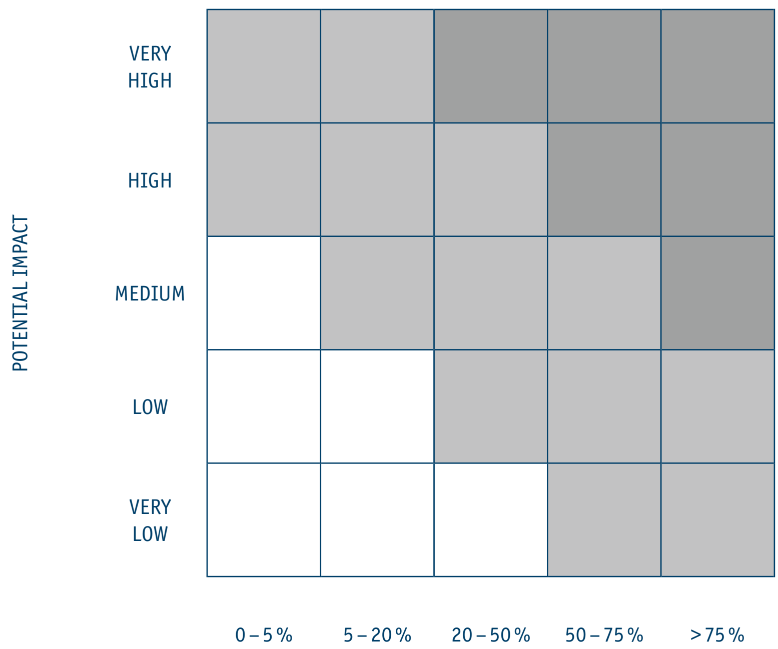
THE ORGANIZATION OF RISK MANAGEMENT AT THE KONTRON GROUP




GRAPHIC 006

Where possible, risks are assessed on a quantitative basis by identifying the probability that they will occur and their potential impact on our income and assets. The probability of occurrence and impact are categorized and converted into a risk value. We assign equivalent risk values to risks that are difficult to quantify or cannot be quantified at all. This also allows us to assign a weighting to these risks, and position them within our company's risk landscape. The probability and extent of risks as well as their possible financial impact are rated on a scale of very high, high, medium, low and very low.

RISK ASSESSMENT MATRIX




GRAPHIC 007

## SUMMARY: SPREAD OF POSSIBLE FINANCIAL IMPACT PER CATEGORY

| IN €K | Impact |
|---|---|
| Very high | ≥ 5,000 |
| High | ≥ 2,000 < 5,000 |
| Medium | ≥ 500 < 2,000 |
| Low | ≥ 100 < 500 |
| Very low | ≤ 100 |

TABLE 015

## THE CHART DISPLAYS THE RISK CATEGORIES DISCUSSED BELOW AND THEIR POSITION IN THE RISK MATRIX

| Development risk areas | | |
|---|---|---|
| Risk area | Risk category | Probability of occurrence |
| Supply chain and procurement risks | High | High |
| Legal risks | Very high | Low |
| Market and sector-specific risks | Very high | Medium |
| Technological risks | High | Medium |
| IT risks | Medium | High |
| Regional risks | Medium | Medium |
| Product-related risks | Medium | Medium |
| Personnel risks | Medium | Medium |
| Financial risks: debtors | High | Low |
| Financial risks: currency risks | High | Low |
| Financial risks: financing and liquidity risks | Very high | Very low |

TABLE 016

Appropriate measures are defined and implemented for all of our risks in order to minimize important risks over time and reduce the probability of them occurring and / or the severity of their impact. Individual risks are transferred to insurance providers in order to limit the financial consequences in the event that they occur. As part of our risk management activities, we regularly monitor our company's risk profile and seek to improve it using targeted measures. In this way, we ensure that we will meet our corporate goals.

## Main risk categories

▶ In comparison to the prior year, the overall risk position of the Group has improved, mainly on account of the consolidation of locations.

There was an improvement in the overall risk situation in 2015 in comparison to the prior year. This can above all be attributed to the fact that our operating procedures were significantly improved as part of the consolidation of locations in 2014. The passages that follow deal with the most important areas of risk during the reporting year from a current perspective, in order of declining importance. The risks described have a material influence on the achievement of our company's strategic and operating goals, as well as its net assets, financial position and results of operations. In addition to these risks, our business activities could also be impacted by other factors that we are currently still unaware of or do not perceive to be important.

### SUPPLY CHAIN AND PROCUREMENT RISKS

We have identified multiple risks in the operating field of supply chain and procurement. Our procurement of materials for the supply chain and warehouse storage is based on projections of requirements. If the quality of the forecast is poor, warehouse inventories may be either too high or too low. We combat this risk by means of a wide range of measures to improve our sales and production planning process, as well as to offer incentives to all employees involved in the process.

Procurement risks mainly relate to the loss of important suppliers, defects in the quality of supplied components or failure to meet important procurement and delivery deadlines. These risks mainly relate to components and electronic assemblies, but also the production services that we procure from various suppliers. In order to mitigate this risk, our suppliers produce in a number of different regions, including China, Taiwan, the US, Canada, Malaysia and Germany. We also endeavor to engage multiple suppliers for critical components.

In 2015 we once again increased the number of people working in our procurement organization while further reducing the number of suppliers in the field of production services. We believe that the proposed strategic partnership with Ennoconn Corporation will bring about substantial improvements in our production cost management in addition to significantly reducing the complexity of the production process.

Some of the components we require are subject to strong fluctuations in demand due to economic factors, resulting in correspondingly strong price volatility. We have set up dedicated storage for critical components at multiple locations in order to protect ourselves against this risk. Some of our products are sold unchanged on the market for very long stretches of time (more than ten years), and in some cases replacement parts have to be supplied for correspondingly long periods due to contractual obligations to our customers. We address this risk by regularly analyzing critical components. Before the supply of important components comes to an end, we endeavor to adjust our stocks to the anticipated demand over what remains of the product life cycle. At the same time, we are constantly working at all of our locations on improving the way stocks of components and assemblies are monitored in order to minimize the risk associated with obsolete inventories.

### LEGAL RISKS

Legal risks can arise as a result of third-party claims and lawsuits against the parent company or its subsidiaries, especially if insufficient contractual safeguards are in place and the material risks described in this report actually occur. We mitigate contractual risks by having our internal lawyers review the clauses of contracts and support us when negotiating contracts, also involving external specialists if necessary, and by constantly expanding our internal contract management function.

Other legal risks may stem from official proceedings. Our in-house lawyers monitor court and out-of-court legal disputes, with the support of external lawyers if necessary. A significant need for external advisory services (with corresponding costs) may arise, particularly in cases where foreign legal systems apply and there is a lack of internal legal specialists with sufficient local knowledge.

There are also fundamental risks associated with the fields of competition and antitrust law, patent law, export / cross-border trade law, customs and tax law, and environmental law. We protect and monitor patents, brands and licenses by involving external patent and brand lawyers.

Business partners assert various claims against our company in connection with its ordinary business activities, both in and out of court. Particularly noteworthy in this context is a replacement campaign for installed Kontron products for a customer in the slot machine industry. The campaign was launched in the 2014 fiscal year but has not yet been completed. We already created a warranty provision in the low single-digit millions of euros in the 2014 fiscal year for some of the claim. The remaining amount of the claim is covered by our insurance policies.

Specific risks arising from ongoing legal proceedings (as defendant or plaintiff) are evaluated by our risk management function. We recognize provisions in cases where compulsory payments are considered likely and we can reliably estimate their amount.

The main lawsuits at present are as follows:

The lawsuits filed by Kontron AG and Kontron Asia Design Sdn. Bhd. in 2010 against various defendants in Malaysia in connection with defaults on payments to Kontron Asia Design Sdn. Bhd. could not be brought to a conclusion during the reporting year. It is possible that the lawsuits may not be concluded in the 2016 fiscal year either on account of the large number of witnesses and defendants involved. One of the defendants in connection with the aforementioned lawsuit has sued Kontron Asia Design Sdn. Bhd. over his dismissal in 2010. We consider the risk to our company associated with this lawsuit to be low.

There are disputed claims and court proceedings instituted by customers against one of our subsidiaries in another country, as well as proceedings against their management. At the same time, the subsidiary has filed a criminal complaint against its former general managers. Corresponding risk provisions have been recognized for the potential negative consequences of these proceedings. We do not associate an unusually high level of risk with the company's other potential legal proceedings, or believe that these risks have the potential to significantly influence our company's net assets, financial position or results of operations as things stand.

## MARKET AND SECTOR-SPECIFIC RISKS

The economic trend in our main sales markets of Europe and North America, and the further consolidation of state budgets in these regions, could impact our volume of orders. In the Asian markets there is a risk that growth will lose further momentum, in which case we would respond by redoubling our marketing and sales activities in this region.

The possibility of consolidation among our customers could also have an impact on the margins that can be achieved. In order to counter any potential pressure on the margin, we have continued to optimize our international supply chain and development units. The focus of our sales activities is currently on placing even greater emphasis on the benefits of our products for customers, as well as identifying further strategically important customers and generating orders.

Finally, we see a risk that the rate at which prices on the market are falling could quicken as a result of progressive standardization and commoditization, particularly for modular and board products. We address this risk by continuously improving our procurement and supply chain processes, and also through the strategic partnership that we hope to enter into with Ennoconn Corporation in the spring of 2016.

## TECHNOLOGICAL RISKS

Technological risks stem from the possibility that technologies developed by us could be rendered obsolete or supplanted by new developments, or that we could fail to react quickly enough to the progress of technology. That is why, over the course of the reporting year, we continued to systematize our analysis of the market and in so doing improve our responsiveness to the latest trends and developments on the market. In this way, we hope to prevent our standard products from getting to the market later than those of our competitors, or being rendered obsolete by unexpected technological innovation. Other technological risks can arise as a result of the introduction of costly new technologies, for example in the field of IoT-related security. We seek to minimize the liability risks for our company in connection with technology by entering into corresponding agreements with customers.

It is also important for the relationship between customer-specific development contracts and standard product contracts to be managed in a way that avoids breaches of intellectual property (IP) rights as much as possible and also protects our own IP.

In order to avoid delays to projects, we have improved our development organization and placed it on a more international footing, and also hired additional, experienced managers and engineers at our locations around the world over the course of the reporting year. Project management in the field of development was also overhauled and standardized throughout the Group by setting up a Project Management Office. We started introducing this standardized project management organization at the end of 2014, and the first positive effects were already becoming apparent in 2015. Even after the end of the reporting year, we are working on further adjustments in order to create the basis for the best possible implementation of our medium-term IoT strategy. Ongoing project controlling supports the project management system and the structured processing of development projects. This allows us to identify deadline and budget overruns at an early stage and take appropriate measures in good time.

## IT RISKS

In 2014 we already started to define and develop a global SAP-ERP system in order to improve Kontron’s organization. A lot of work was carried out on the new system’s implementation in 2015, and it has already been in operation in France since mid-2015. The new SAP-ERP system is to be introduced at the most important group entities in April 2016. The implementation involves interference in our existing procedures and production management processes that could put our operating activities at risk. It is hoped that professional project management will prevent disruptions, for example as a result of system malfunctions. A comprehensive, multi-stage test process is also being carried out before the switch to the new processes. The aim of this is to avoid disruptions and ensure that all system processes are functioning before operation starts, and all business data is transferred correctly. All users are receiving intensive advance training in order to ensure a smooth transition from the existing SAP system to the new system.

We mitigate any potential general operating risks by outsourcing the SAP system management. Central IT systems are also located in a secure, professional data processing center. Furthermore, we are working on implementing standardized software and hardware standards around the world in various projects. This also includes the implementation of a global software license management system.

## REGIONAL RISKS

Kontron produces and sells its products all over the world. This results in various regional risks for our ongoing business operations. One of these is the risk of coming into conflict with international regulations. We take steps to address the resulting potential legal and financial consequences by consistently monitoring the relevant international regulations and taking all necessary measures to ensure compliance with them. One of the areas to which this applies is the field of export controls.

We have reinforced our management team in Asia on account of the persistently attractive prospects for growth in the APAC region. In the reporting year we also built up additional production and R&D capacities in China. This also allows us to learn more about the opportunities and risks in these markets.

In order to keep regional risks to a minimum, we take aspects such as the number of regional and multi-regional production facilities into account when selecting suppliers (please also refer to the section on "Supply chain and procurement risks"). Nevertheless, we may not be able to prevent delays to our deliveries in the event of outages at important production facilities.

## PRODUCT-RELATED RISKS

With respect to product quality, there is always a risk that defective products could lead to claims from customers. We address this risk using a package of measures which include comprehensive technical quality assurance in the development and manufacturing of products. Kontron also has its own professional quality management function that regularly audits all important suppliers.

With our global service and repair centers, we also make sure that defective Kontron products are repaired and sent back to our customers quickly and effectively. We also hedge our product-related risks by taking out corresponding insurance policies.

## PERSONNEL RISKS

In the 2014 fiscal year, we implemented a consolidation of locations that was still causing personnel risks during the reporting year, especially in the field of research and development. The Management Board and senior management provide close support to the unit in order to further reduce the risk of departures. Thanks to our new, global and process-based R&D organization, our core capabilities are now spread more widely, reducing dependencies and the risk of losing expertise. This meant that in the 2015 fiscal year we were able to compensate for the departure of important R&D employees and the associated loss of know-how.

By drawing up detailed job descriptions and evaluations and defining the functional allocation, we are able to cope with sudden staff departures, even of key employees, quickly filling any vacant positions with either internal or external resources. For example, in the absence of a member of the Management Board, the remaining members of the board look after the respective tasks and duties for the duration of the absence, in agreement with the Chairman. This ensures that our operating processes are not disrupted for a longer period or delayed.

Kontron is competing with a large number of other companies in its search for qualified employees. We significantly improved our HR management systems and will continue to do so as part of our HR strategy in order to make ourselves more appealing and raise our profile on the employment market. We are hoping that a clear HR development strategy and appealing working conditions will further reduce the risk of losing important employees. We also aim to offer our employees compensation that encourages performance, as well as tailored opportunities for development and training.

At the end of 2015 we conducted our second global employee survey, and about 70 % of the workforce took part. We are already conducting a review of existing measures based on the results, and are constantly initiating improvement measures.

### FINANCIAL RISKS: DEBTORS

We consider our company to be well equipped to cope with the possibility of one or more customers defaulting on their payments under normal conditions: we have a very large customer base of more than a thousand customers, and our ten biggest customers in terms of revenues account for less than 40 % of our revenues.

Kontron has a modern dunning and customer credit system in place, and is sufficiently secured against defaults on payments as a result.

We already have long-standing business relationships with many of our customers. This gives us a reliable track record regarding their payment patterns. We also obtain external ratings if necessary, and conduct regular customer analyses in order to assign internal ratings. We define a credit limit and payment conditions on the basis of this profile, and compliance with them is monitored by the relevant functions. Despite these efforts, customers can still experience financial bottlenecks that cause them to default on their payments. Bad debt allowances are recognized for specific risks.

### FINANCIAL RISKS: CURRENCY RISKS

Kontron operates in technology markets around the world. Our business relationships are therefore subject to exchange rate (transaction) risks. That is why, as part of our currency hedging strategy, we seek to offset obligations entered into in foreign currencies with transactions going in the other direction as much as possible. Our treasury department attempts to hedge spikes that cannot be offset where possible. We also hedge planned revenues and expenses in foreign currencies that are highly likely to be incurred using a combination of various different hedging instruments.

### FINANCIAL RISKS: FINANCING AND LIQUIDITY RISKS

Our company still has sufficient financial commitments from various banks to cover its financing needs. As things stand, therefore, sufficient provision has been made for the liquidity risk for the immediate future.

Our company still has a strong equity base of 59 %. This will improve even more with the strategic partnership that we intend to enter into with Ennoconn Corporation from the spring of 2016.

Net debt amounted to € 29.4 million at the end of the reporting year. The available credit lines on that date amounted to € 45.8 million. The banks' financial commitments are tied to certain covenants. The development of EBITDA is of particular significance. The deterioration of the company's operating business performance and / or operating profit reduces its financing options, and therefore increases its refinancing costs. Compliance with these covenants is analyzed on a regular basis, and the findings are reported to the syndicate of banks. We also regularly report to the banks in the syndicate on the performance of our business. The development of net debt is monitored and analyzed constantly by our treasury department.

In the course of impairment testing goodwill as of December 31, 2015, it was found that the recoverable amounts lay close to the respective carrying amounts of the cash-generating units. If future business develops differently to the forecasts or the other assumptions underlying the calculation, there may be a need to record an impairment loss on goodwill. This could have a negative impact on the ability to attract debt or equity capital.

Finally, we have provided for various other risks by taking out insurance policies (including property and product liability insurance). We have increased the coverage of our product liability insurance in order to hedge the corresponding risks.

## CONTROLLING AND RISK MANAGEMENT SYSTEM FOR ACCOUNTING PURPOSES (DISCLOSURES IN ACCORDANCE WITH SECS. 289 (5) AND 315 (2) NO. 5 HGB) AND EXPLANATORY REPORT

Kontron AG has a functioning internal control system (ICS) that ensures that our group accounting is carried out properly. Various functions including the legal and accounting departments monitor the regulatory landscape, in some cases with external support.

In the field of finance, the material elements of the ICS are the group-wide accounting policies and the Group's standardized chart of accounts. A financial calendar that applies throughout the Group ensures that the preparation of the monthly, quarterly and annual financial statements is reliable and complete. The ICS comprises organizational, controlling and monitoring measures that cover all group entities. These measures are designed to allow prompt, standardized and proper accounting.

The financial statements of our group entities, which are prepared uniformly in accordance with IFRSs, are consolidated centrally using standard software. System-based and manual validation checks and plausibility tests are carried out as part of the ICS. The managers and employees responsible for group financial reporting regularly conduct additional manual checks, ensuring a clear segregation of duties.

In connection with the ICS and risk management system, the group controlling function is responsible for ensuring through regular reporting that deviations from the company's financial targets are recognized as early as possible so that appropriate measures can be promptly taken. The internal audit function assesses the functioning of the ICS, conducts analyses and makes use of additional, external expertise for specialized audits if necessary, on the basis of a risk-based plan. Our Management Board also receives regular reports on the adequacy of the ICS. If corrective measures are required, we specify corresponding areas of responsibility and implementation deadlines, and assess the impact of the measures using a standardized tracking process.

# Opportunities report

Our business policy is aimed at systematically identifying and exploiting opportunities in order to constantly improve the company's performance and earning power. The basis for this is the transparent investigation of opportunities in order to then incorporate them into our business decision-making processes. The following opportunities reflect our current appraisal of potential future developments and events that could lead to a positive deviation from our forecast.

## FOCUS ON MIDDLEWARE / SOFTWARE AND THE IOT

▶ We perceive a major growth market in the "Internet of Things" (IoT). For this reason, we will complement the existing hardware portfolio by offering middleware in the future.

We see potential in the consistent implementation of our software / middleware strategy as part of our focus on the IoT. In this context, at the Capital Markets Day held in May 2015, the Management Board of Kontron AG presented our new corporate strategy envisioning the addition of new middleware products to the existing hardware portfolio. This enables us to offer innovative and self-contained products, solutions, platform solutions and innovations in connection with the "Internet of Things". Against this backdrop, there are also opportunities associated with the issue of cybersecurity, for example in connection with the introduction of a Security Improvement Framework to provide better protection for our own hardware and future software products as well as those of our customers. That is why we are working constantly to develop new technologies and improve existing ones in this field.

The global trend toward linking currently autonomous devices via the Internet in future offers very good prospects for growth and earnings for well-positioned companies like Kontron. Leading international market researchers believe that the "Internet of Things" will allow incremental growth to over USD 14 trillion from the Industry 4.0 trend alone. The key issues for embedded computing are perceived to be security, ease-of-maintenance, data quality and new applications.

## ACQUISITIONS, EQUITY INVESTMENTS AND PARTNERSHIPS

We still see opportunities to complement and reinforce our technological capabilities by means of targeted acquisitions, equity investments and partnerships. This would also allow us to develop our product portfolio and increase our market coverage. That is why we are constantly monitoring the markets and looking for new opportunities to use strategic acquisitions and partnerships to expand faster than we can through organic growth alone, and to complement our technological portfolio in selected areas.

## PROCUREMENT OPPORTUNITIES

A strategic partnership with Ennoconn Corporation could give rise to cumulative opportunities in the medium term. For example, the partnership could allow us to further improve our global procurement processes, which would in turn have a positive impact on our earnings.

## SERVICES

Expanding the range of services we offer also presents opportunities for the company. Our primary goal is to use services to make our products and solutions even more beneficial for our customers while also developing comprehensive new services relating to our products and solutions. This allows us to provide more lasting support to our customers, throughout the entire product life cycle. Our market analyses and the positive response from our customers promise substantial potential growth for our services. Our expanded portfolio of services met with broad interest on the part of customers in 2015, and we were able to launch a large number of new projects.

▶ We aim to support our customers for the long-term by offering services related to the products and solutions.

## ASIA STRATEGY

The APAC region is still experiencing promising growth rates. We believe that this will allow us to gain market share and reinforce our local presence and brands. Measures were already implemented locally in 2014 to enhance our capacities and capabilities in the region. These measures were continued in the 2015 fiscal year. In Beijing we moved into a new, modern production and administration building. Motherboard development capabilities were largely bundled at our location in Penang, Malaysia. In 2015 we also acquired a 100% share in our subsidiary in India, which presents new opportunities for generating revenues as a result of improved access to the market. We can now also offer our customers with international operations an improved level of service in the APAC region as well.

▶ We expect to see rapid growth in the APAC region and intend to profit from our local presence.

▶ We plan to expand our indirect sales channels in all regions.

### USE OF INDIRECT DISTRIBUTION CHANNELS

We want to build up and reinforce our indirect distribution channels in every region. Attracting selected new distribution partners and improving the coordination of joint distribution activities will allow us to further improve our company's performance. By working more closely with systems integrators and value-added resellers, we are expanding our regional points of access to the market and opening up new business opportunities for ourselves.

## Overall statement from the Management Board regarding the risk situation

The overall statement from the Management Board regarding the risk situation is the result of a consolidated evaluation of all known sources of risk that could have a material impact on the Kontron Group's net assets, financial position and results of operations. At the time that this report was published, the Management Board of Kontron AG considers the identified risks to be manageable and sees high-quality potential for growth for the company's future.

We will make our organization even more stable and efficient in the 2016 fiscal year. The Management Board firmly believes that Kontron's optimized business model and the approaching strategic partnership with Ennoconn will put the company in a position to take advantage of future opportunities, tackle new strategic challenges and develop pioneering technological solutions.

# FORECAST – OVERALL STATEMENT REGARDING FUTURE DEVELOPMENTS

## Anticipated business performance and results of operations

The Management Board expects the seasonality of business in 2016 to follow that of the 2015 fiscal year and has issued the following forecast:

We expect revenues of between € 460 and 480 million and a gross margin of above 25 %. At the same time, adjusted EBIT after eliminating restructuring cost and non-recurring costs, which will be incurred primarily with regard to the partnership with the Ennoconn Corporation, is expected within a corridor of 3 – 5 %. EBIT is budgeted in the range of low double digit millions.

▶ In the coming fiscal year, we expect revenues of between € 460 million and € 480 million and a gross margin of above 25 %.

We implemented all the essential measures initiated in the course of the New Kontron program in 2015. Savings of roughly € 37 million were generated over the course of the program from 2013 to 2015. As expected, final restructuring charges from the original program will be incurred in 2016 at a level ranging in the low-single-digit millions.

In addition, the Management Board is planning with non-recurring costs running into high-single-digit millions in 2016 which will be incurred primarily with regard to the partnership with Ennoconn. In addition, we intend to initiate new projects aimed at improving efficiency and drive existing projects forward. These chiefly relate to improvements to our sales function and optimization of regional organizational structures.

▶ Restructuring cost will continue to decline. However, non-recurring expenses are expected in from the partnership with Ennoconn Corporation.

For the 2016 fiscal year, the Management Board is forecasting a surplus of cash and cash equivalents in the range of low double-digit millions, based on the net debt of roughly € 30 million as at December 31, 2015.

# Overall statement regarding anticipated developments

The forward looking statements on the development of the company within the wider economic environment are, by nature, subject to great uncertainty, particularly with regard to the current political and economic circumstances. We would like to point out that the risks and opportunities associated with events that cannot currently be foreseen, such as a change in the parity of exchange rates, could have an impact on the course of business in the 2016 fiscal year. The resulting fluctuations could influence the results of the Group either positively or negatively.

We will concentrate on a number of issues that are crucial to the success of the company in the 2016 fiscal year:

## CUSTOMER-SPECIFIC SOLUTIONS

▶ We intend to not only defend our market leadership in the field of embedded computing solutions, but to steadily extend it.

Our most important business is the development of bespoke and unique embedded computing solutions for customers in the vertical markets we serve. In this business we not only want to defend our market leadership, but also steadily extend our edge over the competition.

We consequently began working on new developments at an early stage, such as the networking of machines and appliances or the miniaturization of hardware, driving forward the corresponding solutions in the process.

In addition, we will allocate our key account managers to the vertical divisions in future. This will allow us to structure cooperation with our customers more rapidly and flexibly and become more successful overall.

## STANDARD PRODUCTS

▶ We will continue to optimize our business with standard products in order to generate roughly 30% of group revenues from this revenue stream in the future.

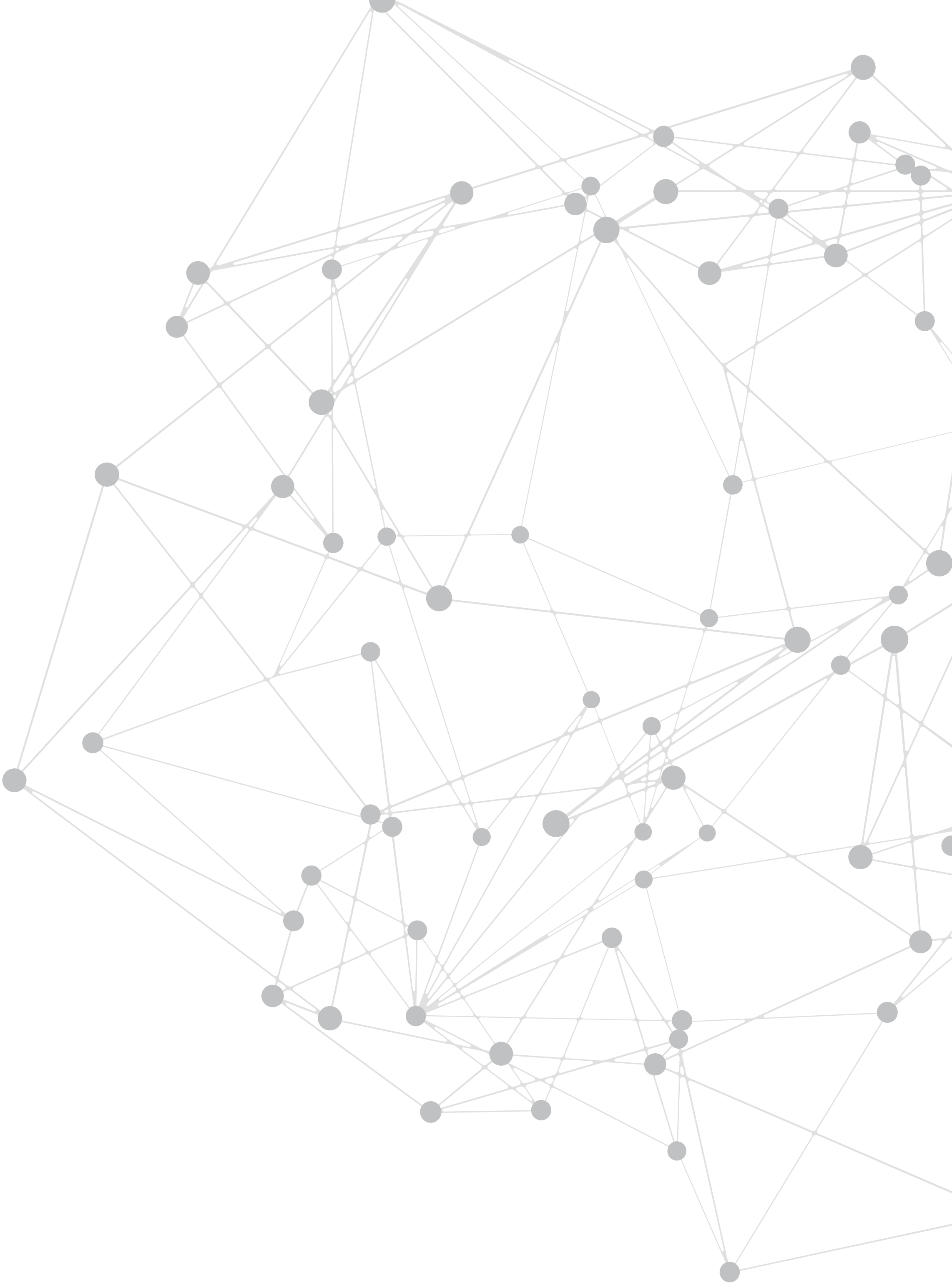
We will continue to optimize our standard product business, i.e. business with products involving no or only a little customization, in the 2016 fiscal year. For this purpose, we plan to place the sale of standard products into a separate sales unit and intensify our activities in our regional markets. As communicated in May 2015, we hold fast to our corporate strategy of generating roughly 30% of our total revenues from the indirect marketing of standard products.

## BUSINESS IN ASIA

We will drive forward our successful expansion strategy with the goal of growing at roughly 20% in the APAC region in 2016.

## SERVICE BUSINESS

At the beginning of 2015 we presented our new global service organization to complement our product portfolio with the addition of effective services and global support functions. We scored the first wins with this new offer in 2015. The plan is to capitalize on this success in 2016.



# CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF INCOME (IFRS)

| IN €K | Notes | 01–12/2015 | 01–12/2014 |
|---|---|---|---|
| | | | |
| **REVENUES** | (1) | **467,651** | **456,799** |
| Cost of materials | | –303,099 | –278,650 |
| Other production cost | | –27,456 | –30,602 |
| Amortization of capitalized development projects | | –15,229 | –15,625 |
| Order-related development cost | | –43 | –13,380 |
| **Cost of goods sold** | | **–345,827** | **–338,257** |
| **GROSS MARGIN** | | **121,824** | **118,542** |
| Selling and marketing cost | | –45,403 | –44,515 |
| General and administrative cost | | –36,188 | –32,953 |
| Research and development cost | | –29,999 | –32,774 |
| **SUBTOTAL OPERATING COSTS** | (3) | **–111,590** | **–110,242** |
| Restructuring cost | (4) | –8,305 | –13,866 |
| Other operating income | (5) | 26,702 | 11,604 |
| Other operating expenses | (5) | –22,441 | –11,111 |
| **OPERATING INCOME / LOSS BEFORE FINANCIAL RESULT AND INCOME TAXES** | | **6,189** | **–5,072** |
| Finance income | (6) | 145 | 306 |
| Finance expense | (6) | –2,237 | –2,145 |
| Income taxes | (7) | –6,797 | 517 |
| **INCOME/LOSS FROM CONTINUING OPERATIONS** | | **–2,700** | **–6,394** |
| Net income/loss from discontinued operations | (8) | 0 | –827 |
| **NET INCOME/LOSS FOR THE PERIOD** | | **–2,700** | **–7,221** |
| Thereof attributable to non-controlling interests | | –173 | –961 |
| Thereof attributable to equity holders of Kontron AG | | –2,527 | –6,260 |
| Earnings per share (basic/diluted) in € | (33) | –0.05 | –0.13 |
| Earnings per share (basic/diluted) from continuing operations in € | (33) | –0.05 | –0.11 |

TABLE 017

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

| IN €K | 01 – 12 / 2015 | 01 – 12 / 2014 |
|---|---|---|
| NET INCOME/LOSS FOR THE PERIOD | – 2,700 | – 7,221 |
| OTHER COMPREHENSIVE INCOME | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | 11,233 | 10,373 |
| Reclassification adjustment foreign operations, which were discontinued in the fiscal year | – 2,568 | 4,516 |
| | 8,665 | 14,889 |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods: | | |
| Actuarial gains / losses from pensions, before tax | 122 | – 262 |
| Income tax effects | – 38 | 86 |
| | 85 | – 176 |
| OTHER COMPREHENSIVE INCOME AFTER TAX | 8,749 | 14,713 |
| TOTAL COMPREHENSIVE INCOME | 6,049 | 7,492 |
| Thereof attributable to non-controlling interests | – 273 | – 1,121 |
| Thereof attributable to equity holders of Kontron AG | 6,322 | 8,613 |

TABLE 018

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) ASSETS

| IN €K | Notes | 12/31/2015 | 12/31/2014 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | (9) | 27,823 | 15,637 |
| Inventories | (10) | 83,333 | 85,731 |
| thereof prepayments | | 2,152 | 1,096 |
| thereof receivables from construction contracts | | 0 | 506 |
| Trade receivables | (11) | 122,684 | 115,083 |
| Income tax receivables | | 2,751 | 3,320 |
| Other current receivables and assets | (12) | 10,535 | 14,279 |
| Assets held for sale | (8) | 3,357 | 8,146 |
| **TOTAL CURRENT ASSETS** | | **250,482** | **242,196** |
| Financial assets | | 640 | 637 |
| Property, plant and equipment | (14) | 11,758 | 10,902 |
| Other intangible assets | (15) | 67,395 | 61,085 |
| Goodwill | (15) | 94,454 | 91,221 |
| Other non-current receivables and assets | (12) | 1,407 | 1,597 |
| Deferred income taxes | (7) | 15,772 | 14,181 |
| **TOTAL NON-CURRENT ASSETS** | | **191,425** | **179,624** |
| **ASSETS** | | **441,907** | **421,820** |

TABLE 019

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) LIABILITIES AND EQUITY

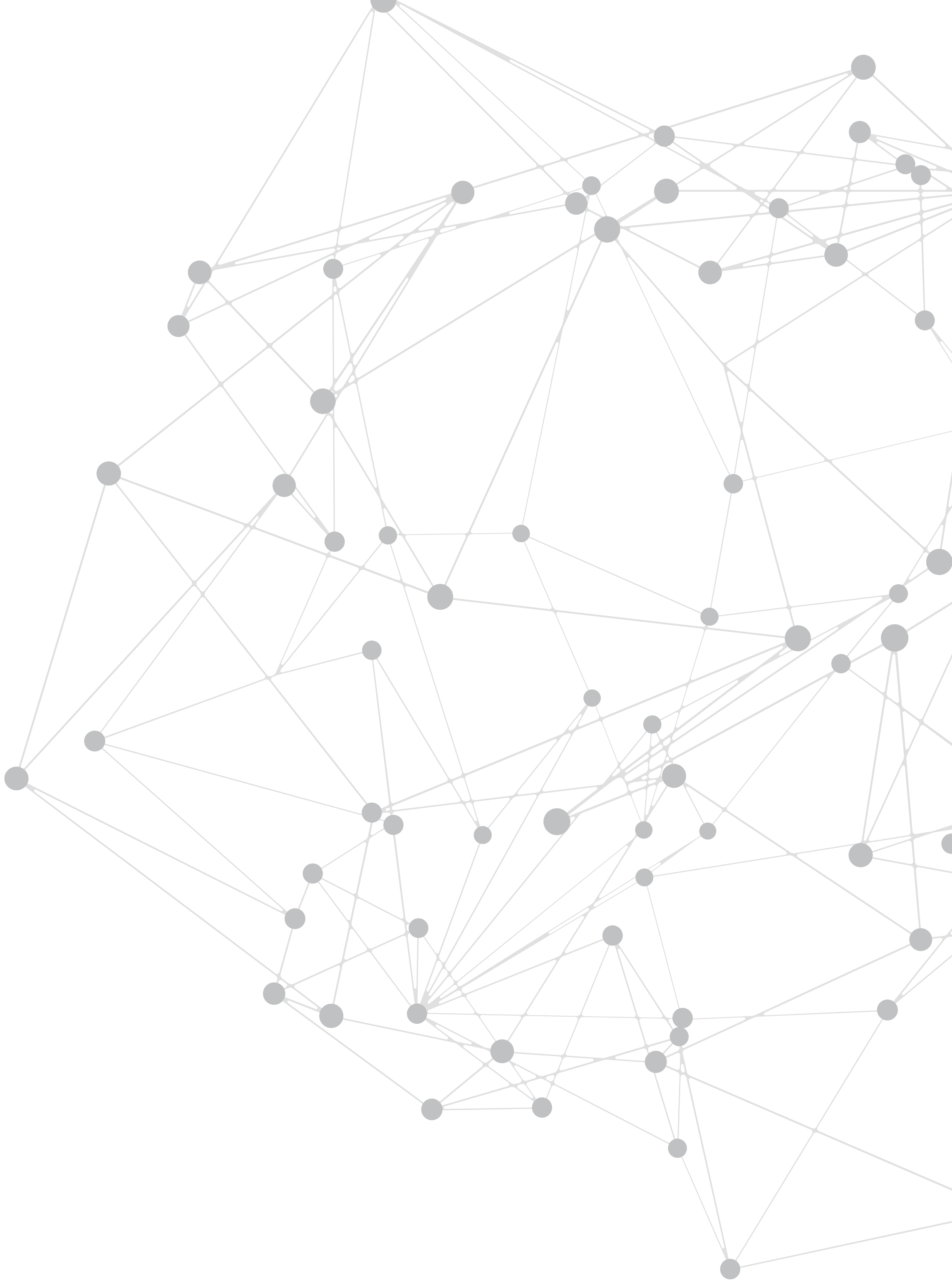
| IN €K | Notes | 12/31/2015 | 12/31/2014 |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| Trade payables | (16) | 70,928 | 76,334 |
| Short-term borrowings | (19) | 702 | 5 |
| Current portion of finance lease obligation | (19) | 31 | 39 |
| Current provisions | (20) | 8,159 | 10,868 |
| Deferred income | | 2,421 | 4,796 |
| Obligations from construction contracts | (10) | 8 | 135 |
| Income tax payable | | 9,720 | 3,467 |
| Other current liabilities | (17) | 22,396 | 25,304 |
| **TOTAL CURRENT LIABILITIES** | | **114,366** | **120,950** |
| Long-term borrowings | (19) | 56,513 | 35,938 |
| Non-current provisions | (20) | 1,045 | 1,662 |
| Pension provisions | (20) | 1,850 | 1,742 |
| Non-current portion of finance lease liability | (19) | 27 | 100 |
| Other non-current liabilities | (17) | 1,954 | 1,840 |
| Deferred income taxes | (7) | 7,229 | 6,890 |
| **TOTAL NON-CURRENT LIABILITIES** | | **68,617** | **48,172** |
| Issued capital | (22) – (24) | 55,683 | 55,683 |
| Additional paid-in capital | (28) | 200,048 | 200,048 |
| Retained earnings | | 17,862 | 20,554 |
| Other components of equity | (26) | – 12,728 | – 21,492 |
| Treasury shares | (25) | – 1,813 | – 1,813 |
| **Equity attributable to equity holders of the parent** | | **259,052** | **252,980** |
| Non-controlling interests | (27) | – 128 | – 282 |
| **TOTAL EQUITY** | | **258,924** | **252,698** |
| **LIABILITIES AND EQUITY** | | **441,907** | **421,820** |

TABLE 019

# CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

| IN €K | Notes | 01 – 12 / 2015 | 01 – 12 / 2014 |
|---|---|---|---|
| Income/loss from continuing operations | | 0 | – 6,394 |
| Net income/loss from discontinued operations | | 0 | – 827 |
| **NET INCOME/LOSS FOR THE PERIOD** | | **– 2,700** | **– 7,221** |
| Depreciation and amortization of fixed assets | | 23,666 | 24,258 |
| Net gain/loss in connection with investing activities | | 129 | – 173 |
| Change in deferred taxes | | – 1,237 | – 4,965 |
| Interest income | (6) | – 38 | – 318 |
| Interest expense | (6) | 1,062 | 1,261 |
| Other non-cash items | | – 2,532 | 766 |
| Change in assets/liabilities: | | | |
| Trade receivables | | – 5,702 | – 16,784 |
| Inventories | | 8,215 | 7,422 |
| Other receivables | | 4,408 | – 982 |
| Liabilities and provisions | | – 9,356 | 1,878 |
| Interest paid | | – 1,327 | – 791 |
| Interest received | | 86 | 306 |
| Income taxes paid | | – 1,697 | – 4,617 |
| Income taxes refunded | | 1,252 | 1,703 |
| **NET CASH USED IN/PROVIDED BY OPERATING ACTIVITIES** | (31) | **14,229** | **1,743** |
| Purchases of property, plant and equipment | | – 4,524 | – 4,199 |
| Purchases of intangible assets | | – 24,055 | – 18,940 |
| Purchases of financial assets | | 0 | – 42 |
| Proceeds from the disposal of property, plant and equipment | | 784 | 622 |
| Proceeds from the sale of subsidiaries, net of cash | | – 188 | 7,128 |
| Proceeds from the sale of assets formerly classified as held for sale | | 4,118 | 0 |
| **NET CASH USED IN/PROVIDED BY INVESTING ACTIVITIES** | (31) | **– 23,865** | **– 15,431** |
| Change in current account/overdrafts | (19) | 759 | – 3,778 |
| Repayment of short-term borrowings | (19) | 0 | – 7,564 |
| Proceeds from short-term borrowings | (19) | 0 | 7,497 |
| Repayment of long-term debt | (19) | 0 | – 17,958 |
| Proceeds from long-term debt | (19) | 20,430 | 18,943 |
| Transactions with non-controlling interests | | – 296 | 0 |
| **NET CASH USED IN/PROVIDED BY FINANCING ACTIVITIES** | | **20,894** | **– 2,860** |
| Effect of exchange rate changes on cash | | 929 | 1,444 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | **12,186** | **– 15,104** |
| Cash and cash equivalents at the beginning of period | | 15,637 | 30,741 |
| **CASH AND CASH EQUIVALENTS AT THE END OF PERIOD** | (9) | **27,823** | **15,637** |

TABLE 020



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

| | | Equity attributable to equity holders of the parent | | |
|---|---|---|---|---|
| IN €K | Notes | Issued capital | Additional paid-in capital | Retained earnings |
| **JANUARY 01, 2014** | | 55,683 | 200,048 | 26,990 |
| Net income / loss | | | | – 6,260 |
| Other comprehensive income | | | | – 176 |
| **TOTAL COMPREHENSIVE INCOME** | | 0 | 0 | – 6,436 |
| Sale of subsidiaries | (28) | | | 33,700 |
| **DECEMBER 31, 2014** | | 55,683 | 200,048 | 20,554 |
| | | | | |
| **JANUARY 01, 2015** | | 55,683 | 200,048 | 20,554 |
| Net income / loss | | | | – 2,527 |
| Other comprehensive income | | | | 85 |
| **TOTAL COMPREHENSIVE INCOME** | | 0 | 0 | – 2,442 |
| Dividend payment | | | | |
| Deconsolidation of subsidiaries and purchase of non-controlling interests | | | | – 249 |
| **DECEMBER 31, 2015** | | 55,683 | 200,048 | 17,862 |

TABLE 021

| Equity attributable to equity holders of the parent | | | | | |
|---|---|---|---|---|---|
| Foreign currency translation reserve | Discontinued operations | Treasury shares | | Non-controlling interests | **Equity total** |
| –32,705 | –3,836 | –1,813 | **244,367** | 2,577 | **246,944** |
| | | | –6,260 | –961 | –7,221 |
| 11,213 | 3,836 | | 14,873 | –161 | 14,713 |
| 11,213 | 3,836 | 0 | 8,613 | –1,121 | 7,492 |
| | | | 0 | | –1,738 |
| –21,492 | 0 | –1,813 | **252,980** | –282 | **252,698** |
| | | | | | |
| –21,492 | 0 | –1,813 | **252,980** | –282 | **252,698** |
| | | | –2,527 | –173 | –2,700 |
| 8,764 | | | 8,849 | –100 | 8,749 |
| 8,764 | 0 | 0 | 6,322 | –273 | 6,049 |
| | | | 0 | –82 | –82 |
| | | | –249 | 509 | 260 |
| –12,728 | 0 | –1,813 | **259,052** | –128 | **258,924** |

# CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2015 (IFRS)

| | Acquisition and production cost | | | | | | |
|---|---|---|---|---|---|---|---|
| IN €K | Carried forward 01/01/2015 | Exchange rate effects | Deconsoli-dation | Reclassi-fication | Additions | Disposals | As of 12/31/2015 |
| **I. INTANGIBLE ASSETS** | | | | | | | |
| 1. Other intangible assets | 53,347 | 2,844 | 4,087 | | 12,167 | 1,709 | 62,562 |
| 2. Internally generated intangible assets | 126,656 | 5,078 | | | 11,964 | | 143,698 |
| 3. Goodwill | 157,073 | 3,238 | | | | | 160,311 |
| | 337,076 | 11,160 | 4,087 | 0 | 24,131 | 1,709 | 366,571 |
| **II. PROPERTY, PLANT AND EQUIPMENT** | | | | | | | |
| 1. Land, land rights and buildings including buildings on third-party land | 4,482 | 254 | 12 | 45 | 1,255 | | 6,024 |
| 2. Plant and machinery | 18,397 | 654 | | – 75 | 1,216 | 2,125 | 18,067 |
| 3. Other equipment, furniture and fixtures | 15,845 | 607 | 65 | 29 | 2,012 | 1,756 | 16,672 |
| 4. Leased assets | 746 | | 40 | | | | 706 |
| | 39,470 | 1,515 | 117 | 0 | 4,483 | 3,881 | 41,469 |
| | 376,546 | 12,675 | 4,204 | 0 | 28,614 | 5,590 | 408,040 |

TABLE 022

| | Depreciation and amortization | | | | | | | | Carrying amounts | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carried forward 01/01/2015 | Exchange rate effects | Deconsoli-dation | Reclassi-fication | Additions | Impairment losses | Disposals | As of 12/31/2015 | As of 01/01/2015 | As of 12/31/2015 |
| | | | | | | | | 0 | 0 | 0 |
| | 40,390 | 2,161 | 4,083 | | 4,689 | | 1,742 | 41,415 | 12,957 | 21,147 |
| | 78,528 | 3,694 | | | 12,911 | 2,318 | | 97,451 | 48,128 | 46,247 |
| | 65,852 | 6 | | | | | | 65,858 | 91,221 | 94,453 |
| | **184,770** | **5,861** | **4,083** | **0** | **17,600** | **2,318** | **1,742** | **204,724** | **152,306** | **161,847** |
| | | | | | | | | | | |
| | 1,392 | 165 | 5 | 45 | 480 | | | 2,077 | 3,090 | 3,947 |
| | 14,810 | 617 | | −71 | 1,437 | | 2,147 | 14,646 | 3,587 | 3,421 |
| | 11,751 | 468 | 50 | 26 | 1,796 | | 1,627 | 12,364 | 4,094 | 4,308 |
| | 615 | −1 | 25 | | 36 | | | 625 | 131 | 81 |
| | **28,568** | **1,249** | **80** | **0** | **3,749** | **0** | **3,774** | **29,712** | **10,902** | **11,757** |
| | **213,338** | **7,110** | **4,163** | **0** | **21,349** | **2,318** | **5,516** | **234,436** | **163,208** | **173,604** |

# CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2014 (IFRS)

| | Acquisition and production cost | | | | | |
|---|---|---|---|---|---|---|
| IN €K | Carried forward 01/01/2014 | Exchange rate effects | Reclassi-fication | Additions | Disposals | As of 12/31/2014 |
| **I. INTANGIBLE ASSETS** | | | | | | |
| 1. Other intangible assets | 41,236 | 2,728 | 294 | 9,475 | 386 | 53,347 |
| 2. Internally generated intangible assets | 110,852 | 4,785 | – 294 | 11,313 | | 126,656 |
| 3. Goodwill | 154,555 | 2,518 | | | | 157,073 |
| | **306,643** | **10,031** | **0** | **20,788** | **386** | **337,076** |
| **II. PROPERTY, PLANT AND EQUIPMENT** | | | | | | |
| 1. Land, land rights and buildings including buildings on third-party land | 21,305 | 251 | – 15 | 1,509 | 18,568 | 4,482 |
| 2. Plant and machinery | 16,583 | 903 | – 21 | 1,224 | 292 | 18,397 |
| 3. Other equipment, furniture and fixtures | 14,525 | 806 | – 204 | 1,467 | 749 | 15,845 |
| 4. Leased assets | 1,317 | 15 | 240 | 23 | 849 | 746 |
| | **53,730** | **1,975** | **0** | **4,223** | **20,458** | **39,470** |
| | **360,373** | **12,006** | **0** | **25,011** | **20,844** | **376,546** |

TABLE 023

| Depreciation and amortization | | | | | | | Carrying amounts | |
|---|---|---|---|---|---|---|---|---|
| Carried forward 01/01/2014 | Exchange rate effects | Reclassi-fication | Additions | Impairment losses | Disposals | As of 12/31/2014 | As of 01/01/2014 | As of 12/31/2014 |
| | | | | | | | | |
| 33,823 | 2,377 | 126 | 4,438 | | 374 | 40,390 | 7,413 | 12,957 |
| 60,014 | 3,016 | – 126 | 12,302 | 3,322 | | 78,528 | 50,838 | 48,128 |
| 65,844 | 8 | | | | | 65,852 | 88,711 | 91,221 |
| **159,681** | **5,401** | **0** | **16,740** | **3,322** | **374** | **184,770** | **146,962** | **152,306** |
| | | | | | | | | |
| 10,066 | 167 | | 882 | 277 | 10,000 | 1,392 | 11,239 | 3,090 |
| 12,795 | 762 | – 1 | 1,512 | | 258 | 14,810 | 3,788 | 3,587 |
| 10,314 | 565 | – 24 | 1,477 | | 581 | 11,751 | 4,211 | 4,094 |
| 1,265 | 7 | 25 | 48 | | 730 | 615 | 52 | 131 |
| **34,440** | **1,501** | **0** | **3,919** | **277** | **11,569** | **28,568** | **19,290** | **10,902** |
| **194,121** | **6,902** | **0** | **20,659** | **3,599** | **11,943** | **213,338** | **166,252** | **163,208** |

# NOTES TO THE 2015 CONSOLIDATED FINANCIAL STATEMENTS OF KONTRON AG

## General information

The legal form of Kontron AG is a German stock corporation. It has its registered offices at 86156 Augsburg, Lise-Meitner-Strasse 3 – 5, Germany, and is filed with the commercial register of the Augsburg district court under HRB 28913.

The Kontron Group develops and produces embedded computer systems at various locations worldwide. Embedded computers (EC) are "electronic brains" based on hardware and software in order to equip a wide range of systems and devices with intelligence. Embedded computers are used in medical devices, telecommunications facilities, infotainment, transport systems, energy, the aerospace industry, security technology and industrial control systems. As a global provider, Kontron is active in the core markets in North America, Europe and Asia.

## Financial reporting

Kontron AG prepared its consolidated financial statements for 2015 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. All pronouncements of the International Accounting Standards Board (IASB) whose adoption is mandatory for the 2015 fiscal year were considered. New or amended standards are described in the section "New and amended standards and interpretations".

The financial statements give a true and fair view of the net assets, financial position and results of operations of the Kontron Group in accordance with International Financial Reporting Standards (IFRSs).

The consolidated financial statements have been prepared in euros. Unless otherwise specified, all amounts are stated in thousands of euro (€ k). Due to rounding differences, figures in tables and cross-references may differ slightly from the actual figures.

The consolidated financial statements and the group management report as of December 31, 2015 and 2014 were prepared in accordance with Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code]. The consolidated financial statements and the group management report as of December 31, 2014 were submitted to and published in the Bundesanzeiger [German Federal Gazette].

## New and amended standards and interpretations

The consolidated financial statements were prepared in euro and in accordance with the IFRSs as adopted by the EU. The accounting policies remained unchanged compared to the consolidated financial statements for the 2014 fiscal year.

The new or amended standards issued in 2015 that are listed below do not have effects on the net assets, financial position or results of operations of the Group:

- Annual Improvements to IFRS – 2010 – 2012
- Annual Improvements to IFRS – 2011 – 2013
- Amendment of IAS 19 Defined Benefit Plans: Employee Contributions

The standards and interpretations that are issued, but not yet mandatory, up to the date of issuance of the Group's financial statements are disclosed below.

IFRS 15 was issued on May 28, 2014 and contains new requirements on revenue recognition. IFRS 15 sets out a five-step model according to which revenues are recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, IFRS 15 results in new comprehensive disclosure requirements. The new standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" as well as all related interpretations and is effective for fiscal years beginning on or after January 01, 2018. The impact of IFRS 15 on the net assets, financial position and results of operations of the Kontron Group is currently being analyzed.

The final version of IFRS 9, which regulates the accounting for and measurement of financial instruments, was issued on July 24, 2014. This version of IFRS 9 now contains all sections pertaining to classification and measurement, impairment and hedge accounting and becomes effective for fiscal years beginning on or after January 01, 2018. The sections that are new compared to previous versions comprise impairment regulations with respect to financial instruments and amended regulations concerning measurement categories for financial assets. The new IFRS 9 also contains guidance on the classification of financial assets. It is currently being analyzed whether and to what extent the adoption of IFRS 9 will impact the consolidated financial statements.

In addition, final amendments were issued in September 2014 as part of the annual improvements project (2012 – 2014). This omnibus of amendments to various standards relates specifically to the following issues:

- IFRS 5 – Changes in methods of disposal
- IFRS 7 – Servicing contracts
- IFRS 7 – Applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19 – Discount rate: regional market issue
- IAS 34 – Disclosure of information 'elsewhere in the interim financial report'

The amendments are required to be applied from January 01, 2016 onwards, and, in some cases, prospectively and, in others retrospectively. The first-time application of the amendments is not expected to have a significant impact on the net assets, financial position and results of operations of the Group.

In its Disclosure Initiative from December 18, 2014, the IASB issued Amendments to IAS 1 Presentation of Financial Statements. The amendment contain clarifications in particular with respect to:

- assessment of the materiality of disclosures made in the financial statements
- presentation of additional line items in the statement of financial position and the statement of other comprehensive income
- presentation of other comprehensive income due to associates and joint ventures accounted for using the equity method
- structure of disclosures made in the notes
- presentation of significant accounting policies.

The amendments are applicable for reporting periods beginning on or after January 01, 2016. The impact of applying the revised standard on the presentation of the consolidated financial statements and disclosures in the notes is currently being analyzed.

IFRS 16 was released on January 13, 2016. According to this, the lessee must recognize the leased asset and the lease liability for most types of leases. The new standard on leases applies to all reporting years beginning on or after January 01, 2019 and replaces IAS 17. It is currently being analyzed to what extent the adoption of IFRS 16 will impact the consolidated financial statements.

Early adoption of the above-mentioned publications is not currently planned.

## Basis of consolidation

Including Kontron AG, the basis of consolidation comprises a total of 15 companies (prior year: 17). As a consequence of the sale of Kontron Australia Pty. Ltd., Sydney, Australia, and the liquidation of Kontron Compact Computers AG, Luterbach, Solothurn, Switzerland, the number of consolidated companies decreased in comparison to the prior year by two.

In addition to Kontron AG, the following subsidiaries have been included in the consolidated financial statements as of December 31, 2015 in accordance with the regulations governing full consolidation:

BASIS OF CONSOLIDATION

| IN %<br>NAME AND REGISTERED OFFICE OF ENTITY | Share in capital |
|---|---|
| **EMEA** | |
| Kontron UK Ltd., Chichester, UK | 100 |
| Kontron ECT design s.r.o., Pilsen, Czech Republic | 100 |
| Kontron Europe GmbH, Augsburg | 100 |
| Kontron Modular Computers S.A.S., Toulon, France | 100 |
| Railway Infrastructure and Integration Services Sp. z o.o. (formerly: Kontron East Europe Sp. z o.o.), Warsaw, Poland | 97.5 |
| Kontron Modular Computers AG, Cham, Switzerland | 100 |
| Kontron Technology A/S, Hørsholm, Denmark | 100 |
| Kontron Management GmbH, Augsburg | 100 |
| **NORTH AMERICA** | |
| Kontron America Inc., San Diego, USA | 100 |
| Kontron Canada Inc., Boisbriand, Canada | 100 |
| **APAC** | |
| Kontron Asia Pacific Design Sdn. Bhd., Penang, Malaysia | 100 |
| Kontron (Beijing) Technology Co. Ltd., Beijing, China | 100 |
| Kontron Hongkong Technology Co. Ltd., Hong Kong, China | 100 |
| Kontron Technology India Pvt. Ltd., Mumbai, India | 100 |

TABLE 024

Joint ventures and associates are currently not included in Kontron AG's consolidated financial statements.

## CHANGES IN BASIS OF CONSOLIDATION IN THE 2015 FISCAL YEAR

### Kontron Technology India Pvt. Ltd., Mumbai, India

By means of an agreement dated March 31, 2015, Kontron AG stepped up its holding in Kontron Technology India Pvt. Ltd., Mumbai, India, which had already been fully consolidated, acquiring another 45 % of the shares to give it control over 100 % of the shares in this entity. A purchase price of € 214k was paid for these shares.

### Kontron Australia Pty. Ltd., Sydney, Australia

On December 15, 2015 Kontron AG sold its 90 % stake in the capital of Kontron Australia Pty. Ltd., Sydney, Australia, to the management of Kontron Australia Pty. Ltd. in a management buy-out. Within the framework of the buy-out, Kontron has concluded a long-term distribution partner agreement with the newly created company Embedded Design and Distribution Pty Ltd for the distribution of Kontron products in Australia and New Zealand. A purchase price of € 230k was paid for the shares. The deconsolidation of the company resulted in a loss of € 12k that is reported under other operating expenses.

### Kontron Compact Computers AG, Luterbach, Solothurn, Switzerland

With the initiation of liquidation proceedings, Kontron Compact Computers AG was deconsolidated as of September 30. The gain on deconsolidation of € 1,993k has been reported under other operating income and is mainly attributable to the reclassification of exchange differences previously recognized in other comprehensive income.

## CHANGES IN BASIS OF CONSOLIDATION IN THE 2014 FISCAL YEAR

### RTSoft Group

On August 14, 2014, Kontron AG successfully concluded the sale of the Russian company Affair 000, Moscow, Russia, and its equity investments in Russia and Ukraine, including RTSoft ZAO, following approval from anti-trust authorities by means of a share deal. The purchasers were the management of RTSoft ZAO and an Austrian investor. The gain on sale resulting from this transaction totaling € 1,162k is disclosed in the income / loss from discontinued operations in the statement of income for 2014.

### ubitronix system solutions gmbh, Hagenberg, Austria

By purchase agreement dated February 10, 2014, Kontron AG sold all of its shares (40 %) in the capital stock of ubitronix system solutions gmbh in a management buy-out to the management of ubitronix system solutions gmbh. After taking into account the costs to sell as well as expenses and income in connection with an option to purchase an additional 11 % of the shares in the company, this resulted in a gain on sale of € 474k. This amount is disclosed in the income / loss from discontinued operations in the statement of income for 2014.

No acquisitions were carried out in the 2014 fiscal year.

# Accounting policies

The financial statements of Kontron AG and its German and foreign entities are prepared using uniform accounting policies in accordance with IFRS 10 Consolidated Financial Statements.

## CONSOLIDATION PRINCIPLES

The assets and liabilities of German and foreign subsidiaries included in the consolidated financial statements are stated using the uniform accounting policies for the Kontron Group. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee. In addition, the Group must have the ability to affect those returns through its power over the investee. Control is generally assumed from the date on which the majority of voting rights are held and continue to be consolidated until the date that such control ceases.

Identifiable assets, liabilities and contingent liabilities of subsidiaries consolidated for the first time are recognized at their fair values as of the acquisition date. In the course of subsequent consolidation, identifiable assets, liabilities and contingent liabilities are carried forward, amortized or reversed. The cost of an acquisition is the aggregate of the consideration transferred, measured at acquisition date fair values and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative cost. Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognized either in profit or loss in other operating income / expenses or as a change to other comprehensive income.

Goodwill arising from consolidation is tested regularly for impairment as of the reporting date and impairment losses recorded as necessary. Each impairment loss is immediately recorded as an expense. The impairment cannot be reversed. Changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as an equity transaction.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Group inventories and non-current assets are adjusted for intercompany profits and losses.

Effects of consolidation on income taxes are accounted for by recognizing deferred taxes.

## CURRENCY TRANSLATION

The Group's consolidated financial statements are presented in euros, which is also the parent company's currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the closing rate. All exchange differences are taken to profit or loss.

Net assets, financial position and results of operations of foreign operations are translated into euros as follows: On consolidation, the assets and liabilities of foreign operations are translated to euro at the rate of exchange prevailing as of the reporting date. Income and expenses are translated at the annual average rate. Any resulting exchange differences are recognized separately in equity.

Exchange differences arising from the translation of equity are also recognized directly as a separate component of equity.

The exchange rates for the Kontron Group's most important currencies changed as follows on the prior year:

EXCHANGE RATES

| | Closing rate (based on € 1) | | Average rate (based on € 1) | |
|---|---|---|---|---|
| | **12/31/2015** | 12/31/2014 | **2015** | 2014 |
| US dollar | 1.09 | 1.21 | 1.11 | 1.33 |
| Pound sterling | 0.73 | 0.78 | 0.73 | 0.81 |
| Danish krone | 7.46 | 7.45 | 7.46 | 7.45 |
| Swiss franc | 1.08 | 1.20 | 1.07 | 1.21 |
| Australian dollar | 1.49 | 1.48 | 1.48 | 1.47 |
| Chinese yuan | 7.06 | 7.54 | 6.97 | 8.19 |
| Polish zloty | 4.26 | 4.27 | 4.18 | 4.18 |
| Czech koruna | 27.02 | 27.74 | 27.28 | 27.54 |
| Malaysian ringgit | 4.70 | 4.25 | 4.33 | 4.35 |
| Indian rupee | 72.02 | 76.72 | 71.16 | 81.05 |

TABLE 025

## RECOGNITION OF REVENUES AND EXPENSES

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenues can be reliably measured. Revenues are measured at the fair value of the consideration received excluding discounts, rebates, and VAT or other dues.

If an acquirer is required to issue a declaration of acceptance, the corresponding revenues will only be recognized once such a declaration has been made. Where sales of products or services involve the provision of multiple elements which may contain different remuneration arrangements such as upfront, milestone and other payments, they are assessed to determine whether individual elements of such arrangements have to be recognized at different points in time. Contractually agreed prepayments and other non-recurring expenses are deferred and released over the period of the contractually agreed counterperformance through profit or loss.

The specific recognition criteria described below must also be met before revenues are recognized:

### Sale of goods

- Revenues from the sale of goods are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. This is generally the case upon delivery of the goods and merchandise, as real net output concludes for the company at this point in time. Revenues are presented net of discounts, rebates and returns.

- In some cases, Kontron acts as an agent and is responsible for the procurement of raw materials, consumables and supplies for third parties. Revenues for agency services are not recognized until the materials have been supplied.

### Rendering of services

Revenues from services and technology consulting are recognized when the services have been rendered. Revenues from maintenance agreements are released on a straight-line basis over the term of the maintenance agreement. In the specific case of software development, revenues are calculated using the percentage-of-completion method (PoC). As output-oriented factors, project milestones agreed upon with customers are taken as a basis in calculating the percentage of completion for the recognition of revenues. Once a project milestone has been completed and accepted by the customer, the corresponding portion of revenues is recognized.

### Long-term construction contracts

Customer orders that fulfill the requirements of IAS 11 Construction Contracts are accounted for using the percentage-of-completion method (PoC). Revenues and earnings from these contracts are recognized based on the percentage of completion of the contract. The percentage of completion of each contract to be recognized is calculated as the ratio of the actual costs incurred to overall anticipated costs of the project (cost-to-cost method). Where necessary, appropriate write-downs or provisions are set up for losses on such contracts.

### Interest income

Interest income is recognized using the effective interest method.

### Operating expenses

Operating expenses are recognized through profit or loss when services are used or at the time they are incurred.

## GOVERNMENT GRANTS

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Government grants in connection with fixed assets are deducted from the carrying amount of the asset in accordance with the option in IAS 20.

## BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## TRADE RECEIVABLES

Trade receivables are measured at nominal value. Recognizable individual risks are accounted for by bad debt allowances that are recorded separately using an allowance account. Write-downs on receivables are charged directly in the actual event of default.

## INVENTORIES

Inventories are stated at the lower of cost or net realizable value, typically using the weighted average cost method. In addition to directly allocable costs, production cost also includes production and materials overheads and depreciation. Fixed overheads are included based on the normal utilization of production facilities. Write-downs are recorded on inventories when the costs of purchase or costs of conversion exceed the estimated net realizable value.

## FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset at one entity and a financial liability or equity instrument at another entity. This includes both non-derivative financial instruments such as trade receivables and trade payables or financial receivables and financial liabilities as well as derivative financial instruments that are used to hedge against interest rate and currency risks. For regular way purchases and sales, non-derivative financial instruments are recognized on the trade date, i. e., the date on which an asset is delivered to or by an entity. By contrast, derivative financial instruments are recognized upon the inception of the agreement.

IAS 39 classifies financial assets into the following categories:

- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

Financial liabilities are classified into the following categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities measured at amortized cost

Kontron recognizes financial instruments at amortized cost or at fair value. The amortized cost of a financial asset or financial liability is the amount at which the

- financial asset or liability is measured at initial recognition
- net of any principal repayment
- plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount using the effective interest method, and
- minus any reduction for impairment or uncollectibility.

The amortized cost of current receivables and payables generally corresponds to the nominal value or settlement amount. Fair value is generally the market value. If no active market exists, fair value is calculated using valuation models, for example by discounting future cash flows using the market interest rate.

Derivative financial instruments are measured at fair value through profit or loss. Forward exchange contracts concluded within the Kontron Group serve to economically hedge transactions in foreign currency. The gain or loss arising from fair value measurement is presented in the operating result but not as a hedge in the sense of IAS 39 Financial Instruments: Recognition and Measurement.

Financial assets comprise available-for-sale financial assets. After initial measurement, available-for-sale financial assets are measured at fair value in subsequent periods. Unrealized gains or losses are recognized as other comprehensive income in the available-for-sale reserve. When the investment is derecognized, the cumulative gain or loss is reclassified to other operating income. If the investment is determined to be impaired, the cumulative loss is reclassified from the available-for-sale reserve to finance expense through profit or loss.

## DERECOGNITION OF FINANCIAL INSTRUMENTS

### Financial assets

A financial asset is derecognized when one of the three following requirements is met:

- The contractual rights to the cash flows from the financial asset expire.
- The Group retains the contractual rights to receive cash flows from financial assets, but assumes a contractual obligation to pay those cash flows to a third party without material delay as part of an agreement that fulfills the conditions in IAS 39.19 (“pass-through arrangement”).
- The Group has transferred the contractual rights to receive cash flows of a financial asset and (a) has transferred substantially all the risks and rewards of ownership of the financial asset or (b) has neither transferred nor retained substantially all risks and rewards of ownership of the asset, but has transferred control of the asset.

### Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized through profit or loss.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, net of any depreciation. The Kontron Group typically applies straight-line depreciation. Cost includes acquisition cost, incidentals and cost reductions. If the cost of certain components of property, plant and equipment proves material as a percentage of total cost, these components are then recognized separately and written down.

Depreciation is primarily based on the following useful lives:

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

| YEARS | |
|---|---|
| Buildings and leasehold improvements | 3 – 60 |
| Plant and machinery | 3 – 24 |
| Other equipment, furniture and fixtures | 3 – 18 |

TABLE 026

Assets that have been written down in full continue to be included under cost and accumulated depreciation until they have been taken out of operation. If an asset is sold, the cost and accumulated depreciation are deducted and gains or losses on the disposal of assets (disposal income less net carrying amount) are recognized in the statement of income under other operating income or other operating expenses. Depreciation of property, plant and equipment is allocated to the respective function. The residual value, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each fiscal year end.

## NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. The conditions to be classified as held for sale are only regarded as met when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are not included in the income / loss from continuing operations and are reported in a separate item as net income / loss from discontinued operations in the statement of income. The items are presented retroactively in the statement of income and the disclosures in the notes relating to the statement of income are adjusted and only reflect the development of continuing operations. In determining the net income / loss from discontinued operations, a distinction is made with regard to the inclusion of business activities between continuing and discontinued operations as to whether past trade activity between continuing operations and discontinued operations will be continued in the future.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

## INTANGIBLE ASSETS

Intangible assets acquired for a consideration are recognized at acquisition cost taking into account incidentals and cost reductions and amortized on a straight-line basis over their estimated useful lives.

Franchises, rights and licenses relate to purchased computer software. Amortization is allocated to the respective function.

Research costs are expensed as incurred. An intangible asset arising from development expenditures on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for internal use or sale and its intention to complete the intangible asset and its ability to use or sell it. In addition, the Group must substantiate the creation of a future economic benefit by the asset, the availability of resources to complete the asset and the ability to measure reliably the expenses allocable to the intangible asset during its development. Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when the asset is available for use. It is amortized over the period of expected future benefit. Amortization of capitalized development costs are recognized under cost of goods sold. The residual value, useful lives and methods of amortization are reviewed, and adjusted if appropriate, at each fiscal year end. During the period of development, the asset is tested for impairment on an annual basis. Capitalized development costs comprise all costs and overheads directly attributable to the development process.

Amortization is primarily based on the following useful lives:

USEFUL LIVES OF INTANGIBLE ASSETS

| YEARS | |
|---|---|
| Other intangible assets | 2 – 10 |
| Capitalized development costs | 5 – 10 |

TABLE 027

### IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If there are such indications or an annual review of the value of an asset is required, the Group estimates the recoverable amount of the relevant asset. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. The recoverable amount is determined for each individual asset. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using an pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment expense is only reversed if a change in the assumptions on the basis of which the recoverable amount was determined has occurred since the last reported impairment expense. The increase in value is limited to the extent that the carrying amount of an asset must neither exceed its recoverable amount nor the carrying amount which would have resulted after taking into account scheduled amortization if no impairment expense had been recognized for the asset in prior years.

The following criteria are also applied in assessing impairment of specific assets:

### GOODWILL

Goodwill is tested for impairment once a year and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. In the Kontron Group, CGUs correspond to the operating segments. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

### INTANGIBLE ASSETS

Intangible assets with indefinite useful lives and development projects that are still being developed are tested for impairment at least once annually as of December 31 either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired. Impairment tests are also conducted when circumstances indicate that the carrying value may be impaired.

Impairment losses on property, plant and equipment are recognized in other operating expenses. Impairment losses on internally generated intangible assets are recognized in the cost of goods sold. Impairment losses on goodwill are recorded in a separate line in earnings before financial result and income taxes.

## TAXES

### Current tax assets and liabilities

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period. Management periodically evaluates tax matters with respect to situations in which applicable tax regulations are subject to interpretation and establishes tax provisions where appropriate.

### Deferred taxes

Deferred taxes are accounted for using the liability method in accordance with IAS 12. According to this method, deferred taxes have to be recorded for all temporary differences between the carrying amounts in the tax accounts and the consolidated statement of financial position (temporary concept). Deferred taxes on loss carryforwards are also to be recognized.

Deferred taxes are calculated based on the tax rates enacted or substantively enacted by the reporting date that apply or are expected to apply in the countries concerned at the time of realization.

Deferred tax assets comprise future tax relief from temporary differences between the carrying amounts in the consolidated statement of financial position and in the tax accounts. Furthermore, deferred tax assets are also recognized for unused tax losses as well as tax privileges that can be realized in the future. The determining factor in assessing the recoverability of deferred tax assets is the probability estimate of the reversal of measurement differences and the usability of loss carryforwards or tax privileges that have led to the recognition of deferred tax assets. This depends on whether there will be taxable profit in the periods in which unused tax losses can be utilized.

Deferred tax assets may be netted against deferred tax liabilities if they are levied by the same taxation authority and offsetting is permitted.

Deferred taxes are generally considered non-current.

## TRADE PAYABLES

Trade payables are non-interest bearing and are carried at nominal value.

## LEASES

In accordance with IAS 17, property, plant and equipment acquired under leases is capitalized if the criteria for a finance lease have been fulfilled, i.e., if the risks and rewards incidental to ownership have been transferred to the lessee. The lease is capitalized at the commencement of the lease at fair value of the leased property or, if lower, the present value of the minimum lease payments at the time the contract is entered into and depreciated on a straight-line basis over the economic useful life or the term of the lease, whichever is shorter. Payment obligations arising from future lease payments are recognized at the present value of the lease payments as a liability.

If the economic ownership in the lease agreements lies with the lessor (operating lease), the leased asset is accounted for by the lessor. Lease expenses incurred are expensed in full.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A sale-and-leaseback transaction comprises the sale of an asset that is already owned by a future lessee to a lessor and the subsequent continued use of the asset by the lessee under a lease agreement. There are two economically-related agreements, the purchase agreement and the lease agreement. Both are presented in a single transaction by the lessee, which is accounted for as an operating lease or a finance lease depending on the structure of the leaseback agreement.

### OTHER PROVISIONS

Provisions are recognized if there is an obligation to a third party from a past event which will probably lead to an outflow of resources embodying economic benefits and the amount of the obligation can be reliably estimated.

Provisions for warranty-related costs are recognized when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

Restructuring provisions are only recognized when the general recognition criteria for provisions are fulfilled. Additionally, the Group follows a detailed formal plan about the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and appropriate timeline. The people affected have a valid expectation that the restructuring is being carried out or the implementation has been initiated already.

A provision for compensation payments is recognized if the Group can no longer withdraw its offer for compensation or the Group has recognized the associated restructuring cost, whichever occurs first.

In accordance with IAS 37, the amount recognized as other provisions is the best estimate of the expenditure required to settle the present obligation without considering recourse claims. Provisions with a residual term of more than one year must be stated at their prospective settlement value discounted to the reporting date. Releases of provisions are posted to those line items in profit or loss to which the provision was originally charged.

### OBLIGATIONS FROM PENSION PLANS

In the case of defined benefit plans, Kontron determines benefit obligations using the actuarial present value of the benefits earned. The calculated present value of the defined benefit obligation also takes into consideration future salary increases and pension increases as the obligation reflects the pension entitlement that could be earned by the regular age of retirement.

Remeasurements, including actuarial gains and losses, changes resulting from the application of an asset ceiling and the return on plan assets (without net interest), are recognized in other comprehensive income and retained earnings under equity after tax in the year in which they arise. These amounts are not subsequently reclassified to the statement of income.

Past service cost is recorded immediately in profit or loss. Net interest results from applying the discount rate on the total (asset or liability) from the defined benefit plan. The Group recognizes service cost based on its function in the cost of goods sold, general and administrative cost or selling and marketing cost in the statement of income. Net interest is included in the financial result.

## FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments are classified based on the economic substance of the respective underlying contracts. An equity instrument is defined as any contract that is based on the residual amount of a group asset after deducting all liabilities. Equity instruments are included at income received less issue costs incurred.

## TREASURY SHARES

If the Group reacquires own equity instruments (treasury shares), these are recognized at acquisition cost and deducted from equity. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancelation of treasury shares. Any difference between the carrying amount and the consideration is recognized in additional paid-in capital.

### OBLIGATIONS FROM SHARE-BASED PAYMENTS

The Kontron Group grants cash-settled share-based payments to certain employees. The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date. Changes in fair value are recognized immediately in the employee benefits expense (see note 32.2).

## Significant accounting estimates and assumptions

In the process of applying the Group's accounting policies, management has made the following *judgments*, which have a significant effect on the amounts recognized in the consolidated financial statements:

*Classification of expenses as restructuring cost (see note (4))*

The Kontron Group recorded restructuring cost in a separate item in the statement of income. Expenses are recognized as restructuring cost if they relate to expenses incurred in connection with the realignment of the Kontron Group that shall be completed by end of 2016. These relate in particular to expenses for personnel measures and expenses in connection with the streamlining of the portfolio.

*Classification of items to the category "Non-current assets held for sale" (see note (8))*

As of the reporting date, the property in Germany that was previously used by the Group is classified as held for sale, as the sale of the property began when the operating use of the asset ended and management expects it to be sold within a year.

For more details on the non-current assets held for sale, please refer to note (8).

The preparation of the consolidated financial statements requires management to make *estimates and assumptions* that affect the amounts recorded for assets, liabilities and contingent liabilities as of the reporting date as well as the amount recognized for income and expenses in the reporting period. Actual amounts may diverge from these estimates. Estimates are required in particular in order to:

- determine the recoverability and useful lives of capitalized development projects (see note (15))
- assess the need for and amount of amortization or impairment losses of intangible assets including capitalized goodwill (see note (15))
- recognize and assess tax, warranty and contractual risks (see notes (7) and (20))
- determine the need for write-downs of inventories (see note (10))
- determine valuation allowances on receivables (see note (11))
- assess the recoverability of deferred tax assets (see note (7))

Goodwill, which is capitalized at € 94,454k in the consolidated financial statements (prior year: € 91,221k), is tested for impairment once a year based on operating projections over a four-year planning horizon and assuming annual growth rates. There was no need to recognize impairment losses for any of the three cash-generating units in the 2015 fiscal year. Further information can be found in note (15).

Write-downs of inventories are measured based on the inventory range and the net realizable value (estimated proceeds less estimated costs of completion and estimated costs necessary to make the sale). Future consumption, actual proceeds and costs to complete may diverge from the expected amounts. Further information can be found in note (10).

Deferred tax assets are recognized to the extent that their recovery appears sufficiently likely, i. e., taxable profits are expected in future periods. Actual taxable profits in future periods may diverge from the estimates prepared when deferred tax assets are recognized. The carrying amount of deferred tax assets totals € 15,772k as of the reporting date (prior year: € 14,181k). Further information can be found in note (7).

# NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

## 1. Revenues

Revenues break down as follows:

| IN €K | 2015 | 2014 |
|---|---|---|
| Revenues from the sale of goods | 453,990 | 429,644 |
| Revenues from construction contracts | 616 | 13,612 |
| Revenues from services | 13,045 | 13,543 |
| | 467,651 | 456,799 |

TABLE 028

A breakdown by business units and regions is shown in segment reporting in note (35).

## 2. Personnel expenses

| IN €K | 2015 | 2014 |
|---|---|---|
| Wages and salaries | 81,684 | 80,734 |
| Social security expenses | 17,077 | 17,129 |
| Severance payments | 3,734 | 3,089 |
| | 102,495 | 100,952 |

TABLE 029

Personnel expenses increased slightly by 1.5 % to € 102,495k. Social security expenses include pension expenses of € 76k (prior year: € 63k). Information concerning pension provisions can be found in note (20).

As a long-term incentive, the company grants performance options plans, which are explained in note (32).

Contributions to the statutory pension insurance scheme total € 2,393k (prior year: € 2,698k).

AVERAGE HEADCOUNT BY FUNCTION

| | 2015 | 2014 |
|---|---|---|
| Production | 331 | 367 |
| Research & Development (R&D) | 399 | 443 |
| Sales & Marketing | 362 | 369 |
| Administration & IT | 182 | 197 |
| ANNUAL AVERAGE | 1,274 | 1,376 |

TABLE 030

AVERAGE HEADCOUNT BY REGION

| | 2015 | 2014 |
|---|---|---|
| EMEA | 686 | 770 |
| North America | 405 | 449 |
| APAC | 183 | 157 |
| ANNUAL AVERAGE | 1,274 | 1,376 |

TABLE 031

## 3. Operating expenses

| IN €K | 2015 | 2014 |
|---|---|---|
| Personnel expenses | 69,912 | 67,136 |
| Outsourcing | 8,130 | 10,180 |
| Depreciation and amortization | 6,582 | 6,207 |
| Rent, building and fixtures maintenance | 6,540 | 6,319 |
| Legal, consulting and audit fees | 6,390 | 3,045 |
| Travel expenses | 3,628 | 3,405 |
| Advertising | 3,023 | 2,763 |
| Office material and internal material requirements | 2,902 | 3,100 |
| Vehicle fleet | 1,331 | 1,615 |
| Insurance and bank charges | 1,328 | 1,555 |
| Telephone and communication | 1,264 | 789 |
| Sundry | 560 | 4,128 |
| | 111,590 | 110,242 |

TABLE 032

The costs listed above comprise expenses for sales and marketing, research and development as well as general administration.

Development costs included in current operating expenses that do not meet the IFRS recognition criteria are treated as expenses for the current fiscal year. These expenses amount to € 29,999k in the 2015 fiscal year (prior year: € 32,774k).

Depreciation and amortization recognized in current operating expenses pertain to write-downs of non-current assets, with the exception of amortization of capitalized development project costs. Amortization of capitalized development projects of € 15,229k (thereof impairment losses: € 2,318k) is disclosed in full under the cost of goods sold (prior year: € 15,625k - thereof impairment losses: € 3,322k).

The allocation of depreciation and amortization to specific non-current assets is shown in the statement of changes in non-current assets.

## 4. Restructuring cost

The further implementation of measures from the “New Kontron” program to cut costs and enhance efficiency (CRP) gave rise to costs of € 8,305k in the reporting year (prior year: € 13,866k). By contrast, provisions of € 850k that are no longer needed were reversed. Restructuring cost mainly consisted of personnel-related measures (e.g., severance benefits, retention incentives, and the benefits agreed on in the socially compatible redundancy plan (Sozialplan) such as travel allowances and shuttle buses), consulting costs as well as depreciation of properties that are not longer used.

OVERVIEW OF RESTRUCTURING COST

| IN €K | 2015 | 2014 |
|---|---|---|
| Expenses for personnel restructuring | 5,401 | 5,161 |
| Expenses for reorganization / restructuring, IT | 3,104 | 4,570 |
| Measurement effects in R&D / operations | 0 | 1,729 |
| Measurement effects in sales / customers | 650 | 2,406 |
| Income from the reversal of the provision no longer needed | – 850 | 0 |
| | 8,305 | 13,866 |

TABLE 033

## 5. Other operating income and expenses

| IN €K | 2015 | 2014 |
|---|---|---|
| Exchange rate gains | 22,987 | 10,962 |
| Income from the deconsolidation of subsidiaries | 1,993 | 0 |
| Indemnification payments and reimbursements | 1,236 | 16 |
| Subsidies | 152 | 83 |
| Income from the disposal of assets | 90 | 60 |
| Income from the reversal of provisions | 54 | 177 |
| Sundry income | 190 | 306 |
| OTHER OPERATING INCOME | 26,702 | 11,604 |
| Exchange rate losses | 22,181 | 10,576 |
| Other taxes | 105 | 466 |
| Sundry expenses | 155 | 69 |
| OTHER OPERATING EXPENSES | 22,441 | 11,111 |

TABLE 034

Other operating income and expenses mainly contain realized and unrealized exchange rate gains and losses on receivables and liabilities denominated in foreign currencies.

## 6. Financial result

| IN €K | 2015 | 2014 |
|---|---|---|
| Interest income | 38 | 112 |
| Gains from derivative financial instruments | 0 | 2 |
| Other finance income | 107 | 192 |
| FINANCE INCOME | 145 | 306 |
| Interest and similar expenses | 1,062 | 1,094 |
| Credit facility transaction costs | 505 | 589 |
| Credit facility guarantees and standby fees | 321 | 462 |
| Expenses from derivative financial instruments | 106 | 0 |
| Other finance expenses | 243 | 0 |
| FINANCE EXPENSE | 2,237 | 2,145 |
| FINANCIAL RESULT | – 2,092 | – 1,839 |

TABLE 035

## 7. Income taxes

Income tax expense breaks down as follows:

| IN €K | 2015 | 2014 |
|---|---|---|
| Current income tax | – 8,123 | – 3,175 |
| Relating to origination and reversal of temporary differences | 1,326 | 3,692 |
| TAXES REPORTED IN THE STATEMENT OF INCOME | – 6,797 | 517 |

TABLE 036

Income tax expense comprises corporate income tax and trade tax for German entities as well as comparable taxes levied at foreign entities. Other taxes are included under other operating expenses.

Kontron AG applies an income tax rate of 31.1 % in Germany (prior year: 31.1 %).

The tax rates outside of Germany range between 15 % and 36 %.

The other comprehensive income of the Group includes income taxes of € 38k on actuarial gains and losses from pension plans (prior year: € – 86k).

The following table presents the reconciliation of the expected income tax expense that would theoretically result from applying the current income tax rate in Germany of 31.1 % (prior year: 31.1 %) to the current tax expense reporting by the Group.

### RECONCILIATION OF INCOME TAX EXPENSE

| IN €K | 2015 | 2014 |
|---|---|---|
| Income / loss for the year from continuing operations before tax | 4,097 | – 6,911 |
| | | |
| Group income tax rate | 31.1 % | 31.1 % |
| Estimated tax effect | – 1,272 | 2,145 |
| | | |
| Effect of other tax rates from foreign operations | – 184 | 41 |
| Share of taxes for differences, losses and tax credits for which no deferred taxes were recognized | – 5,453 | – 895 |
| Government grants exempted from tax | 62 | 106 |
| Tax-free income | 0 | 403 |
| Non-deductible expenses | – 849 | – 2,320 |
| Tax expense / refunds for prior years | – 3,350 | 167 |
| Adjustments of deferred tax from prior years | 3,527 | 792 |
| Effect from deconsolidation | 616 | 0 |
| Other | 106 | 78 |
| **INCOME TAXES REPORTED** | **– 6,797** | **517** |
| Income tax rate | 166.0 % | 7.5 % |

TABLE 037

In the 2015 fiscal year, income tax expense totals € 6,797k (prior year: expense of € – 517k). Government grants exempted from tax stem from tax credits for research and development for the entity Kontron Modular Computers S.A.S.

The total amount of deferred tax assets and liabilities as of December 31, 2015 and December 31, 2014 relates to the following items:

### DEFERRED TAX ASSETS / LIABILITIES

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| IN €K | 2015 | 2014 | 2015 | 2014 |
| Property, plant and equipment | 26 | 17 | 527 | 602 |
| Intangible assets | 325 | 327 | 13,107 | 13,510 |
| Inventories | 2,719 | 2,542 | 230 | 200 |
| Receivables / other receivables | 600 | 1,031 | 593 | 1,167 |
| Provisions and accruals | 3,231 | 1,551 | 1,300 | 1,252 |
| Liabilities / other liabilities | 75 | 189 | 1,127 | 1,091 |
| Loss carryforwards | 15,560 | 15,279 | 0 | 0 |
| Tax credits for research and development | 2,994 | 4,247 | 0 | 0 |
| Sundry | 210 | 300 | 313 | 371 |
| GROSS AMOUNT | 25,740 | 25,484 | 17,197 | 18,193 |
| Offsetting | 9,968 | 11,303 | 9,968 | 11,303 |
| DISCLOSURE | 15,772 | 14,181 | 7,229 | 6,890 |
| NET DEFERRED TAX LIABILITIES | | | – 8,543 | – 7,291 |

TABLE 038

### TAX INCOME / EXPENSE

| IN €K | 2015 | 2014 |
|---|---|---|
| AS OF JANUARY 01 | 7,291 | 2,574 |
| Tax income / expense during the reporting period recognized in profit or loss | 1,326 | 3,692 |
| Tax income / expense during the reporting period recognized in other comprehensive income | – 38 | 86 |
| Exchange rate differences / tax income / expense not recognized in tax expense | – 36 | 939 |
| AS OF DECEMBER 31 | 8,543 | 7,291 |

TABLE 039

Kontron AG has set up deferred tax assets for unused tax losses equivalent to the amount of the tax effect on the anticipated gains from the current projections in the current business plan.

It is possible to deduct certain research and development expenses from taxes in Canada and the US. The capitalized tax credits for research and development reduce future tax payments at the entities Kontron Canada Inc. and Kontron America Inc. The tax credits may be carried forward for 20 years in Canada and the US.

Deferred tax assets may be netted against deferred tax liabilities if they are levied by the same taxation authority and offsetting is permitted. Deferred tax assets netted against deferred tax liabilities amount to € 9,968k in the 2015 fiscal year. Deferred tax assets of € 15,772k and deferred tax liabilities of € 7,229k are recognized in the consolidated statement of financial position.

Unused tax losses break down as follows:

UNUSED TAX LOSSES

| IN €K | 2015 | 2014 |
|---|---|---|
| Can be carried forward 1 year | 0 | 0 |
| Can be carried forward 10 years | 6,442 | 24,950 |
| Can be carried forward more than 10 years | 23,745 | 5,157 |
| Can be carried forward indefinitely | 94,507 | 82,290 |
| | 124,694 | 112,397 |
| Recognition of unused tax losses | –45,851 | –52,326 |
| UNUSED TAX LOSSES | 78,843 | 60,071 |

TABLE 040

Unused tax losses originate from Kontron AG and the subsidiaries, Kontron Modular Computers AG, Kontron America Inc., Railway Infrastructure and Integration Services Sp. z o.o., Kontron Technology A/S and Kontron Asia Pacific Design Sdn. Bhd.

No deferred tax assets were recognized on the unused tax losses of Kontron AG of € 17,334k as there is no prospect of taxable income against which they could be used in future based on the current business planning.

On account of the sale of production at Kontron Asia Pacific Design Sdn Bhd the entity lost its pioneer status in 2012 and the associated tax exemption. At the same time, unused loss carryforwards of € 27,355k can be used in the future due to the loss of the pioneer status. Due to the company's history of losses, it was not however possible to account for the loss carryforwards in the 2015 fiscal year.

Based on the current business planning, no deferred tax assets were recognized on the unused tax losses of Kontron America Inc. of € 25,155k.

Kontron Modular Computers AG is purely a holding company, which will not generate sufficient profit to utilize unused tax losses of € 3,073k in the future.

The unused tax losses carried by Kontron Compact Computers AG lapsed in their entirety upon the liquidation of the entity in 2015.

Kontron Technology A/S's unused tax losses of € 3,968k will most likely be forfeited on account of the planned restructuring of the entity.

As of December 31, 2015, no deferred tax liabilities were recognized on the accumulated profits of subsidiaries of € 77,917k (December 31, 2014: € 62,058k) as it is intended to reinvest these profits for an indefinite period.

## 8. Non-current assets held for sale and discontinued operations

### NON-CURRENT ASSETS HELD FOR SALE

As of the reporting date, properties no longer used by the Group and with a carrying amount of € 3,357k were reported under held-for-sale assets.

### DISCONTINUED OPERATIONS

As planned, Kontron completed the sale of the Energy project business in the 2014 fiscal year in order to focus exclusively on the core competencies in the Embedded Computer Technology (ECT) market.

The sale of the equity investment in ubitronix system solutions gmbh, Hagenberg, Austria, took place on February 10, 2014. The shareholding in ubitronix of 40% that was acquired in July 2010 was sold to the management of the company in a management buy-out. The voting rights with respect to an additional 11% of the shares were returned to the previous shareholders.

The Russian entity Affair 000, Moscow, including its direct and indirect investments, which include RTSoft ZAO, Moscow, and its investments in Russia and Ukraine, was sold on August 14, 2014. The sale was executed through the transfer of all shares (share deal). The acquisition price for the sale of discontinued operations came to € 11,600k in cash. The carrying amounts of the assets at the time of deconsolidation, less cash and cash equivalents of € 4,472k, came to € 27,010k and were classified as assets held for sale. The corresponding liabilities of € 23,485k were reported as liabilities associated with the assets held for sale.

The results of the Energy project business in the prior year break down as follows:

### INCOME / LOSS FROM DISCONTINUED OPERATIONS

| IN €K | 2014 |
|---|---|
| **OPERATING INCOME BEFORE FINANCIAL RESULT AND INCOME TAXES** | **– 2,874** |
| Financial result | – 155 |
| **INCOME / LOSS BEFORE TAX FROM DISCONTINUED OPERATIONS** | – 3,029 |
| Current income / loss before tax | 566 |
| **NET INCOME / LOSS FROM DISCONTINUED OPERATIONS** | – 2,463 |
| Income / loss from the disposal of discontinued operations | **1,636** |
| **NET INCOME / LOSS FROM DISCONTINUED OPERATIONS** | – 827 |

Included in other comprehensive income in the 2014 fiscal year:

| IN €K | 2014 |
|---|---|
| Exchange differences on translation of foreign operations | – 680 |
| Reclassifications due to the disposal of discontinued operations | 4,516 |
| | 3,836 |

Earnings per share in the 2014 fiscal year:

| IN €K | 2014 |
| --- | --- |
| Income / loss for the year from discontinued operation (basic) | – 0.02 |
| Income / loss for the year from discontinued operation (diluted) | – 0.02 |

TABLE 041

The net cash flows incurred by the discontinued operations are, as follows:

NET CASH FLOWS INCURRED BY THE DISCONTINUED OPERATIONS

| IN €K | 2014 |
| --- | --- |
| Operating activities | 4,832 |
| Investing activities | – 593 |
| Financing activities | – 3,600 |
| **NET CASH FLOWS** | 639 |

TABLE 042

# NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## 9. Cash and cash equivalents

Cash and cash equivalents totaling € 27,823k (prior year: € 15,637k) consist of cash on hand, checks and bank balances that are available within three months of deposit and earn interest at the respective short-term deposit rates.

CASH AND CASH EQUIVALENTS

| IN €K | 2015 | 2014 |
|---|---|---|
| Bank balances, cash on hand, checks | 27,823 | 15,627 |
| Short-term deposits with banks | 0 | 10 |
| | 27,823 | 15,637 |

TABLE 043

## 10. Inventories

Inventories break down as follows:

INVENTORIES

| IN €K | 2015 | 2014 |
|---|---|---|
| Raw materials, consumables and supplies | 34,972 | 34,656 |
| Work in process | 12,876 | 14,594 |
| Finished goods and merchandise | 33,333 | 34,879 |
| Prepayments | 2,152 | 1,096 |
| Receivables from construction contracts | 0 | 506 |
| | 83,333 | 85,731 |

TABLE 044

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated sales price less all estimated costs to complete and selling and marketing costs.

Write-downs of inventories recognized as an expense amounted to € 6,989k (prior year: € 8,462k). This amount is recognized under cost of goods sold.

Inventories are determined using end-of-year or perpetual inventory-taking.

As part of the credit facility, a storage assignment of raw materials, consumables and supplies and work in process and finished goods and merchandise was arranged in the 2014 fiscal year. The carrying amount of the storage assignment totals € 33,603k as of December 31, 2015 (prior year: € 34,587k). The assignment of collateral is linked to the term of the credit facility.

Amounts for construction contracts are as follows:

CONSTRUCTION CONTRACTS

| IN €K | 2015 | 2014 |
|---|---|---|
| Contract revenues | 616 | 13,613 |
| Costs incurred | – 564 | – 12,058 |
| PROFIT | 52 | 1,555 |

TABLE 045

There were no receivables from construction contracts as of the reporting date (prior year: € 506k). Obligations from construction contracts amount to € 8k (prior year: € 135k). In 2014 the company received prepayments on account of construction contracts of € 1,061k.

## 11. Trade receivables

Receivables and other assets are accounted for at nominal value or at amortized cost. All recognizable risks are covered by appropriate allowances. The general credit risk is accounted for by allowances based on past experience, an aging analysis as well as the value of the assets according to prudent business judgment.

The line item "Trade receivables" comprises the following items:

TRADE RECEIVABLES

| IN €K | 2015 | 2014 |
|---|---|---|
| Trade receivables | 154,068 | 150,113 |
| Impairments | – 31,384 | – 35,030 |
| | 122,684 | 115,083 |

TABLE 046

As of December 31, 2015, trade receivables with a face value of € 32,415k were impaired (prior year: € 35,925k).

Movements in the bad debt allowance were as follows:

BAD DEBT ALLOWANCES

| IN €K | 2015 | 2014 |
|---|---|---|
| Impairments as of January 01 | – 35,030 | – 32,724 |
| Charge for the year | – 1,677 | – 1,547 |
| Utilized | 1,714 | 1,200 |
| Reversed | 819 | 0 |
| Exchange rate effects | 2,790 | – 1,959 |
| IMPAIRMENTS AS OF DECEMBER 31 | – 31,384 | – 35,030 |

TABLE 047

The amount brought forward from the prior year contains impairment losses of € 28,008k at the level of Kontron Asia Pacific Design Sdn. Bhd., which were recognized in 2010 in connection with a case of suspected fraud. € 0k thereof was utilized in the fiscal year.

Additions totaling € 1,677k in 2015 (prior year: € 1,547k) consist of additions to specific bad debt allowances of € 765k (prior year: € 1,026k) and portfolio-based bad debt allowances of € 912k (prior year: € 521k).

Reversals in the prior year stem from receivables paid by certain customers that had been written down in the prior year on account of signs of economic difficulties as well as from the reversal of the portfolio-based bad debt allowances.

The aging analysis of trade receivables is as follows:

AGING ANALYSIS OF RECEIVABLES

| | | | thereof: not impaired but past due by | | | | | |
|---|---|---|---|---|---|---|---|---|
| IN €K | Face value | thereof: neither past due nor impaired | less than 30 days | between 31 and 60 days | between 61 and 150 days | between 151 and 240 days | between 241 and 330 days | more than 330 days |
| 12/31/2015 | 154,068 | 100,338 | 15,959 | 3,093 | 879 | 382 | 347 | 655 |
| 12/31/2014 | 150,113 | 95,417 | 13,614 | 2,933 | 1,085 | 487 | 360 | 292 |

TABLE 048

With respect to the trade receivables that were neither impaired nor past due, there was no indication as of the reporting date that the debtors would fail to meet their payment obligations. This also applies to past due trade receivables that are not impaired.

As part of the credit facility, a blanket assignment of trade receivables was arranged in the 2014 fiscal year. The carrying amount of these receivables totals € 39,320k as of December 31, 2015 (prior year: € 53,769k). The assignment of collateral is linked to the term of the credit facility.

## 12. Other receivables and assets

Other receivables and assets are composed of the following items:

OTHER CURRENT RECEIVABLES AND ASSETS

| IN €K | 2015 | 2014 |
|---|---|---|
| VAT receivables | 3,052 | 1,420 |
| Prepaid expenses | 2,167 | 3,368 |
| Receivables from escalation clauses | 1,684 | 1,684 |
| Short-term securities | 1,384 | 1,864 |
| Other tax receivables | 618 | 794 |
| Receivables from supplier bonuses | 452 | 2,252 |
| Creditors with debit balances | 420 | 490 |
| Receivables from derivative financial instruments | 258 | 0 |
| Security deposits | 168 | 1,192 |
| Receivables from personnel | 107 | 47 |
| Receivables from insurance claims | 0 | 635 |
| Sundry | 225 | 533 |
| | 10,535 | 14,279 |

TABLE 049

OTHER NON-CURRENT RECEIVABLES AND ASSETS

| IN €K | 2015 | 2014 |
|---|---|---|
| Prepaid expenses | 781 | 1,193 |
| Security deposits | 383 | 367 |
| Receivables from the disposal of an entity | 230 | 0 |
| Sundry | 13 | 37 |
| | 1,407 | 1,597 |

TABLE 050

Non-current prepaid expenses include transaction costs with a historical cost of € 1,739k for a credit facility obtained in the 2012 fiscal year and transaction costs of € 496k related to the reduction of the credit facility in 2014. The transaction costs are amortized over the residual term of the credit facility and charged to interest expenses. Their residual carrying amount in the reporting year came to € 781k.

## 13. Deferred tax assets

Explanations regarding deferred taxes can be found in note (7) of these notes.

## 14. Property, plant and equipment

Impairment losses are calculated in accordance with IAS 36 *Impairment of Assets*. No impairment losses were recorded on property, plant and equipment in the reporting year (prior year: € 277k).

In addition, this also includes production facilities and vehicles classified as finance leases of € 81k (prior year: € 131k), which are owned by the Group from an economic perspective due to the substance of the underlying lease agreements. These leases have terms of renewal but typically no bargain-purchase options and escalation clauses.

The details on minimum lease payments of the respective lease agreements are as follows:

MINIMUM LEASE PAYMENTS

| IN €K | 2015 | 2014 |
|---|---|---|
| Due in less than one year | 34 | 64 |
| Due between one and five years | 28 | 84 |
| Due in more than five years | 0 | 0 |
| | 62 | 148 |
| INTEREST COMPONENT OF MINIMUM LEASE PAYMENTS | 5 | 10 |
| TOTAL FUTURE MINIMUM LEASE PAYMENTS | 57 | 138 |

TABLE 051

The details on the minimum lease payments broken down by present value are as follows:

MINIMUM LEASE PAYMENTS BROKEN DOWN BY PRESENT VALUES

| IN €K | 2015 | 2014 |
|---|---|---|
| Due in less than one year | 31 | 58 |
| Due between one and five years | 26 | 66 |
| Due in more than five years | 0 | 0 |
| | 57 | 124 |

TABLE 052

The development of property, plant and equipment is shown in detail in the statement of changes in non-current assets.

There were no contractual commitments for the acquisition of property, plant and equipment.

As part of the credit facility, a collateral assignment of certain items property, plant and equipment was arranged in the 2014 fiscal year. The carrying amount of the collateral assignment of assets totals € 961k as of December 31, 2015 (prior year: € 1,400k). The assignment of collateral is linked to the term of the credit facility.

In addition, land charges of € 6,020k were assigned as collateral.

## 15. Intangible assets, goodwill

### Internally generated intangible assets

Research and development costs totaled € 41,963k in the 2015 fiscal year (prior year: € 44,087k) of which € 11,964k (prior year: € 11,313k) meets the IAS 38 recognition criteria.

Impairment losses of € 2,318k were recorded on internally generated intangible assets (capitalized development costs) in the reporting year (prior year: € 3,322k), of which € 923k is attributable to Industrial, € 1,016k to Communications and € 379k to Avionics/Transportation/Defense. The recoverable amount of internally generated intangible assets is determined based on a value-in-use calculation using cash flow projections. Cash flow projections are based on the market requirement document approved by management. Product development is released upon approval. The market requirement document covers a planning period of eight years, growth is determined for each product according to the available market analyses. The discount rates used in the cash flow projections range between 9.06 % and 9.56 % (prior year: between 8.49 % and 11.97 %).

The Kontron Group received government grants of € 18k in the fiscal year (prior year: € 151k), which reduced the cost of capitalized development projects, as well as additional subsidies of € 848k (prior year: € 812k), which reduced research and development costs.

### Rights and licenses, other intangible assets

An amount of € 12,167k was invested in the further development of existing IT systems and the purchase of software licenses in the 2015 fiscal year (prior year: € 9,567k). As of the reporting date there were obligations to purchase intangible assets of € 953k.

In addition, intangible assets comprise rights and licenses and other intangible assets from acquisitions (e. g., customer base, technology, brand names and order backlog).

Amortization of intangible assets is contained in the following individual line items of the statement of income:

AMORTIZATION OF INTANGIBLE ASSETS

| IN €K | 2015 | 2014 |
|---|---|---|
| Cost of goods sold | 15,248 | 14,087 |
| Development cost | 600 | 2,841 |
| General and administrative cost | 2,753 | 1,799 |
| Selling and marketing cost | 1,317 | 1,335 |
| | 19,918 | 20,062 |

TABLE 053

### Goodwill

Goodwill stems from business acquisitions. The table below shows goodwill broken down by business unit as of December 31, 2015:

GOODWILL BY BUSINESS UNIT

| IN €K | Industrial | Communications | Avionics / Transportation / Defense | Total |
|---|---|---|---|---|
| 12/31/2015 | 33,248 | 10,295 | 50,911 | **94,454** |
| 12/31/2014 | 32,096 | 9,948 | 49,177 | **91,221** |

TABLE 054

The annual impairment test as of December 31, 2015 was carried out for goodwill. As in the prior year, this did not result in the need to recognize impairment losses.

## IMPAIRMENT TESTING OF GOODWILL

Kontron performs its annual impairment test of goodwill as of December 31 of each year. In order to determine the need for impairment, the recoverable amounts of the cash-generating units are determined based on a value-in-use or a fair value less cost of disposal calculation using cash flow projections (level 3 of the fair value hierarchy).

The positive growth and earnings effects which could arise from the program to cut costs and enhance efficiency (CRP) that was introduced in the 2013 fiscal year have been included in the financial planning. The value-in-use concept takes into account the as-is situation of the Group as of the measurement date. Fair value less cost of disposal corresponds to the price that would be received in an orderly transaction between market participants less the associated cost of disposal. At the cash-generating units, which correspond to the business units of the company, there was no need to recognize impairment losses pursuant to IAS 36 due to the fact that the recoverable amounts determined in the course of the impairment test exceeded their respective carrying amounts. The test was performed for the “Industrial” and “Communications” cash-generating units using a value-in-use calculation and for the “Avionics / Transportation / Defense” cash-generating unit using a fair value less cost of disposal calculation.

The cash flow projections are based on financial budgets approved by the Supervisory Board covering a four-year period (2016 to 2019). Cash flows after the four-year period are extrapolated using a growth rate of 1 % based on the final year that was planned in detail (2019). For cash-generating units, cash flows have been forecast based on operating results and reliability of recent projections, current operating results of the fiscal year and the best possible estimate of future developments, using, among other things, management's assumptions concerning future development and market conditions. Restructuring measures without a sufficient obligation as well as measures to improve or increase the earning power of the cash-generating unit are not included in the value in use. These measures are only included in the fair value less cost of disposal calculation to the extent which a potential buyer would typically implement similar measures.

The recoverable amount is primarily derived from the terminal value (present value of the perpetual annuity), which responds particularly sensitively to changes in the long-term growth rate and discount rate.

The pre-tax discount rate applied to the cash flow projections is presented in the following table:

DISCOUNT RATES FOR THE CASH-GENERATING UNITS (BUSINESS UNITS)

| IN % | 2015 | 2014 |
|---|---|---|
| Industrial | 11.12 | 10.74 |
| Communications | 10.52 | 10.54 |
| Avionics / Transportation / Defense | 10.81 | 12.01 |

TABLE 055

### KEY ASSUMPTIONS USED IN RECOVERABLE AMOUNT CALCULATIONS

There are valuation uncertainties regarding the following assumptions that form the basis of the calculation of the recoverable amount of the cash-generating units:

- Growth in revenues during the forecast period
- EBIT margins
- Discount rates
- Growth rates used to extrapolate cash flows beyond the detailed planning period

*Growth in revenues* – For 2016, revenues were planned using detailed planning at individual customer level by business unit, division, region and product lines. This planning is prepared both by the three business units and the sales organization and subsequently compared and approved. Historical values from the past years are included to check the plausibility of revenues.

Revenues for subsequent years are extrapolated based on the 2016 planning for the business units by product group, customers and regions. Compared to the market studies available to us, the underlying planning is below market expectations.

*EBIT margins* – The costs for 2016 have been planned for all functions by account groups. In this context, prior-year costs were used as a basis for the planning. EBIT margins are based on average values achieved in prior fiscal years as well as expectations of price, cost and changes in the product range and improvements to efficiency in the planning period. The resulting EBIT margins are typically within the range of margins seen in the peer group.

*Discount rates* – Discount rates represent the current market assessment of the risks specific to each cash generating unit. The discount rate calculation is based on the specific circumstances of Kontron AG and its operating segments and is derived from its weighted average cost of capital (WACC) for the industry. The average cost of capital takes into account both debt and equity. The cost of equity is derived from the expected return on investment, while the borrowing costs are determined based on the anticipated debt servicing. This rate was further adjusted to reflect the market assessment of any risk, foreign exchange and interest rate risks, specific to the cash-generating unit for which future estimates of cash flows have not been adjusted.

*Long-term growth rate* – The long-term growth rate may be significantly impacted by the speed of technological change and the possibility of new competitors. Nevertheless, Kontron does not expect forecast cash flows to be negatively impacted by potential entry of new competitors based on current knowledge. However, this could lead to a different potential growth rate. The growth rate of 1 % was used to extrapolate the cash flow projections after the four-year planning period. It includes external macroeconomic factors and industry-specific trends.

## SENSITIVITY OF THE ASSUMPTIONS MADE

The implications of the key assumptions for the recoverable amount are summarized below:

### IMPAIRMENT LOSS FROM PRINCIPAL ASSUMPTIONS

| IN €K | Industrial | Communi-cations | Avionics / Transportation / Defense |
|---|---|---|---|
| Amount by which the recoverable amount exceeds the carrying amount (in €k) | 1,225 | 9,243 | 12,285 |
| Growth in revenues (detailed planning period) | –5.7% – 7.0% | –0.5% – 7.6% | 5.2% – 15.1% |
| Necessary change in growth in revenues, so that the recoverable amount equals the carrying amount (in % points) | –0.26 | –4.14 | –2.79 |
| EBIT margins (in %) | 1.2% – 6.7% | 1.1% – 6.3% | 1.6% – 8.8% |
| Necessary change in EBIT margins, so that the recoverable amount equals the carrying amount (in percentage points) | –0.06 | –0.85 | –0.78 |
| Discount rate (in %, after taxes) | 8.56% | 8.37% | 8.06% |
| Necessary change in the discount rate, so that the recoverable amount equals the carrying amount (in percentage points) | +0.07 | +1.24 | +0.72 |
| Long-term growth rate (in %) | 1% | 1% | 1% |
| Necessary change in the long-term growth rate, so that the recoverable amount equals the carrying amount (in percentage points) | –0.14 | –3.17 | –1.30 |

TABLE 056

## 16. Trade payables

Trade payables break down as follows:

| IN €K | 2015 | 2014 |
|---|---|---|
| Trade payables | 67,836 | 73,928 |
| Customer prepayments | 3,092 | 2,406 |
| | 70,928 | 76,334 |

TABLE 057

Trade payables have the following remaining terms:

REMAINING TERMS OF PAYABLES

| IN €K | Due in less than one year | Due in one to five years | Due in more than five years | Total |
|---|---|---|---|---|
| 12/31/2015 | 67,734 | 102 | 0 | 67,836 |
| 12/31/2014 | 73,623 | 305 | 0 | 73,928 |

TABLE 058

## 17. Other liabilities

Other liabilities break down as follows:

OTHER CURRENT LIABILITIES

| IN €K | 2015 | 2014 |
|---|---|---|
| Personnel obligations | 12,475 | 11,446 |
| Outstanding invoices | 3,389 | 5,548 |
| Other taxes | 2,450 | 2,254 |
| Cost of preparing the financial statements | 1,037 | 1.225 |
| Liabilities from purchase commitments | 858 | 2,589 |
| Liabilities from derivative financial instruments | 475 | 0 |
| Debtors with credit balances | 403 | 121 |
| Return obligation from the sale of materials | 331 | 180 |
| Rental obligations | 192 | 316 |
| Interest payable | 182 | 2 |
| Liabilities from social security | 75 | 332 |
| Legal and consulting costs | 37 | 191 |
| Security deposits from suppliers | 0 | 299 |
| Sundry | 492 | 801 |
| | 22,396 | 25,304 |

TABLE 059

OTHER NON-CURRENT LIABILITIES

| IN €K | 2015 | 2014 |
|---|---|---|
| Rental obligations | 1,122 | 617 |
| Personnel obligations | 435 | 834 |
| Deferred income | 397 | 389 |
| | 1,954 | 1,840 |

TABLE 060

## 18. Deferred tax liabilities

Explanations regarding deferred tax liabilities can be found in note (7) of these notes (income taxes).

## 19. Financial liabilities

All interest-bearing liabilities of the Kontron Group as of the respective reporting date are shown under financial liabilities. They break down as follows:

**2015 FINANCIAL LIABILITIES**

| IN €K | Due in less than one year | Due in one to five years | Due in more than five years | 2015 total |
|---|---|---|---|---|
| **NON-CURRENT** | | | | |
| Non-current liabilities (bank loans) | 0 | 56,513 | 0 | 56,513 |
| Obligations from financial leases | 0 | 27 | 0 | 27 |
| **NON-CURRENT FINANCIAL LIABILITIES** | 0 | 56,540 | 0 | 56,540 |
| **CURRENT** | | | | |
| Liabilities to banks | 702 | 0 | 0 | 702 |
| Obligations from financial leases | 31 | 0 | 0 | 31 |
| **CURRENT FINANCIAL LIABILITIES** | 733 | 0 | 0 | 733 |
| | 733 | 56,540 | 0 | 57,273 |

TABLE 061

**2014 FINANCIAL LIABILITIES**

| IN €K | Due in less than one year | Due in one to five years | Due in more than five years | 2014 total |
|---|---|---|---|---|
| **NON-CURRENT** | | | | |
| Non-current liabilities (bank loans) | 0 | 35,938 | 0 | 35,938 |
| Obligations from financial leases | 0 | 100 | 0 | 100 |
| **NON-CURRENT FINANCIAL LIABILITIES** | 0 | 36,038 | 0 | 36,038 |
| **CURRENT** | | | | |
| Liabilities to banks | 5 | 0 | 0 | 5 |
| Obligations from financial leases | 39 | 0 | 0 | 39 |
| **CURRENT FINANCIAL LIABILITIES** | 44 | 0 | 0 | 44 |
| | 44 | 36,038 | 0 | 36,082 |

TABLE 062

Non-current liabilities to banks have the following maturities and interest rates:

MATURITIES / INTEREST RATES OF NON-CURRENT LIABILITIES

| IN €K | 2015 | 2014 |
|---|---|---|
| Credit facility with an average interest rate of 2.21 % (prior year: 1.73 %) until 2017 | 56,513 | 35,938 |
| | 56,513 | 35,938 |

TABLE 063

### Overdraft facilities and bank loans due in less than one year

There are bilateral lines of credit at some subsidiaries with a total volume of € 2,745k (prior year: € 2,835k) in order to finance working capital and cover any necessary bank guarantees. Of this amount, € 2,020k (prior year: € 2,079k) pertains to overdraft facilities and € 725k (prior year: € 756k) to bank guarantees. These credit lines were concluded without an assumption of liability by Kontron AG and apply until revoked. An amount of € 702k (prior year: € 0k) was drawn on the overdraft facilities as of the reporting date. € 504k (prior year: € 557k) of the bank guarantees provided was utilized.

### Bank loans with a term of more than one year

A credit facility for a total of € 170,000k was entered into with a syndicate of five banks in April 2012. This credit facility, which provides for the financing of investment and potential acquisitions in addition to financing the Kontron Group's working capital, had an original term of five years and ends in April 2017. On account of the changed business environment – also with regard to discontinued operations – the resulting financing requirement was adjusted to a credit volume totaling € 119,070k in the 2014 fiscal year.

In 2015 this line of credit was further reduced during the sale of a property and now stands at € 116,270k. Upon implementation of the planned strategic partnership with Ennoconn and the related cash injection of $ 57,300k (approximately € 52,500k), the credit facility will be scaled back by another € 25,000k as the cash position of the Group will improve from the cash received from the sale of the shares in the Canadian subsidiary.

At the same time, the company agreed with the syndicate banks in the amended agreement that they may charge a moderately higher lending margin upon signing. This increase in the margin does not significantly affect the financial result of the Group, assuming no change in the amount drawn under the loan, because the standby fee decreased accordingly. As the former loan agreement only arranged for joint liability of the significant subsidiaries of Kontron AG towards the banks, additional collateral was arranged with the syndicate. In addition to mortgages, this includes a blanket assignment of all non-current assets and current assets as well as collateral assignments. The covenants agreed upon remained largely unchanged.

The credit facility is divided into a tranche of € 101,270k (prior year:€ 103,791k) for short-term borrowings in the form of overdraft and forward loans (cash line) and a bank guarantee facility for bank guarantees of € 15,000k (prior year: € 15,279k). Furthermore, the furnished cash line offers Kontron AG the opportunity to arrange bilateral lines of credit (ancillary lines) with individual members of the syndicate of banks and foreign subsidiaries (subsidiary lines). As of December 31, 2015, Kontron AG took advantage of this financing option and arranged ancillary lines of € 29,600k (prior year: € 29,600k) with all participating syndicate banks. In addition, a cash line was arranged for a foreign subsidiary as a subsidiary facility of € 903k (prior year: € 0k) (translated at the closing rate). In addition, a local line of credit (bank guarantee facility) was arranged for a foreign subsidiary as a subsidiary facility of € 210k (prior year: € 119k) (translated at the closing rate). It should be noted that the bank guarantee facilities extended to subsidiaries within the framework of the subsidiary line concept will be sourced from the cash line of Kontron AG. Consequently, the Group has € 101,060k available from the cash line extended by the syndicate. € 275k (prior year: € 24k) of the lines of credit, for which Kontron AG is jointly liable within the framework of the credit facility, had been utilized as of the reporting date.

The credit facility is contingent on compliance with agreed financial and non-financial covenants. The financial covenants relate to the ratio of the Group's net debt to EBITDA (adjusted for restructuring cost), the ratio of the Group's net financial income to EBITDA (adjusted for restructuring cost) and a minimum equity ratio. If the covenants are not observed, the outstanding liabilities become payable immediately to the lending banks. The covenants stipulated in the loan agreement were met in full as of the reporting date. Interest on borrowings within the scope of the credit facility is charged based on the underlying EURIBOR of the respective terms plus a credit margin that is determined on the basis of the ratio of the Group's net debt to EBITDA (adjusted for restructuring cost). The interest rates of bilateral ancillary lines have been arranged individually with the respective syndicate banks and are calculated based on the current money market interest rate. The average financing interest rate totaled about 2.21 % (prior year: 1.73 %) p.a. as of the reporting date. The local credit line extended to a foreign subsidiary is subject to interest at the local reference rate plus the agreed margin.

On December 31, 2015, € 56,513k of this credit facility had been utilized.

### Total bank loans

In total, cash lines of € 103,080k (prior year: € 105,870k) were thus available to the Group as a result of the bilateral lines of credit and the credit facility. As a result, the Group has additional, theoretical headroom of € 45,867k (prior year: € 69,932k).

The guarantee lines extended within the framework of the credit facility and the aforementioned bilateral guarantees provided to Kontron AG totaling € 15,932k (prior year: € 16,035k), € 4,752k of which had been utilized as of the reporting date (prior year: € 8,862k). This gives the Group additional headroom of € 11,180k (prior year: € 7,173k).

For the financial liabilities recognized as of the reporting date, there were no payment problems in the reporting period with respect to principal or interest payments, the redemption fund or redemption clauses.

## 20. Provisions

IAS 37 defines provisions as liabilities of uncertain timing or amount, although a distinction must be made between provisions and accruals.

Accruals are included in the items “Other current liabilities” or “Other non-current liabilities” and are discussed in more detail in note (17).

Provisions developed as follows:

CURRENT PROVISIONS 2015

| IN €K | Carried forward | Exchange rate effects | Change in basis of consolida-tion | Additions | Utilization | Reversal | As of 12/31/2015 |
|---|---|---|---|---|---|---|---|
| Warranties | 2,947 | 100 | 0 | 251 | 406 | 160 | 2,732 |
| Litigation | 214 | 0 | 0 | 143 | 0 | 17 | 340 |
| Potential losses | 576 | 0 | 0 | 293 | 188 | 382 | 299 |
| Restructuring | 5,871 | – 6 | 0 | 1,891 | 3,418 | 659 | 3,679 |
| Sundry | 1,260 | – 4 | – 79 | 20 | 22 | 66 | 1,109 |
| | 10,868 | 90 | – 79 | 2,598 | 4,034 | 1,284 | 8,159 |

TABLE 064

NON-CURRENT PROVISIONS 2015

| IN €K | Carried forward | Exchange rate effects | Change in basis of consolida-tion | Additions | Utilization | Reversal | As of 12/31/2015 |
|---|---|---|---|---|---|---|---|
| Warranties | 884 | 45 | 0 | 427 | 353 | 61 | 942 |
| Restructuring | 736 | – 1 | 0 | 55 | 521 | 214 | 55 |
| Sundry | 42 | 2 | 0 | 4 | 0 | 0 | 48 |
| | 1,662 | 46 | 0 | 486 | 874 | 275 | 1,045 |

TABLE 065

### CURRENT PROVISIONS 2014

| IN €K | Carried forward | Exchange rate effects | Reclassification | Additions | Utilization | Reversal | As of 12/31/2014 |
|---|---|---|---|---|---|---|---|
| Warranties | 2,708 | 142 | 0 | 858 | 367 | 394 | 2,947 |
| Litigation | 110 | 0 | 0 | 154 | 50 | 0 | 214 |
| Potential losses | 1,169 | 0 | 757 | 0 | 1,157 | 193 | 576 |
| Restructuring | 7,827 | – 48 | – 214 | 3,861 | 5,451 | 104 | 5,871 |
| Sundry | 2,361 | 0 | 0 | 101 | 143 | 1,059 | 1,260 |
| | **14,175** | **94** | **543** | **4,974** | **7,168** | **1,750** | **10,868** |

TABLE 066

### NON-CURRENT PROVISIONS 2014

| IN €K | Carried forward | Exchange rate effects | Reclassification | Additions | Utilization | Reversal | As of 12/31/2014 |
|---|---|---|---|---|---|---|---|
| Warranties | 696 | 70 | 0 | 511 | 364 | 29 | 884 |
| Potential losses | 770 | 0 | – 757 | 0 | 13 | 0 | 0 |
| Restructuring | 698 | 1 | 214 | 0 | 177 | 0 | 736 |
| Sundry | 30 | 3 | 0 | 11 | 2 | 0 | 42 |
| | **2,194** | **74** | **– 543** | **522** | **556** | **29** | **1,662** |

TABLE 067

### Warranties

A provision is created for warranty obligations from the products sold during the last two years. Warranties from construction contracts are recognized in the calculation of provisions once the respective project has been accepted by the customer. The measurement of the provision is based on past experience of repairs and returns. It is expected that most of these costs will be incurred in the next two fiscal years. Assumptions used to calculate the provision for warranties were based on current sales levels and current information about returns based on the two-year warranty period for all products sold.

### Litigation

The addition to current provisions for litigation comprises provisions in connection with personnel.

### Potential losses

Utilization and reversal of the current provision for potential losses relate to lease payments for the SAP systems.

### Restructuring

The addition to the provision for restructuring mainly consists of personnel-related expenses. The utilization mainly comprises the provisions set up in the prior year for severance payments and other personnel expenses in connection with the "New Kontron" program to cut costs and enhance efficiency (CRP) as well as the offsetting of contractual risks against counterclaims.

### Pensions and other post-employment benefits

#### REGULATORY FRAMEWORK AND DESCRIPTION OF BENEFITS

In Germany, the regulatory framework for the company pension plan is stipulated by the BetrAVG ["Gesetz zur Verbesserung der betrieblichen Altersversorge": German Company Pensions Act], which prescribes the minimum legal requirements for company pension plans. In addition, labor legislation regulations and court rulings must be observed. At Kontron, the post-employment benefit system consists of a pension that is paid as:

- old-age pension upon or after reaching the fixed retirement age of 65
- early old-age pension in the event of drawing benefits from the statutory pension insurance scheme
- disability benefits upon retirement and subsequent occupational disability

The pension amount is not affected by salary increases. As in the prior year, 10 employees were participating in the plan as of the reporting date.

As a result of the legal regulations and collectively bargained agreements in France, the company is required to make one-off payments to its employees upon retirement. The payments are collectively bargained and are based on employees' years of service and final salary prior to retirement. An employee that leaves the company prior to retirement does not receive payment, regardless of whether they leave the company of their own volition or not. As of the reporting date, 102 employees were participating in the plan (prior year: 97 employees).

## CURRENT RISKS

In Germany, the company pension plan is closed for new entrants. The pensionable salaries of entitled employees are fixed. As a result, total claims of all eligible employees are limited to less than € 9k per year. Currently pension payments total less than € 3k per year. Risks are therefore essentially limited to the development of interest rates and longevity.

In France, risks are also essentially limited to the development of interest rates and longevity. An additional financial risk is the risk of employee turnover (due to the fact that employees do not draw benefits from the plan if they leave the company before reaching retirement age). The plan is not covered by plan assets, as is customary for small entities.

## PROVISIONS FOR PENSION OBLIGATIONS AND OTHER BENEFITS

Provisions for pension obligations and other post-employment benefits developed as follows:

### PENSION PROVISIONS 2015

| IN €K | |
|---|---|
| **PENSION PROVISIONS AS OF 01/01/2015** | 1,742 |
| Change in basis of consolidation | 0 |
| New pension obligations | 124 |
| Additions, thereof: | 76 |
| – Current service cost | 76 |
| – Past service cost | 0 |
| – General and administrative cost | 0 |
| Utilization | – 5 |
| Interest expense | 35 |
| **ACTUARIAL GAINS AND LOSSES TO BE POSTED TO OTHER COMPREHENSIVE INCOME:** | |
| Gains (–) / losses (+) from changes in demographic assumptions | – 4 |
| Gains (–) / losses (+) from changes in financial assumptions | – 43 |
| Gains (–) / losses (+) from experience adjustments to defined benefit obligations | – 76 |
| Gains (–) / losses (+) from plan assets (not included in interest income) | 0 |
| Effect from the limit on a defined benefit asset in accordance with IFRIC 14 | 0 |
| Exchange differences from plans denominated in foreign currency | 0 |
| **PENSION PROVISIONS AS OF 12/31/2015** | 1,850 |

TABLE 068

## PENSION PROVISIONS 2014

| IN €K | |
|---|---|
| **PENSION PROVISIONS AS OF 01/01/2014** | 1,428 |
| Additions, thereof: | 63 |
| – Current service cost | 63 |
| – Past service cost | 0 |
| – General and administrative cost | 0 |
| Utilization | – 55 |
| Interest expense | 44 |
| **ACTUARIAL GAINS AND LOSSES TO BE POSTED TO OTHER COMPREHENSIVE INCOME:** | |
| Gains (–) / losses (+) from changes in demographic assumptions | 0 |
| Gains (–) / losses (+) from changes in financial assumptions | 229 |
| Gains (–) / losses (+) from experience adjustments to defined benefit obligations | 140 |
| Gains (+) / losses (–) from plan assets (not included in interest income) | 0 |
| Effect from the limit on a defined benefit asset in accordance with IFRIC 14 | – 107 |
| Exchange differences from plans denominated in foreign currency | 0 |
| **PENSION PROVISIONS AS OF 12/31/2014** | 1,742 |

TABLE 069

The following tables summarize the components of expenses recognized in the consolidated statement of income and amounts recognized in the consolidated statement of financial position for the respective plans.

Net benefit expense for defined benefit plans recognized in the consolidated statement of income:

**NET BENEFIT EXPENSE**

| IN €K | 2015 | 2014 |
|---|---|---|
| Current service cost | 76 | 63 |
| Past service cost | 0 | 0 |
| Plan settlements | 0 | 0 |
| Net interest expense: | | |
| Interest expense (DBO) | 35 | 44 |
| Interest income (plan assets) | 0 | 0 |
| Interest income from reimbursements | 0 | 0 |
| Interest expense (+) / interest income (–) from the asset ceiling | 0 | 0 |
| Actuarial gains / losses | 0 | 0 |
| General and administrative costs | 0 | 0 |
| **NET BENEFIT EXPENSE / INCOME** | **111** | **107** |
| Actual return on plan assets | 0 | 0 |

TABLE 070

The expenses are recognized in general and administrative costs in the statement of income. The Group expects to make direct benefit payments of € 39k in the 2016 fiscal year.

Changes in the present value of the defined benefit obligations are as follows:

PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

| IN €K | 2015 | 2014 |
|---|---|---|
| DEFINED BENEFIT OBLIGATION AS OF JANUARY 01 | 1,742 | 1,428 |
| Current service cost | 76 | 63 |
| Past service cost | 0 | 0 |
| Gains / losses on plan settlements | 0 | 0 |
| Interest expense | 35 | 44 |
| Benefits paid from plan assets | 0 | – 107 |
| Benefits paid by employer | – 5 | – 55 |
| Plan settlements | 0 | 0 |
| Employee contributions | 0 | 0 |
| General and administrative costs (contained in DBO) | 0 | 0 |
| Taxes (contained in DBO) | 0 | 0 |
| Insurance premiums for risks | 0 | 0 |
| New pension obligations | 124 | 0 |
| Reclassifications | 0 | 0 |
| Remeasurements: | | |
| Gains (–) / losses (+) from changes in demographic assumptions | – 4 | 0 |
| Gains (–) / losses (+) from changes in financial assumptions | – 43 | 229 |
| Gains (–) / losses (+) from experience adjustments to defined benefit obligations | – 76 | 140 |
| Exchange differences from plans denominated in foreign currency | 0 | 0 |
| Other | 0 | 0 |
| DEFINED BENEFIT OBLIGATION AS OF DECEMBER 31 | 1,850 | 1,742 |

TABLE 071

There are no planned assets for defined benefit obligations following the dissolution of the pension plan in Switzerland.

The principal assumptions used in determining post-employment benefit obligations are shown below:

### UNDERLYING ASSUMPTIONS FOR PENSION PROVISIONS

| IN % | 2015 | 2014 |
|---|---|---|
| Discount rate | 2.22 | 2.03 |
| Future salary increases (commitments in France) | 2.00 | 2.00 |
| Future pension increases (commitments in Germany) | 2.00 | 2.00 |

TABLE 072

As of December 31, 2015, the discount rate was 2.40 % in Germany and 2.20 % in France.

### HEUBECK 2005G LIFE EXPECTANCY

| Age on 12/31/2015 | Average male / female at age 65 | Prior-year |
|---|---|---|
| 65 | 21.03 | 20.89 |
| 45 | 23.61 | 23.49 |
| 40 | 24.23 | 24.11 |

TABLE 073

Life expectancy is only presented for Germany. In France a lump sum is paid out, meaning that life expectancy is not a decisive factor.

The sensitivity analysis of underlying assumptions results in the following amounts:

SENSITIVITY ANALYSIS FOR PENSION PROVISIONS

| IN €K | 12/31/2015 assumption | 12/31/2015 obligation | + 50 basis points | – 50 basis points |
|---|---|---|---|---|
| Discount rate | 2.22 % | 1,850 | 1,742 | 1,968 |
| Future salary increases | 2.00 % | 1,850 | 1,955 | 1,752 |
| Future pension increases | 2.00 % | 1,850 | 1,865 | 1,835 |

TABLE 074

The duration of the obligations is 12 years.

An increase in life expectancy by one year results in an increase in the total obligation of € 19k.

## 21. Disclosures on litigation

In the reporting period, there were various legal disputes pending in the Kontron Group. This litigation relates to the operating activities of group entities. The Management Board does not assume that the outcome of those disputes that were not concluded in the reporting period will have a significant impact on the net assets, financial position and results of operations of the company.

The claim for damages (litigation as plaintiff) against various plaintiffs that has been ongoing in Malaysia since the 2010 fiscal year could not be resolved in the reporting period. With the action, damages of € 29,348k have been claimed. Kontron has not recognized receivables for the claim for damages. Two hearings were held in the reporting period to hear witnesses. The lawyers engaged by Kontron in Malaysia are not yet able to forecast when a verdict from the court action in Malaysia is to be expected.

## 22. Equity and stock options

Kontron had 55,683,024 no-par bearer shares outstanding as of December 31, 2015. Each share represents € 1 of the issued capital. Different share categories do not exist.

The additional paid-in capital includes share premiums and expenses from share option schemes (see note (32)).

Retained earnings contains profits generated in the past by the entities included in the consolidated financial statements that have not been distributed, actuarial gains / losses from pensions and other post-employment benefits. In addition, since January 01, 2010, the difference between the consideration and the carrying value of the interest acquired when purchasing non-controlling interests has been recognized in retained earnings.

## 23. Contingent capital

Contingent capital 2003 I can be used to contingently increase the company's share capital by up to € 1,105k by issuing up to 1,104,850 new shares for conversion or subscription rights. The contingent capital increase will only be conducted to the extent that bearers of options issued under the 2003 stock option program make use of this option right. With the resolution of the Annual General Meeting of Shareholders of June 09, 2010 the term of the issued and not yet exercised stock options was extended until December 31, 2013. No stock options were outstanding as of December 31, 2015.

The company's share capital is contingently increased by contingent capital 2007 I by up to € 1,500k by issuing up to 1,500,000 no-par value shares (contingent capital 2007). The contingent capital increase will only be conducted to the extent that bearers of options issued under the 2007 stock option program make use of this option right. There were no stock options outstanding as of December 31, 2015.

The company's share capital is contingently increased by contingent capital 2015 by up to € 22,200k by issuing up to 22,200,200 no-par value shares (contingent capital 2015). The contingent capital increase will only be conducted to the extent that the bearers of convertible and / or warrant bonds issued based on the authorization granted by the Annual General Meeting of Shareholders on June 11, 2015 for issue by the company until June 10, 2020 make use of this conversion / option right. As in the prior year, this did not result in any convertible or warrant bonds as of December 31, 2015.

## 24. Authorized capital

By resolution passed at the Annual General Meeting of Shareholders of Kontron AG on June 11, 2015, authorized capital 2015 was approved.

The authorized capital 2015 authorizes the issue, once or several times, of up to 27,841,512 new no-par value bearer shares in exchange for cash contributions or contributions in kind subject to the approval of the Supervisory Board by June 10, 2020 (authorized capital 2015). In principle, shareholders are granted the right to subscribe to the new shares. The shareholders' statutory subscription right can also be granted to the shareholders in such a way that the new shares may also be acquired by one or more banks subject to the proviso that they offer them to the shareholders for subscription.

The Management Board is authorized to exclude, subject to the approval of the Supervisory Board, the shareholders' statutory subscription rights

- to avoid subscription rights to fractional amounts.
- (when required to prevent the dilution of capital) to provide subscription rights for new shares to the creditors of the bonds (including profit participation rights and participating bonds) with convertible or warrant bonds or a conversion right granted by Kontron AG or one of its group entities as it would have been granted to them after the exercise of their conversion rights or options or after fulfilling their conversion obligations.
- if the new shares are issued in exchange for contributions in kind for the purpose of business combinations, acquiring companies or equity investments in companies or parts of companies, receivables due from the company or for the issue of other assets.
- if the new shares are issued at a price per new share that does not fall significantly below the quoted price, and the shares issued without subscription rights pursuant to Sec. 186 Sentence 4 AktG, do not represent more than 10% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. This limit of 10% is included in treasury shares during the term of this authorization in application of Sec. 186 (3) Sentence 4 AktG. Moreover, this limit is to include those shares that were to be issued or are issued in order to serve bonds (including profit participation rights and participating bonds) with convertible or warrant bonds or a conversion right, if the bonds or profit participating rights have been issued during the term of this authorization in exclusion of shareholders' subscription rights in application of Sec. 186 (3) Sentence 4 AktG.

The total shares issued precluding subscription rights in accordance with this authorization in return for a cash or non-cash contribution cannot exceed 20% of the share capital existing either as of the date on which the authorization takes effect or as of the date on which the authorization is exercised, whichever is lower. This limit of 20% is included in treasury shares during the term of this authorization. Moreover, this limit is to include those shares that were or are to be issued to serve bonds (including profit participation rights and participating bonds) with attached rights / duties of conversion and / or put or call options, provided the bonds have been issued during the term of this authorization in exclusion of shareholders' subscription rights.

The Management Board is also authorized, subject to the approval of the Supervisory Board, to decide on the content of the respective share rights and the conditions of share issue as well as on the further details concerning performance of the capital increase.

## 25. Treasury shares

At the Annual General Meeting of Shareholders on June 11, 2015, the Management Board was authorized to redeem treasury shares with an imputed value of up to 10% of share capital. The authorization is valid until June 10, 2020.

In the reporting year, the company did not redeem any treasury shares or transfer any treasury shares to employees on account of share options.

As of December 31, 2015, Kontron holds 111,976 treasury shares (prior year: 111,976); this corresponds to a nominal amount of € 112k of share capital (prior year: € 112k). The imputed share of capital comes to 0.20% (prior year: 0.20%).

## 26. Other equity components

Other components of equity changed from € – 21,492k to € – 12,728k, mainly on account of exchange rate fluctuations.

## 27. Non-controlling interests

The share in equity attributable to non-controlling interests of € – 128k (prior year: € 39k) mainly comprises the subsidiary Railway Infrastructure and Integration Services Sp. z o.o., (formerly: Kontron East Europe Sp. z o.o.), Warsaw, Poland. As of December 31, 2014, this item included the non-controlling interests in Kontron Technology India Pvt. Ltd., Mumbai, India, as well as in two entities that were consolidated in the 2015 fiscal year, namely Compact Computers AG, Luterbach, Solothurn, Switzerland, and Kontron Australia Pty. Ltd., Sydney, Australia.

Applicable IFRS regulations stipulate that non-controlling interests are to be recognized in equity.

## 28. Nature and purpose of reserves

### ADDITIONAL PAID-IN CAPITAL

In addition to share premiums and costs of capital increases, additional paid-in capital also includes additions from share-based payments in prior-year periods.

### FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

## 29. Commitments and contingencies

As of December 31, 2015, the Kontron Group had no commitments or contingencies.

## 30. Other financial obligations

Besides liabilities, provisions and contingent liabilities, the Group has other financial obligations, in particular from rental and lease agreements for buildings, vehicles, technical equipment and machinery as well as software.

Total other financial obligations break down as follows:

OTHER FINANCIAL OBLIGATIONS 2015

| IN €K | Due in less than one year | Due in one to five years | Due in more than five years | 2015 total |
|---|---|---|---|---|
| Obligations from operating leases | | | | |
| of which leases of buildings | 5,596 | 19,564 | 10,261 | 35,421 |
| of which vehicle leases | 931 | 1,080 | 0 | 2,011 |
| of which software licenses | 782 | 439 | 0 | 1,221 |
| of which leases for technical equipment and machines | 137 | 314 | 0 | 451 |
| of which other leases | 156 | 190 | 0 | 346 |
| | 7,602 | 21,586 | 10,261 | 39,449 |

TABLE 075

OTHER FINANCIAL OBLIGATIONS 2014

| IN €K | Due in less than one year | Due in one to five years | Due in more than five years | 2014 total |
|---|---|---|---|---|
| Obligations from operating leases | 5,046 | 9,973 | 11,654 | 26,673 |
| Other rental obligations | 2,022 | 1,764 | 96 | 3,882 |
| | 7,068 | 11,737 | 11,750 | 30,555 |

TABLE 076

The obligations from rental agreements for buildings (prior year: leases) comprise future rental expenses for the properties at the Augsburg location. This rental agreement expires in 2024.

The average term of the leases for vehicles, technical equipment and software licenses lies between three and seven years. These lease agreements do not contain renewal or bargain-purchase options. The lease agreements did not impose any restrictions on the lessee.

The following lease payments were recognized as an expense in the reporting period:

LEASE PAYMENTS

| IN €K | 2015 | 2014 |
|---|---|---|
| MINIMUM LEASE PAYMENTS FROM OPERATING LEASES | 7,556 | 4,479 |

TABLE 077

As part of the sale-and-leaseback transactions, SAP licenses totaling € 14,519k were sold in prior years to a leasing company and, at the same time, the company entered into lease agreements with the lease company for these SAP licenses. In the 2015 fiscal year the licenses have been reacquired.

## 31. Notes to the consolidated statement of cash flows

The consolidated statement of cash flows presents the source and utilization of cash flows in the 2014 and 2015 fiscal years. In accordance with IAS 7 *Statements of Cash Flows* a distinction is made in the statement of cash flows between cash flows from operating activities and cash flows from investing and financing activities.

The cash and cash equivalents presented in the statement of cash flows contain cash and cash equivalents shown in the statement of financial position, i.e., cash in hand, checks and bank balances which can be disposed of within three months of the time of contribution.

Cash flows from investing activities and financing activities are derived from the actual cash payments, while cash flows from operating activities are calculated indirectly from net income for the year. When performing the indirect calculation, changes in items of the statement of financial position considered in connection with operating activities are adjusted to eliminate exchange rate effects and changes in the consolidated group. For this reason, it is not possible to reconcile the changes in the relevant items of the statement of financial position with the corresponding figures evident from the published consolidated statement of financial position.

Investing activities comprise additions to property, plant and equipment and financial assets, as well as additions to capitalized development costs.

# OTHER DISCLOSURES IN THE NOTES

## 32. Share-based payments

### 32.1. PERFORMANCE SHARE UNIT PLANS

Under the 2011 and 2012 performance share unit plans (2011 and 2012 PSU plans), performance share units (PSUs) were granted to members of the Management Board and employees of Kontron AG and its subsidiaries in January 2011 and 2012. These PSUs granted their holders a right to a cash settlement equal to the average share price, which is determined over a period of 30 calendar days prior to the respective payment date, and are classified and measured as cash-settled share-based payments. There is no entitlement to Kontron AG shares with respect to the PSUs granted.

Exercise of the PSUs is subject to an agreed vesting period and certain predefined performance criteria.

After the waiting period, the beneficiaries receive a cash settlement corresponding to their vested PSUs equal to the average share price of Kontron AG, which is determined over a period of 30 calendar days prior to the respective payment date. The settlement amount may not exceed the double amount of the grant value per PSU which results from the average share price over a period of 30 calendar days prior to the respective grant date of the PSUs.

The PSU plan 2011 expired on December 31, 2014 and the PSU plan 2012 expired on December 31, 2015. The payout from the PSU plan 2012 was in January 2016. Since the 2013 fiscal year no new PSUs have been granted.

As the term of the PSU plans 2011 and 2012 ended and the majority of entitled employees have already left the company, the company has opted not to make further disclosures on this plan.

The amounts recognized for the PSU plans in the consolidated financial statements for the 2015 fiscal year break down as follows:

PSU AMOUNTS RECOGNIZED

| IN €K | 2015 | 2014 |
|---|---|---|
| Liability as of the end of the reporting date | 36 | 120 |
| Expenses (+) / income for the period (–) | +25 | –23 |

TABLE 078

The amounts recognized in the statement of income are allocated to the corresponding functions.

### 32.3. PERFORMANCE OPTIONS PLAN

Under the performance option plan (POP), performance options were granted to members of the Management Board and employees of Kontron AG and its subsidiaries in the 2013, 2014 and 2015 fiscal years. Performance options were granted in the form of basis performance options and premium performance options, which vary in the issue price. These performance options grant their holders a right to a cash settlement equal to the difference between the average share price over a period of 20 trade days after the respective exercise date and the exercise price. There is no entitlement to Kontron AG shares. The POP makes it possible to grant additional stock options to Management Board members and selected employees through 2016.

The following conditions were defined for the performance options granted in the 2013, 2014, and 2015 fiscal years:

- The exercise price for the basis performance options corresponds to the unweighted average price of the Kontron share in the month of December prior to the grant date.
- The exercise price of the premium performance options corresponds to 150 % of the exercise price of the basis performance options.
- Taking into account blackout periods as well as any agreed-upon performance targets, the options can be exercised in a period of six months after a vesting period of one year and an additional waiting period of three years.
- Blackout periods are required by the Kontron “Insider Trading Policy” regulations. The exercise period is extended by the duration of the respective blackout period, although the constructive exercise period may not exceed six months.
- The payment of each option is capped at 400 % of the basis strike price.

For the performance options granted in the 2013 fiscal year, the following performance targets have been defined with respect to revenues and EBIT:

- 70 % of the options granted are vested if the defined revenues target of € 547.0 million is reached for the 2013 fiscal year. If revenues are below € 383.0 million in the 2013 fiscal year, 80 % of the entitlement to the options granted is forfeited entirely.
- An additional 30 % of the options granted are vested when the defined EBIT target (EBIT adjusted for special items, e.g., restructuring cost) of € 10 million is reached for the 2013 fiscal year. If EBIT is below € 3 million, 30 % of the entitlement to the options granted is forfeited entirely.
- The way the performance targets are designed allows options to be vested in an interval of 0 % to a maximum of 125 % of the options originally granted.

Applying the resolution of the Supervisory Board dated July 24, 2014, additional conditions were excluded for the performance options granted in the 2014 and 2015 fiscal years relating to individual goal attainment.

PERFORMANCE OPTIONS PLANS

| | 2015 performance options plan | | 2014 performance options plan | | 2013 performance options plan | |
|---|---|---|---|---|---|---|
| NO. | Basis performance options | Premium performance options | Basis performance options | Premium performance options | Basis performance options | Premium performance options |
| Grant date | 01/02/2015 | 01/02/2015 | 01/02/2014 | 01/02/2014 | 01/02/2013 | 01/02/2013 |
| Outstanding performance options as of 01/01/2015 | 0 | 0 | 1,000,000 | 100,000 | 610,000 | 150,000 |
| Performance options granted in the 2015 fiscal year | 1,000,000 | 100,000 | 0 | 0 | 0 | 0 |
| Performance options forfeited in the 2015 fiscal year | 0 | 0 | 150,000 | 0 | 0 | 0 |
| Outstanding performance options as of 12/31/2015 | 1,000,000 | 100,000 | 850,000 | 100,000 | 610,000 | 150,000 |
| Outstanding performance options taking into account the achievement of performance targets as of 12/31/2015 | 1,000,000 | 100,000 | 850,000 | 100,000 | 569,841 | 140,438 |

TABLE 079

The performance options are classified and measured as cash-settled share-based payments. Fair value of the liability to be recognized from the performance option plan was measured using a binomial option pricing model.

Measurement as of December 31, 2015 was based on the following model inputs:

MODEL INPUTS PERFORMANCE OPTIONS

| | 2015 performance options plan | | 2014 performance options plan | | 2013 performance options plan | |
|---|---|---|---|---|---|---|
| | Basis performance options | Premium performance options | Basis performance options | Premium performance options | Basis performance options | Premium performance options |
| Share price on the measurement date | 3.02 € | 3.02 € | 3.02 € | 3.02 € | 3.02 € | 3.02 € |
| Exercise price of the performance options | 4.95 € | 7.42 € | 5.37 € | 8.06 € | 3.86 € | 5.79 € |
| Remaining term of the performance options | 4.33 years | 4.33 years | 3.33 years | 3.33 years | 2.33 years | 2.33 years |
| Expected dividend | 0.00 % | 0.00 % | 0.00 % | 0.00 % | 0.00 % | 0.00 % |
| Risk-free interest rate for the term | 0.07 % | 0.07 % | 0.00 % | 0.00 % | 0.06 % | 0.06 % |
| Expected volatility for the term | 35 % | 35 % | 35 % | 35 % | 44 % | 44 % |
| Expected beneficiary turnover for the term | 5 % | 5 % | 5 % | 5 % | 5 % | 5 % |
| Fair value of performance option | 0.40 € | 0.17 € | 0.25 € | 0.08 € | 0.55 € | 0.25 € |

TABLE 080

Estimates reflect the future expected volatility based on the historical volatility extrapolated over an annual period. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The company recognized income of € 339k for the performance option plan in the 2015 fiscal year and a non-current liability of € 435k. The expenses are allocated to the respective function.

## 33. Earnings per share

Basic earnings per share is determined pursuant to IAS 33 Earnings per Share by dividing the profit attributable to equity holders of Kontron AG by the weighted average number of shares outstanding during the fiscal year.

EARNINGS PER SHARE

| IN €K | 2015 | 2014 |
|---|---|---|
| NET INCOME / LOSS ATTRIBUTABLE TO EQUITY HOLDERS | | |
| Continuing operations | – 2,527 | – 6,357 |
| Discontinued operations | | 97 |
| INCOME / LOSS ATTRIBUTABLE TO EQUITY HOLDERS FOR BASIC EARNINGS | – 2,527 | – 6,260 |
| SHARES K | | |
| WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES | 55,571 | 55,571 |

TABLE 081

As no dilutive effects exist, the basic earnings per share is identical to diluted earnings per share.

# 34. Financial instruments and risk management

## 34.1. FINANCIAL INSTRUMENTS

Set out below is a comparison of the carrying amounts and fair value of the Group's financial instruments that are carried in the consolidated financial statements.

FINANCIAL INSTRUMENTS

| | Category | Carrying amount | | Fair value | |
|---|---|---|---|---|---|
| IN €K | IAS 39* | 2015 | 2014 | 2015 | 2014 |
| Financial assets | | | | | |
| Cash and cash equivalents | LaR | 27,823 | 15,637 | 27,823 | 15,637 |
| Trade receivables | LaR | 122,684 | 115,083 | 122,684 | 115,083 |
| Other financial assets | LaR | 5,418 | 9,828 | 5,418 | 9,828 |
| TOTAL LOANS AND RECEIVABLES | | 155,925 | 140,548 | 155,925 | 140,548 |
| Available-for-sale financial assets | AfS | 146 | 146 | 146 | 146 |
| Derivative financial instruments | HfT | 258 | 1 | 258 | 1 |
| Held-to-maturity investments | HtM | 0 | 43 | 0 | 43 |
| TOTAL FINANCIAL ASSETS | | 156,329 | 140,738 | 156,329 | 140,738 |
| Financial liabilities | | | | | |
| Interest-bearing loans | FLAC | 57,215 | 36,037 | 57,215 | 36,037 |
| Trade payables | FLAC | 67,836 | 73,928 | 67,836 | 73,928 |
| Derivative financial instruments | HfT | 475 | 303 | 475 | 303 |
| Other financial liabilities | FLAC | 10,138 | 20,256 | 10,138 | 20,256 |
| TOTAL FINANCIAL LIABILITIES | | 135,664 | 130,524 | 135,664 | 130,524 |

* LaR: *Loans and receivables*
AfS: *Available-for-sale*
HtM: *Held-to-maturity*
HfT: *Held-for-trading*
FLAC: *Financial liabilities at amortized cost*

TABLE 082

The levels of the fair value hierarchy are defined as follows:

Level 1: Market prices quoted on active markets for identical assets or liabilities

Level 2: Other information than quoted market prices that can be directly (e.g., prices) or indirectly (e.g., derived from prices) observed

Level 3: Information relating to assets and liabilities that is not based on observable market data.

The derivative financial instruments held by the Group consist of forward exchange contracts, foreign exchange swaps, currency options (plain vanilla options) and interest swaps and qualify for classification in level 2. The fair value of forward exchange contracts and foreign exchange swaps is calculated at the forward rates as of the reporting date and the results are then presented at the discounted present value. In order to determine the market value of the currency options, Kontron relies on the calculations provided by the respective counterparty, which in turn are based on customary option pricing models ("Black-Scholes"). With regard to the market values of the interest swaps, Kontron draws on the interest curves for the reporting date with the results shown at net present value.

## NET GAINS / LOSSES FROM FINANCIAL INSTRUMENTS

| | From interest | From subsequent measurement | | | From disposals | Net income / loss | |
|---|---|---|---|---|---|---|---|
| IN €K | | Currency translation | Marked-to-market | Impairment | | 2015 | 2014 |
| Loans and receivables | 81 | –977 | 0 | –830 | –82 | –1,808 | –957 |
| Held-to-maturity investments | 0 | 0 | 4 | 0 | –2 | 2 | 0 |
| Derivative financial instruments | 0 | 0 | –642 | 0 | 0 | –642 | –298 |
| Financial liabilities | –1,484 | –258 | 0 | 0 | 0 | –1,742 | –1,473 |
| | –1,403 | –1,235 | –638 | –830 | –84 | –4,190 | –2,728 |

TABLE 083

The interest and gains / losses arising from the fair value measurement of these options are reported in the financial result. The other components of the net gains / losses as well as the results from the measurement of forward exchange contracts, currency swaps and currency options are reported in the operating result (EBIT).

### 34.2. HEDGING POLICY AND RISK MANAGEMENT

The Group's principal financial liabilities, other than derivatives, comprise bank loans and overdraft facilities, financial guarantees, trade payables and operating leases. The main purpose of these financial liabilities is to finance the Group's operations. The Group has various financial assets such as trade receivables, cash and short-term deposits that derive directly from its operations.

The Group also holds derivative financial instruments for the purpose of hedging foreign currency or interest rate risks resulting from the Group's operations and sources of financing.

No trading in derivatives was undertaken in the fiscal years 2015 and 2014 and this policy will remain in place in the future.

The Group's main risks comprise market risks (consisting of foreign currency, interest rate and pricing risks), liquidity risks and credit risks.

The Group's management agrees on policies for managing each of these risks which are summarized below.

### FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when the revenues and / or expenses of an operating unit are denominated in a different currency to that unit's functional currency) as well as changes in the fair value of items denominated in foreign currencies as a result of changes in the relevant exchange rates.

Due to its international orientation, the Kontron Group is exposed to a foreign currency risk (transaction risk) in relation to various foreign currencies. Consequently, the Group's foreign currency hedging strategy focuses on the general hedging of amounts denominated in foreign currencies at the time an obligation denominated in a foreign currency arises by netting cash inflows and outflows in foreign currencies. As a global company, Kontron generates revenues and procures materials in US dollars and euros. The resulting currency effects offset each other over time to some extent. The remaining fractions are hedged by means of short-term forwards and options. To optimize its hedging strategy, the risk arising from the difference between income and expenses in foreign currencies in connection with planned transactions (which are highly likely to arise based on the Group's planning) is eliminated or mitigated using various hedging instruments. A team of several members from the finance department of Kontron AG meets at six to eight week intervals to analyze any existing or future foreign exchange risks and create the appropriate hedging measures. Foreign currency risks arising for Kontron AG in connection with the issuing of group financing to subsidiaries in their local currencies and / or liabilities to subsidiaries in connection with the Group's cash management activities are also hedged using forward exchange contracts.

Receivables and liabilities in the same currency are netted before any remaining fractional amounts are hedged.

Foreign currency hedging transactions are only entered into with banks with good credit ratings by the central treasury department. If the foreign exchange contracts can be clearly allocated to subsidiaries, spot transactions are generally made between Kontron AG and the respective subsidiary which are settled via internal clearing accounts. Foreign exchange swaps in which the central treasury department either purchases a foreign currency at the spot rate in return for euros with an agreement to sell it back at a later date at a particular exchange rate (or vice versa) are also concluded for the purpose of liquidity management and in order to optimize the Group's financial result.

The foreign exchange contracts concluded in the 2015 fiscal year are not classified as hedges to secure cash flows, fair value or a net investment, and are measured at fair value through profit or loss. The period for which the foreign exchange contracts are concluded corresponds to the period in which a foreign currency risk exists for the underlying transactions, generally between one and twelve months. The foreign exchange contract balances vary with the level of expected foreign currency sales and purchases and the associated peaks and fluctuations in foreign exchange forward rates.

The fair value of the forward exchange contracts carried on the reporting date, which had a face value of € 50,361k (prior year: € 14,651k), came to € 12k (prior year: € – 302k). The share of open foreign exchange contracts with a positive market value came to € 165k (prior year: € 1k). The fair value of the currency options carried on the reporting date, which had a face value of € 15,892k (prior year: € 0k), came to € – 123k (prior year: € 0k). As the Kontron Group only concludes foreign exchange contracts with banks with good credit ratings, and concludes them with multiple banks in order to diversify the risk, the resulting credit risk from the put options can be classified as exceptionally low.

The Group's main transaction risks stem from changes in the USD / EUR exchange rate. In addition, there are transaction risks between the US dollar and the Canadian dollar and also between the euro and Chinese renmimbi, although at lower volumes.

The following table demonstrates the sensitivity of the Group's net income / loss before tax (due to changes in the fair value of monetary assets and liabilities) and equity to a potential change in the exchange rate between the US dollar and the euro of ± 10 %. All other variables remain constant. The Group's exposure to exchange rate changes for other currencies is lower, which is why it has not presented a more extensive sensitivity analysis.

### SENSITIVITY TO CHANGES IN EXCHANGE RATES

| | Change in USD rate | Effect on income / loss before tax and equity in €k |
|---|---|---|
| 2015 | + 10 % | 184 |
| | – 10 % | – 224 |
| 2014 | + 10 % | – 790 |
| | – 10 % | 966 |

TABLE 084

The following table demonstrates the sensitivity of the Group's income / loss to marking the forward exchange contracts in place as of December 31, 2015 to market. The impact on earnings is presented based on a hypothetical change in the value of the euro with respect to the foreign currency of 5 % and 10 % respectively.

### SENSITIVITY OF FORWARD EXCHANGE CONTRACTS

| Change in the euro | Effect on income / loss before tax in €k | |
|---|---|---|
| | **2015** | 2014 |
| + 5 % | **– 142** | 440 |
| + 10 % | **– 271** | 840 |
| – 5 % | **157** | – 485 |
| – 10 % | **331** | – 1,025 |

TABELLE 085

The following table demonstrates the sensitivity of the Group's income / loss to marking the foreign currency options contracts in place as of December 31, 2015 to market. With the USD-Dollar being part of each foreign currency option contract (e. g. EUR/USD or USD/CAD) the impact on earnings is presented based on a hypothetical change in the value of the US-Dollar with respect to the foreign currency of 5 % and 10 % respectively.

SENSITIVITY OF CURRENCY OPTIONS

| Change in the USD | Effect on income / loss before tax in €k | |
|---|---|---|
| | **2015** | 2014 |
| + 5 % | – 243 | 0 |
| + 10 % | – 209 | 0 |
| – 5 % | – 121 | 0 |
| – 10 % | + 546 | 0 |

TABLE 086

## INTEREST RATE RISKS

All financial liabilities held as of the reporting date are subject to variable interest. A 0.5 % p.a. increase in the Group's financing costs as of the reporting date would reduce its financial result by € 290k (prior year; € 182k) assuming a constant volume of financing in the full 2015 fiscal year. Interest swaps with a face value of € 15.0 million were entered into in the 2015 fiscal year to reduce the risk of possible interest rises. Under these interest swaps Kontron pays a fixed interest rate for four years and receives the 3-month EURIBOR in return. Although this contract was already entered into in July 2015, the interest payments will not be swapped until July 2016 and end in July 2020. The residual risk for the Group from potential rises in interest rates on non-hedged floating rate loans of € 42.2 million is therefore considered to be low, also on account of the current monetary policies of the European Central Bank. The risk of changes in interest rates is analyzed regularly by the corporate treasury department.

SENSITIVITY OF INTEREST DERIVATIVES

| Change in the interest curve of | Effect on financial result in €k | |
|---|---|---|
| | 2015 | 2014 |
| +0.50% | 189 | 0 |
| +1.00% | 474 | 0 |
| –0.50% | –410 | 0 |
| –1.00% | –723 | 0 |

TABLE 087

## LIQUIDITY RISK

A cash flow projection based on a fixed planning horizon ensures the solvency and financial flexibility of the Kontron Group. In addition to the "indirect" method based on the statement of financial position, this also takes the form of a rolling three-month forecast using the "direct" method. The Group has secured sufficient financial headroom by taking out a revolving credit facility for a nominal value of € 116.3 million (prior year: € 119.1 million) with a residual term of more than one year. Kontron will start negotiations on a round of refinancing in good time in 2016. The group entities are supplied with cash and cash equivalents as necessary by means of their inclusion in the Group's central cash management system. The corporate treasury department extends lines of credit to the subsidiaries in the form of intercompany loans. There are also some smaller, bilateral lines of credit available within the Group that can be utilized individually following consultation with the central treasury department. Please refer to note (19) "Financial liabilities" for further details.

As of December 31, 2015 the financial liabilities of the Group had the following terms to maturity. based on contractual, undiscounted payments.

MATURITY OF LIABILITIES AS OF 12/31/2015

| IN €K | On demand | Less than 3 months | 3–12 months | 1–5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Interest-bearing loans | 702 | 0 | 0 | 56,513 | 0 | 57,215 |
| Trade payables | 19,778 | 47,956 | 0 | 102 | 0 | 67,836 |
| Other financial liabilities | 2,402 | 5,184 | 1,933 | 171 | 911 | 10,600 |
| Interest | 0 | 289 | 0 | 0 | 0 | 289 |
| TOTAL | 22,882 | 53,429 | 1,933 | 56,786 | 911 | 135,941 |

TABLE 088

MATURITY OF LIABILITIES AS OF 12/31/2014

| IN €K | On demand | Less than 3 months | 3 – 12 months | 1 – 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Interest-bearing loans | 2 | 3 | 0 | 35,938 | 0 | 35,943 |
| Trade payables | 33,452 | 39,293 | 878 | 305 | 0 | 73,928 |
| Other financial liabilities | 4,049 | 8,531 | 6,674 | 1,609 | 263 | 21,126 |
| Interest | 0 | 151 | 475 | 1,451 | 0 | 2,081 |
| TOTAL | 37,503 | 47,982 | 8,027 | 39,303 | 263 | 133,078 |

TABLE 089

## CREDIT RISK

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily in connection with defaults on trade receivables).

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to credit risk management. The individual counterparty credit limits are set accordingly. Outstanding receivables from customers are monitored on a regular basis. Depending on the nature and volume of the business in question, credit information is obtained or historical data regarding the business relationship to date (including payment patterns) is used to minimize the credit risk and avoid defaults on payment.

Kontron has a diversified customer base consisting of several thousand customers. The ten biggest customers make up about 38 % of the Group's total revenues, and the largest accounts for just under 10 % of total revenues. In most cases, the Group's relationships with its customers go back several years.

The need for valuation allowances is analyzed for each major customer on every reporting date, and a general valuation allowance is recognized for all other receivables from customers based on the maturity profile of the receivables.

Regardless of the collateral provided, the carrying amount of the financial assets indicates the maximum credit risk in the event that business partners do not meet their contractual payment obligations. The corresponding comments can be found in notes (11) and (12).

## CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that Kontron maintains a strong credit rating and equity ratio in order to support its business operations. A higher equity ratio generally means better creditworthiness and financial stability on the part of the company, and a reduced dependency of the company on external lenders. All of the individual equity components qualify as equity for the purposes of capital management.

EQUITY RATIO

| IN €K | 2015 | 2014 |
|---|---|---|
| Equity | 258,924 | 252,698 |
| Total equity | 441,907 | 421,820 |
| EQUITY RATIO | 58.6 % | 59.9 % |

TABLE 090

As part of the credit facility that was concluded in the 2012 fiscal year and amended in the 2014 fiscal year, the company must comply with a minimum equity ratio in addition to other financial indicators. These were complied with in full in the 2015 fiscal year. Further information on this can be found in note (19).

The Group manages its capital structure and makes adjustments in response to changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

No changes were made to the objectives, policies and processes as of December 31, 2015 and December 31, 2014.

## 35. Segment information

In accordance with IFRS 8 (Operating Segments), external segment reporting reflects group-wide business management and internal financial reporting. The operational management of the Kontron Group is performed based on the three global business units Industrial, Communications and Avionics / Transportation / Defense in which the business activities were combined based on similarity of products and services as well as the application range for customers.

Transfer prices between operating segments are determined at arm's length.

SEGMENT INFORMATION 2015

| IN €K | Industrial | Communications | Avionics / Transportation / Defense | Other | Consolidated financial statements |
|---|---|---|---|---|---|
| REVENUES | 234,672 | 105,829 | 127,150 | 0 | 467,651 |
| OPERATING RESULT (EBIT) | 16,336 | 10,058 | 17,698 | – 37,903 | 6,189 |
| TRADE RECEIVABLES | 106,367 | 20,747 | 26,954 | 0 | 154,068 |

TABLE 091

SEGMENT INFORMATION 2014

| IN €K | Industrial | Communications | Avionics / Transportation / Defense | Other | Consolidated financial statements |
|---|---|---|---|---|---|
| REVENUES | 205,442 | 110,952 | 140,405 | 0 | 456,799 |
| OPERATING RESULT (EBIT) | 14,188 | 6,859 | 18,392 | – 44,511 | – 5,072 |
| TRADE RECEIVABLES | 98,938 | 19,961 | 31,214 | 0 | 150,113 |

TABLE 092

Other includes intercompany items such as income or expenses that are eliminated and not directly allocable to the segments. This particularly includes restructuring cost of € 8,305k. The remaining amount is mainly attributable to costs for support functions, such as HR, IT and treasury.

Trade receivables are presented prior to the recognition of allowances.

### SEGMENT INFORMATION ABOUT GEOGRAPHICAL AREAS:

SEGMENT INFORMATION ABOUT GEOGRAPHICAL AREAS 2015

| IN €K | Germany | Rest of world |
|---|---|---|
| **REVENUES EXTERNAL CUSTOMERS** | 77,560 | 390,091 |
| thereof USA | | 126,673 |
| thereof China | | 73,407 |
| **NON-CURRENT ASSETS** | 51,847 | 52,565 |
| thereof USA | | 36,368 |
| thereof France | | 6,759 |

TABLE 093

SEGMENT INFORMATION ABOUT GEOGRAPHICAL AREAS 2014

| IN €K | Germany | Rest of world |
|---|---|---|
| **REVENUES EXTERNAL CUSTOMERS** | 73,636 | 383,163 |
| thereof USA | | 119,128 |
| thereof China | | 70,494 |
| **NON-CURRENT ASSETS** | 43,567 | 50,697 |
| thereof USA | | 34,498 |
| thereof Canada | | 8,330 |

TABLE 094

Revenues are distributed to segments based on the registered offices of the customers. Non-current assets do not contain financial instruments or deferred tax assets.

## 36. Related party disclosures (IAS 24)

Related parties in the meaning of IAS 24 are persons or entities that can be influenced by the reporting entity or that can influence the entity.

At year-end there were no outstanding balances due to related parties.

The disclosures on the compensation of the Management Board and Supervisory Board are explained in more detail in note (38).

## 37. Fees of the auditor

Expenses recognized for audit fees of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft totaled € 752k in the reporting year and break down into audit services of € 521k, other assurance services of € 7k and tax advisory services of € 224k.

## 38. Disclosures on the Supervisory Board and the Management Board

The total remuneration of the Management Board and the Supervisory Board members comprises fixed and variable components. The variable salary components are based on the results generated by the company and its economic situation.

Remuneration breaks down as follows:

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

| | 2015 | | 2014 | |
|---|---|---|---|---|
| IN €K | fixed* | variable | fixed* | variable |
| Rolf Schwirz | 685 | 500 | 679 | 500 |
| Michael Boy | 362 | 150 | 218 | 82 |
| Andreas Plikat | 289 | 150 | 276 | 150 |
| **Total Management Board** | **1,336** | **800** | **1,173** | **732** |
| Supervisory Board | 458 | 0 | 322 | 0 |

* incl. non-pecuniary benefit of other incentives

TABLE 095

The remuneration presented above is exclusively current. There are no long-term incentives apart from the share-based payments presented below.

The following amounts were recorded for share-based payments of the Management Board and the Supervisory Board members:

SHARE-BASED PAYMENTS TO THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

| | 2015 | | 2014 | |
|---|---|---|---|---|
| IN €K | PSU plans | POP plan | PSU plans | POP plan |
| Rolf Schwirz | 0 | – 151 | 0 | 236 |
| Michael Boy | 0 | – 49 | 0 | 27 |
| Andreas Plikat | – 4 | – 16 | 8 | 79 |
| **Total Management Board** | **– 4** | **– 216** | 8 | 342 |
| Supervisory Board | 0 | 0 | 0 | 0 |

TABLE 096

The members of the Management Board and the Supervisory Board were not granted share-based compensation in the form of share options in the reporting year or the prior year.

The Management Board and the Supervisory Board members received the following performance options as part of the performance option plan (long-term incentives) in the reporting year:

PERFORMANCE OPTIONS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

| | Number of performance options | |
|---|---|---|
| SHARES | Basis performance options | Premium performance options |
| Rolf Schwirz | 200,000 | 100,000 |
| Michael Boy | 0 | 0 |
| Andreas Plikat | 100,000 | 0 |
| **Total Management Board** | **300,000** | **100,000** |
| Supervisory Board | 0 | 0 |

TABLE 097

Severance payments have been agreed on with the members of the Management Board, Mr. Rolf Schwirz, Mr. Andreas Plikat, and Mr. Michael Boy in accordance with the German Corporate Governance Code. On this basis, severance payments to be paid in the event of premature termination of the respective service agreements for no due cause may not exceed the sum of total remuneration paid to the Management Board member in two years or the total remuneration paid for the remainder of the service agreement.

Member of the Management Board Mr. Andreas Plikat also has the right under a change-of-control arrangement to terminate his service agreement prematurely in the event of a takeover. Correspondingly, the Management Board member is entitled to continue receiving salary payments up to the regular end of the term of the Management Board member's contract. In this case, the Management Board member receives a severance payment not exceeding the sum of total remuneration for two years.

Member of the Management Board Mr. Michael Boy also has the right under a change-of-control arrangement to terminate his service agreement prematurely in the event of a takeover. The contractual rights to receive remuneration remain in place until the termination of service agreements. In this case, the Management Board member receives a severance payment not exceeding the sum of total remuneration for two years.

Member of the Management Board Mr. Rolf Schwirz also has the right under a change-of-control arrangement to terminate his service agreement prematurely in the event of a takeover. His right to termination remains until the expiry of the notice given but may not exceed the regular expiry of his service agreement. Upon expiry of the notice given, the Management Board member receives a severance payment equal to his annual remuneration.

Member of the Management Board Mr. Rolf Schwirz has the right to terminate his service agreement prematurely in the event of a dismissal in the first 24 months of his term of service. In this case, the Management Board member receives a single payment equivalent to two years' total remuneration and 50 % of remuneration for the period up to the end of the term in excess of the 24-month period.

In the reporting year, there were no pension obligations due to Management Board or Supervisory Board members or former Management Board or Supervisory Board members.

## MANAGEMENT BOARD AND SUPERVISORY BOARD SHARES

| SHARES | Shares |
|---|---|
| **SUPERVISORY BOARD** | |
| Rainer Erlat | 0 |
| Sten Daugaard | 0 |
| Martin Bertinchamp | 30,500 |
| Harald Joachim Joos | 0 |
| Dr. Harald Schrimpf | 2,500 |
| Dr. Dieter Düsedau (since September 22, 2015) | 0 |
| Peter Bauer (until August 31, 2015) | 0 |
| **MANAGEMENT BOARD** | |
| Rolf Schwirz | 50,000 |
| Michael Boy | 0 |
| Andreas Plikat | 25,000 |

TABLE 098

## APPOINTMENTS IN OTHER OVERSIGHT BOARDS HELD BY MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

**Management Board**

**ROLF SCHWIRZ**

Chairman of the Management Board

**MICHAEL BOY**

Management Board Member Corporate Finance

Member in oversight boards:

Advisory Council of Firma Hengstenberg GmbH & Co. KG, Esslingen am Neckar, Germany

Provincial Advisory Council of Commerzbank Süd / Südwest, Munich, Germany

**ANDREAS PLIKAT**

Board Member Corporate Development and Technology

| Supervisory Board | |
|---|---|
| **RAINER ERLAT** | |
| Chairman of the Supervisory Board | |
| Partner of redpartners GmbH, Berlin, Germany | |
| Member in oversight boards: | |
| EMC International Ltd., Cork, Ireland | |
| **STEN DAUGAARD** | |
| Freelance business consultant | |
| Member in oversight boards: | |
| Thomas Cook AG, Oberursel, Germany | |
| **HARALD JOACHIM JOOS** | |
| Senior Advisor Warburg Pincus Deutschland GmbH | |
| Member in oversight boards: | |
| Berliner Volksbank e.G., Berlin, Germany | |
| Deutsche Bank Düsseldorf, Germany | |
| Fraunhofer Gesellschaft Berlin, Germany | |
| Hertha BSC GmbH, Berlin, Germany | |
| Oystar Holding GmbH, Karlsruhe, Germany | until February 2015 |
| Ultima GmbH, Luxembourg, Luxembourg | |
| **MARTIN BERTINCHAMP** | |
| Chairman of the management of COMPO GmbH, Germany | |
| Member in oversight boards: | |
| Rothenberger AG, Kelkheim, Germany | |
| Huber Packaging GmbH, Öhringen, Germany | |
| Nordwest Handel Aktiengesellschaft, Hagen, Germany | since February 2015 |
| **DR. HARALD SCHRIMPF** | |
| Chairman of the Board of Directors of PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Berlin, Germany | |
| Intershop Communications AG, Jena, Germany | since May 2015 |
| **DR. DIETER DÜSEDAU** | since September 22, 2015 |
| Physicist | |
| Wincor Nixdorf Aktiengesellschaft, Paderborn, Germany | |
| **PETER BAUER** | until August 31, 2015 |
| Deputy Chairman of the Supervisory Board | |
| Freelance business consultant | |
| Member in oversight boards: | |
| OSRAM Licht AG, Munich, Germany | |
| OSRAM GmbH, Munich, Germany | |
| Infineon Technologies AG, Neubiberg, Germany | since February 2015 |

TABLE 099

## 39. Approval of the consolidated financial statements

The Management Board of Kontron AG authorized the consolidated financial statements for presentation to the Supervisory Board on March 15, 2016.

The Supervisory Board is responsible for reviewing and ratifying the consolidated financial statements.

No further changes are possible once the Supervisory Board has reviewed and ratified them.

## 40. Affiliates and consolidated companies of the Kontron Group as of December 31, 2015

| | Share in capital (%) | Local currency (LC) | Equity* (LC in k) | Net income / loss for the year (LC in k) |
|---|---|---|---|---|
| KONTRON EUROPE GMBH, AUGSBURG | 100 | EUR | 113,872 | 10,280 |
| Indirectly via Kontron Europe GmbH | | | | |
| Kontron ECT design s.r.o., Pilsen, Czech Republic | 100 | CZK | 3,795 | 1,236 |
| Kontron UK Ltd., Chichester, UK | 100 | GBP | 2,497 | 132 |
| Kontron Modular Computers S.A.S., Toulon, France | 100 | EUR | 15,099 | 2,009 |
| Kontron Technology A/S, HØrsholm, Denmark | 100 | DKK | 5,718 | 4,735 |
| Railway Infrastructure and Integration Services Sp. z o.o. (formerly: Kontron East Europe Sp. z o.o.), Warsaw, Poland | 97.5 | PLN | – 11,799 | – 11,579 |
| Kontron Modular Computers AG, Cham, Switzerland | 100 | CHF | 3,129 | – 9 |
| KONTRON MANAGEMENT GMBH, AUGSBURG | 100 | EUR | 50 | 188 |
| KONTRON AMERICA INC., SAN DIEGO, USA | 100 | USD | 56,360 | 519 |
| KONTRON CANADA INC., BOISBRIAND, CANADA | 100 | USD | 37,892 | 3,728 |
| KONTRON ASIA PACIFIC DESIGN SDN. BHD., PENANG , MALAYSIA | 100 | MYR | – 78,041 | – 8,547 |
| KONTRON (BEIJING) TECHNOLOGY CO. LTD., BEIJING, CHINA | 100 | CNY | 83,750 | 2,269 |
| Indirectly via Kontron (Beijing) Technology Co. Ltd. | | | | |
| Kontron Hongkong Technology Co. Ltd., Hong Kong, China | 100 | CNY | 615 | 11,558 |
| KONTRON TECHNOLOGY INDIA PVT. LTD., MUMBAI, INDIA | 100 | INR | – 4,318 | – 16,372 |

* Information as of December 31, 2015

TABLE 100

Disclosures on equity and net income / loss have been derived from the financial statements of subsidiaries that were prepared for consolidation purposes (HB II figures).

In the 2015 fiscal year, the subsidiaries Kontron Europe GmbH and Kontron Management GmbH made use of the exemption clause according to Sec. 264 (3) HGB.

CLOSING RATES DECEMBER 31, 2015

| Closing rate | 12/31/2015 | Closing rate | 12/31/2015 |
|---|---|---|---|
| AUD | 1.49 | INR | 72.02 |
| CHF | 1.08 | MYR | 4.70 |
| CNY | 7.06 | PLN | 4.26 |
| CZK | 27.02 | RUB | 80.67 |
| DKK | 7.46 | USD | 1.09 |
| GBP | 0.73 | TWD | 35.82 |

TABLE 101

## 41. Subsequent events

On January 22, 2016 Kontron AG and Ennoconn Corporation, a leading provider of motherboards and hardware solutions as well as complete systems, agreed to enter into a strategic partnership in the field of communications. Ennoconn is based in Taiwan and is a subsidiary of the Foxconn Technology Group.

Within the framework of the partnership, Ennoconn acquires a share of 49 % in Kontron Canada Inc., Boisbriand, Canada, for a price of $ 57.3 million (approximately € 52.5 million) which was paid to Kontron AG. Kontron AG retains the remaining 51 % stake in KCI. The transaction is subject to obtaining regulatory and corporate approvals, for which decisions are expected in the second quarter of 2016. The cooperation with Ennoconn will help the Kontron Group lower its costs of material and production costs, giving the Communications division much brighter prospects for the future. Moreover, access to production capacities will reinforce the channel business in particular.

## 42. Declaration of compliance with the German Corporate Governance Code

The Management Board and the Supervisory Board of Kontron AG issued a declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG [“Aktiengesetz”: German Stock Corporations Act] on December 08, 2015. The declaration was made permanently available to the shareholders on the homepage.

Augsburg, March 15, 2016

Kontron AG
The Management Board

**Rolf Schwirz** **Michael Boy** **Andreas Plikat**

# INDEPENDENT AUDITORS' REPORT

"We have audited the consolidated financial statements prepared by Kontron AG, Augsburg, comprising the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity, and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 01, 2015 to December 31, 2015. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Munich, March 15, 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

**Gallowsky**
Wirtschaftsprüfer [German Public Auditor]

**Christ**
Wirtschaftsprüfer [German Public Auditor]

# RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Augsburg, March 15, 2016

Kontron AG
The Management Board

**Rolf Schwirz** **Michael Boy** **Andreas Plikat**

# FURTHER INFORMATION

# GLOSSARY

**Application** Software solution or program that performs certain functions.

**APAC** The Asia Pacific region. For Kontron this includes the entities in China, Malaysia, India, and Australia.

**Book-to-bill Ratio** An indicator used in business to express the ratio between the order intake to the revenues of a certain period. It is an important indicator of how dynamic a sector is.

**COBALT** Application-ready BoxPC solution developed in order to produce a pre-certified, cost-effective and reliable system for the avionics and defense segment. COBALT is a Kontron product name.

**COM Express®** Computer-on-Module (COM). A standard defined by PICMG for use in various segments. It always needs a customer-specific carrier board that has been adapted to the mechanical and periphery specifications of the individual system.

**Commoditization** The process of increasingly rapid technical and qualitative standardization.

**Computer-on-Modules** Collective term for a number of different CPU module standards.

**COTS** Commercial off-the-shelf is a term used to describe identical mass-produced products in the electronic and software sector that are manufactured and sold in larger batches.

**Digital Out of Home Advertisement (DOOH)** Advertising used in public or commercial spaces.

**Debt ratio** The ratio of debt to total debt and equity capital

**ECT** Embedded Computer Technology describes hard- und software integrated into a progressed technical context. ECT performs specific tasks, such as controlling, steering or regulating functions or can perform special forms of data-processing or transmission. ECT systems are made up of a precisely coordinated combination of hardware and software that is generally developed for the specific applications it is tasked with.

**EMEA** (European, Middle East and African economic region) This region comprises the economies of Europe, comprising Western and Eastern Europe, the Middle East and Africa . For Kontron this includes its entities in Germany, France, the Czech Republic, Poland, Denmark, and the United Kingdom.

**FusionClient** Scalable and robust HMI which enables Industrial Internet of Things (IIoT) solutions for smart automation. FusionClient is a Kontron product name.

**Human-machine interface (HMI)** is an interface capable of handling interactions between people and machines

**Independent software vendors** develop and sell their own application programs.

**Interoperability** Ability for systems to operate together with as little frictional loss as possible.

**IoT** (Internet of Things) relates to the convergence of information technology (e. g. administration) and operational technology (e. g. plant and equipment). IoT also describes the convergence of hardware and software based solutions which open up a range of completely new services. The added value lies in optimizing the entire life cycle of products, systems or assets. Examples include tracking and localizing assets, optimizing logistics processes and issuing warnings about critical processes, e. g. security analytics.

**NFV (Network function virtualization technology)** uses software to virtualize network functions, making it easier to maintain and scale devices.

**OEM** (Original Equipment Manufacturer) are purchases of hardware components that a supplier or hardware manufacturer has produced. OEMs then assemble these components to create their own products and market these solutions under their own name.

**PICMG** PCI Industrial Computer Manufacturers Group

**Platform concept** Consistent use of a computing platform enables developers to use tested modules of hardware and software and system technology to produce products in a range of forms and families. Under the platform concept, a system is broken down into modules during the planning stage already to harmonize, develop and test potential product families in order to attain the best possible cost-efficiency and product stability.

**R&D** (research and development) at Kontron refers to the R&D department (formerly known at Kontron as the "IBT" Innovation & Base Technology department).

**REACH-Regulation** governing the Registration, Evaluation, Authorization and restriction of Chemicals.

**RoHS Directive** An EU Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment.

**Software-defined networking (SDN)** is a new approach to computer networking that uses abstraction to virtualize functions and improve conceptual design, maintenance and scalability.

**SGET** Standardization Group for Embedded Technologies e.V.

**SMARC** Kontron develops many standards which have a global influence on embedded computer platform development. SMARC (Smart Mobility ARCitectur) is one of these standards and is the first specified form factor of SGET (Standardization Group for Embedded Technologies e. V.). SMARC allows the realization of particularly small electronic computer-on-module designs with very low electricity consumption.

**TRACe™** Application-ready BoxPCs and HMI solutions developed for the railway segment. The product is used to manufacture pre-certified, safe, cost-effective and reliable systems for rolling-stock and signal control. TRACe™ is a Kontron product name.

**WEEE Directive** was enacted to avoid and reduce waste electrical and electronic equipment and requires the introduction of schemes to re-use, recycle and other methods of recovering electrical and electronic equipment.

Sources: Wikipedia, ITWissen Online and Gablers Wirtschaftslexikon Online, Duden. Kontron website: *www.kontron.com*

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# GRAPHS AND TABLES

# THE KONTRON GROUP IN A MULTI-YEAR OVERVIEW

| | | 2010 | 2011 | 2012 [1] | 2013 [1] | 2014 [1] | 2015 |
|---|---|---|---|---|---|---|---|
| **RESULTS OF OPERATIONS** | | | | | | | |
| Revenues | € million | 509.5 | 589.6 | 466.9 | 445.3 | 456.8 | 467.7 |
| EBITDA [2] | € million | 14.0 | 55.7 | 7.5 | – 0.5 | 19.2 | 29.9 |
| EBIT [3] | € million | – 5.8 | 34.1 | – 24.7 | – 29.0 | – 5.1 | 6.2 |
| EBT [4] | € million | – 8.2 | 32.6 | – 26.5 | – 30.6 | – 6.9 | 4.1 |
| Income / loss from continuing operations | € million | – 13.4 | 22.9 | – 26.1 | – 24.0 | – 6.4 | – 2.7 |
| Earnings per share (continuing operations) | € | – 0.24 | 0.39 | – 0.46 | – 0.43 | – 0.11 | – 0.05 |
| **PROFITABILITY** | | | | | | | |
| EBIT margin [5] | % | – 1.1 | 5.8 | – 5.3 | – 6.5 | – 1.1 | 1.3 |
| EBT margin [5] | % | – 1.6 | 5.5 | – 5.7 | – 6.9 | – 1.5 | 0.9 |
| Return on equity [6] | % | – 4.2 | 6.9 | – 9.1 | – 9.7 | – 2.5 | – 1.0 |
| Return on investment (ROI) [7] | % | – 1.6 | 6.2 | – 5.8 | – 6.9 | – 1.6 | 0.9 |
| **STATEMENT OF FINANCIAL POSITION** | | | | | | | |
| Total assets | € million | 515.6 | 523.5 | 460.4 | 444.6 | 421.8 | 441.9 |
| Equity | € million | 320.8 | 333.6 | 286.7 | 246.9 | 252.7 | 258.9 |
| Financial debt | € million | 46.3 | 37.3 | 14.5 | 35.4 | 36.1 | 57.3 |
| Equity ratio [8] | % | 62.2 | 63.7 | 62.3 | 55.5 | 59.9 | 58.6 |
| **CASH FLOW [9]** | | | | | | | |
| Cash flow from operating activities | € million | 16.2 | 31.6 | 46.2 | 2.0 | 1.7 | 14.2 |
| Cash flow from investing activities | € million | – 48.5 | – 29.3 | – 18.9 | – 20.0 | – 15.4 | – 23.9 |
| Cash flow from financing activities | € million | 6.4 | – 22.4 | – 38.0 | 23.0 | – 2.9 | 20.9 |
| **EMPLOYEES** | | | | | | | |
| Number of employees | | 2,892 | 3,057 | 1,574 | 1,479 | 1,342 | 1,286 |
| Revenues per employee | €k | 176.2 | 192.9 | 296.6 | 301.1 | 340.4 | 363.6 |

1 Continuing operations
2 EBITDA is defined as EBIT before depreciation and amortization
3 EBIT is defined as earnings before financial income and taxes
4 EBT is defined as earnings before taxes
5 Margins refer to revenues
6 Return on equity = Income / loss from continuing operations / Equity
7 Return on Investment (ROI) = EBT / Total assets
8 Equity ratio = Equity / Total assets
9 No breakdown of continuing and discontinued operations is made in the statement of cash flows

TABLE 102

# FINANCIAL CALENDAR

| | |
|---|---|
| March 17, 2016 | Publication of the 2015 Annual Report |
| March 17, 2016 | Annual Results Press Conference |
| April 28, 2016 | Publication of Q1 / 2016 Quarterly Report |
| June 09, 2016 | Annual General Meeting of Shareholders |
| July 26, 2016 | Publication of Q2 / 2016 Quarterly Report |
| October 27, 2016 | Publication of Q3 / 2016 Quarterly Report |

TABLE 103

Our annual report and our quarterly reports can be found on our website *www.kontron.com/investor* from publication date. Any eventual date changes are also announced on our website in good time.

This annual report was published on March 17, 2016. It is available in German and in English. The German version is authoritative.

The management report contains statements relating to the future that are based on current assumptions and estimates of the Management Board concerning future development. Although we are of the opinion that the assumptions and estimates are realistic and correct, they are subject to certain risks and uncertainties that may cause actual future results to diverge materially from the assumptions and estimates. Factors that may result in a discrepancy include changes in the overall economic, business, financial and competitive situation, exchange and interest rate fluctuations as well as changes to the business strategy. We cannot guarantee that the future development and actual future results will coincide with the assumptions and estimates expressed in this annual report. Assumptions and estimates presented in this report will not be updated.

This annual report was produced in a climate-neutral process. $CO_2$ pollution generated in connection with the production was offset in full through support for a climate protection project run by natureOffice.

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