ENABLING FUTURE

KONTRON GROUP | ANNUAL REPORT 2013

THE PULSE OF INNOVATION

Kontron in figures

Table 001

		New Group structure		Previous Group structure	
		2013	2012	**2013**	2012
Profitability					
Revenues	€ million	445.3	466.9	526.5	547.0
EBITDA[1]	€ million	– 0.5	7.5	– 3.0	11.2
EBITDA Margin[2]	%	– 0.1	1.6	– 0.6	2.0
EBIT[3]	€ million	– 29.0	– 24.7	– 37.6	– 32.6
EBIT[4] (adjusted for special items)	€ million	4.6	– 1.9	6.0	0.0
EBIT Margin[2] (adjusted for special items)	%	1.0	– 0.4	1.1	0.01
EBT	€ million	– 30.6	– 26.5	– 39.4	– 34.7
Net income	€ million	– 24.0	– 26.1	– 31.6	– 33.7
Earnings per share	€	– 0.43	– 0.46	– 0.56	– 0.59
Balance sheet					
Balance sheet total	€ million	444.6	460.4	444.6	460.4
Net equity	€ million	246.9	286.7	246.9	286.7
Equity ratio	%	55.5	62.3	55.5	62.3
Financial debt	€ million	35.4	14.5	39.2	14.5
Cash flow[5]					
Cash flow from operating activities	€ million	2.0	46.2	2.0	46.2
Employees					
Number of employees (as of 12/31/)		1,479	1,574	2,110	2,208
Revenues per employee	k€	301.1	296.6	249.5	247.7

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 The special items in 2012 include one-time costs associated with the “Shape” optimization program initiated in 2012. The special items 2013 include costs for the restructuring and reorganization of the company under the CR Program “New Kontron”. More information can be found on page 133.
5 No breakdown of continuing and discontinued operations is made in the cash flow statement.

ENABLING FUTURE

KONTRON GROUP | ANNUAL REPORT 2013

Kontron started to reorganize itself in the fiscal year 2013. With the global business units Industrial (IND), Communications (COM) and Military, Avionics, Railway (MAR), the company will focus on its strategic core business – Embedded Computer Technology – again in future.

Kontron stands for a long tradition of successful research and development work, outstanding product quality and an extensive customer knowledge. With the comprehensive efficiency program "New Kontron" the foundation will be laid for profitable growth in the long-term. This is our motto, this drives us: Enabling Future.

Kontron Group worldwide[1]

EMEA[2]

857
EMPLOYEES

€ 218.3 million
REVENUE

North America

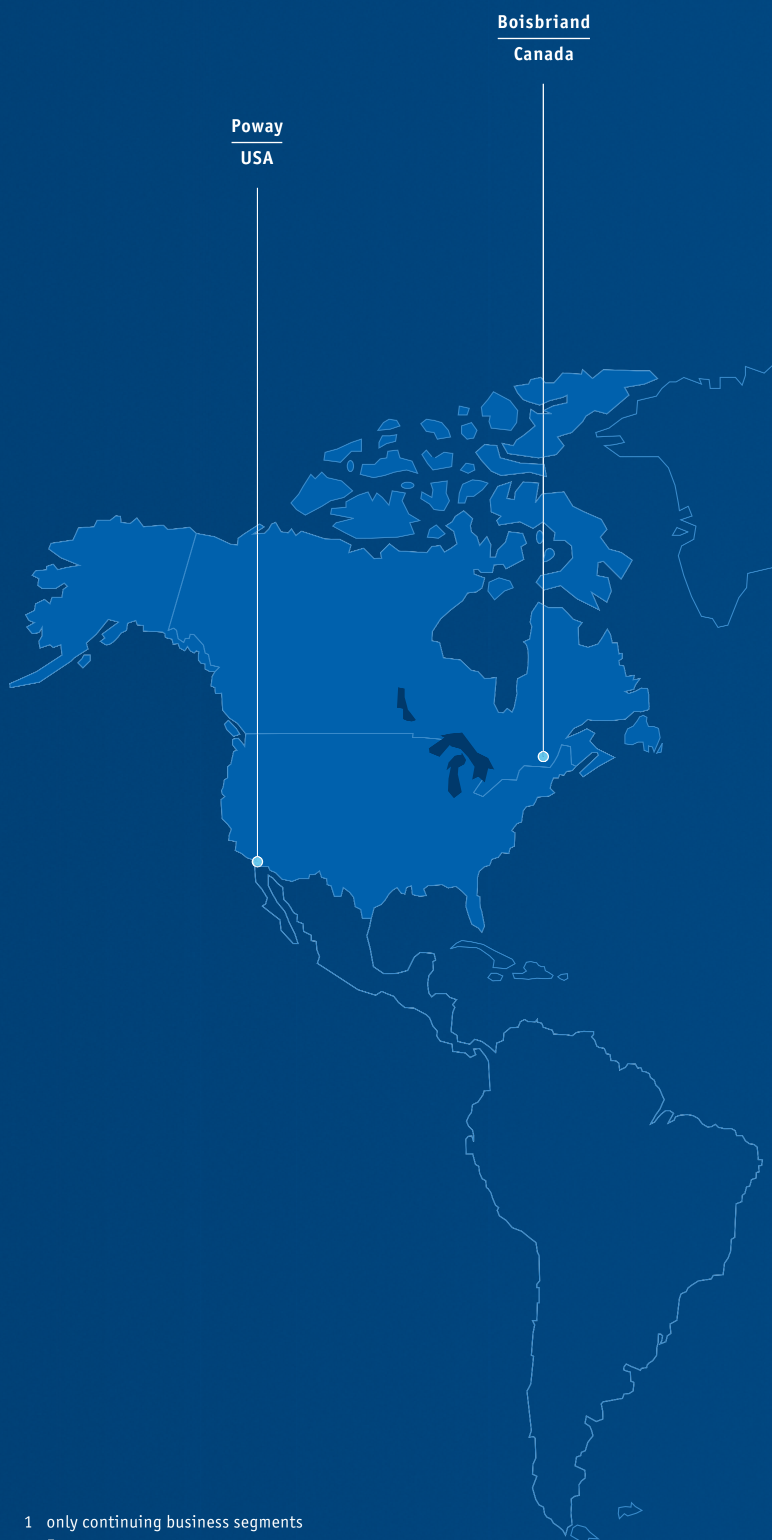
467
EMPLOYEES

€ 204.8 million
REVENUE

Emerging Markets[3]

155
EMPLOYEES

€ 22.2 million
REVENUE



1 only continuing business segments
2 Europe
3 Asia and Australia


Eching (Munich)
Germany, headquarter
Penang
Malaysia
Bangalore
India
Hørsholm
Denmark
Sydney
Australia
Beijing
China
Chichester
Great Britain
Warsaw
Poland
Toulon
France

TO OUR SHAREHOLDERS

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With global units and lots of experience

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"We have a successful future ahead of us."
An interview with the Management Board of Kontron

An important strategic course was set out at Kontron in 2013: the program "New Kontron", a series of comprehensive measures aimed at improving efficiency, reconciliation of interests and a social plan. There are many tasks, but also many opportunities, ahead for the company. The Management Board members, Rolf Schwirz and Andreas Plikat discuss these.

Mr. Schwirz, how did you find the past year? What special challenges were there for Kontron AG?

Rolf Schwirz 2013 was in fact a very challenging year: Kontron had to do a lot of homework and make difficult decisions.

First of all, we conducted a comprehensive analysis of our organization structures and processes. Based on this knowledge, we then set restructuring targets with the "New Kontron" program, made decisions and began to implement these quickly.

I can also say from today's point of view that the "New Kontron" package of measures is not just right, but was also urgently needed. There is still a lot of work ahead of us here – therefore it is particularly important to me that we pull together internally.

That we are on the right path can incidentally also be seen in the development of our stock price. I am pleased to see that investors are slowly beginning to place their trust in Kontron again and support our consistent procedure. That they purchase our stock is of course also due to the fact that Kontron is very well positioned from a strategic point of view and the ECT market offers sustainable and global perspectives for growth.

There were many changes with regard to personnel in the management bodies of the company. What implications did these have?

Rolf Schwirz We were able to add several people with strong leadership skills to our management team in 2013. At the same time, we have also admitted several employees, who have been working at Kontron for a long time already, into the new management team.

I am really very pleased to be able to recognise today that the management level of the company is very well organized and cooperates excellently and harmoniously.

Moreover, I am also pleased about the constructive cooperation with our newly elected Supervisory Board.

Mr. Plikat, the corner stones of the "New Kontron" program were presented in April 2013 and in July the exact aims and measures. How is it proceeding?

Andreas Plikat With "New Kontron", we have quickly introduced a consistent program. The measures once again go far beyond the new organizational orientation, which was completed in the spring of 2013. In the meantime we implemented a cost reduction program which will contribute to substantially increasing

“We intend to create a state-of-the-art working environment for our employees in Augsburg. At the new technology campus we stimulate know-how and creative ideas to develop innovative products and solutions for our customers.”

ANDREAS PLIKAT
MANAGEMENT BOARD MEMBER

“With ‘New Kontron’ we have introduced a right and urgently needed package of measures. There is still a great deal of work ahead of us – therefore it is particularly important to me that all pull together internally.”

ROLF SCHWIRZ
CHAIRMAN OF THE MANAGEMENT BOARD

"Our customers want us to continue to support them with high-quality and innovative solutions in future."

ANDREAS PLIKAT

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

Kontron's cost basis and improving efficiency. We can already see the first results, for example in our operating costs. However, the most visible consequence of this program will be the concentration of our competences at the location in Augsburg. Here we intend to firstly create a state-of-the-art working environment for our employees and to thus generally increase the attractiveness of our company. Secondly, the location is to be expanded into a central, state-of-the-art technology campus, at which we stimulate know-how and creative ideas to develop innovative products and solutions for our customers.

However, we also want to consolidate our product portfolio and reduce the number of our suppliers and sales partners. First successes are already visible in this area as well. We have thus already identified 800 products in close cooperation with our customers, which will be discontinued in the foreseeable future, and will therefore at the same time reduce the number of our suppliers from almost 1,900 to less than 500. Furthermore, we have already achieved the aim to reduce the number of sales partners from almost 100 to less than 40.

However, we took the most important step by far at the beginning of December together with the representatives of the joint works council by the fact that we have agreed upon a reconciliation of interests and installed a social plan. The agreed measures are to be implemented by the end of November 2014.

Rolf Schwirz has been the CEO of the Kontron Group since 2013.

Mr. Schwirz, Kontron will also continue to face challenging times in the near future. How do you intend to generate enthusiasm in your employees for this situation?

Rolf Schwirz It is true that the near future will be difficult still. And it is important to me that we also say this very clearly, both from a positive as well as a negative point of view. However, everything speaks in favor of the fact that together we can create a very successful future as soon as we have done our homework. I was convinced of this more now than one year ago when I accepted this task and today I am even more confident.

The ECT market offers many interesting opportunities to us as a company, however also to the employees. ECT plays an important role as a central adjusting lever for many megatrends of our society, such as, for example, automation, mobility, urbanization or the industry 4.0. As the worldwide leading developer and manufacturer of ECT system solutions, we can profit considerably from these opportunities on the market. Talented, highly-qualified and motivated employees are an essential pre-requisite for this success of the company. Therefore, we attach great importance to inducing our employees to move with us to Augsburg and Deggendorf. We want to accomplish this with a correspondingly oriented reconciliation

“Everything speaks in favor of the fact that together we can create a very successful future as soon as we have done our homework. I am more convinced of this today than ever.”

ROLF SCHWIRZ

of interests and a social plan, which contains many mobility measures.

From the end of 2014, our colleagues will find the environment in Augsburg that they can expect and deserve as employees of a global high-tech market leader. By concentrating our power of innovation there, we can take advantage of the enormous potential of the various locations at a central technology campus.

> "The development and problem-solving competence of our engineers is recognized worldwide and we hope that it will increase even further by the technology campus."

ANDREAS PLIKAT

Mr. Plikat, do all of these measures have consequences for your customers?

Andreas Plikat No, our customers are not affected in any way. In close cooperation with them, we ensure that all orders are fulfilled. We have been conducting many constructive talks with our customers for more than a year – also regarding the changes at Kontron. We have met with a great deal of approval as our customers wish that we will also continue to support them with high-quality and innovative solutions in future. Some have even helped us to fill this annual report with life and to show how our products provide value added for them.

In your opinion, what are the three most important distinguishing features of Kontron AG?

Andreas Plikat Kontron stands for tradition, maximum product quality and a deep knowledge of the customers. Although the ECT market is still relatively young, we can already look back on an impressive history of extremely successful research and development work. The development and problem-solving competence of our engineers is recognized worldwide and we hope that it will increase even further within the technology campus. Only on this basis can we also continue to supply the best quality – a further distinguishing feature of Kontron compared with its competitors. Our products guarantee reliability, safety, robustness and durability at all times. And finally, in my opinion, we have a very special knowledge of and solidarity with our customers. We know their exact requirements for our products. In this regard, we receive support from a sales segment, which we intend to expand further, but which is already setting industrial standards across the world today.

“ECT plays an important role as a central adjusting lever for many megatrends of our society. We can profit considerably from these opportunities on the market. Talented, highly-qualified and motivated employees are an essential pre-requisite for this.”

ROLF SCHWIRZ

Mr. Schwirz, looking to the future, what are your most important expectations? Where do the major challenges lie for Kontron in the next few years?

Rolf Schwirz First of all, we must and will consistently do our homework. It is important that we bring our process efficiency and profitability back to an acceptable level as soon as possible. We will of course continue to also keep an eye on new opportunities, which are offered by the ECT market. Here it can be seen that there are interesting potentials for growth particularly in the Asian region which my Management Board colleague, Andreas Plikat, deals with intensively. On the whole, we would like to come one substantial step closer to our aim to become the leading company on the embedded market in the next few years. We have further resolved to achieve an operational margin of more than 6 percent with a gross profit margin of more than 25 percent in 2016.

We would like to thank you for the conversation.

ENABLING FUTURE

WITH GLOBAL UNITS AND LOTS OF EXPERIENCE

< UNIT >

IND

INDUSTRIAL AUTOMATION, MEDICAL, INFOTAINMENT

MARCEL VAN HELTEN
EXECUTIVE VICE PRESIDENT

< UNIT >

COM

COMMUNICATIONS

< UNIT >

MAR

MILITARY, AVIONICS, RAILWAYS

ROBERT COURTEAU
EXECUTIVE VICE PRESIDENT

ERIC SIVERTSON
EXECUTIVE VICE PRESIDENT

Industry 4.0 & health, mobility & safety, connectivity & entertainment, Internet of Things: The world of embedded computer technology (ECT) faces great challenges and opportunities. As world market leader, Kontron has always been the decisive shaper of this progress. That's why in 2013 we repositioned ourselves in global units under the responsibility of experienced industry specialists.

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IND

INDUSTRIAL AUTOMATION,
MEDICAL,
INFOTAINMENT

LIVING RELIABILITY

Processing massive data volumes whilst guaranteeing precision to the smallest detail: This is the specific challenge Kontron is facing in medical technology, industrial automation and infotainment. We believe that teamwork is the most efficient way to find new solutions. That's why Kontron is working with strong partners that have the same demands as us: the highest quality and the best service.

"The potential for Embedded Computer Technology in the industrial sector will continue to grow over the next few years – driven by trends such as cloud computing and big data. Due to its extensive experience, Kontron will be able to actively shape this future."

MARCEL VAN HELTEN
EXECUTIVE VICE PRESIDENT IND

Schleicher is one of the leading medium-sized providers of automation solutions for the mechanical and plant engineering sector. The Berlin-based company's four core competences are high performance control systems, Relays, Electronic Engineering Services (EES) and Electronic Manufacturing Services (EMS).

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IND

INDUSTRIAL AUTOMATION,
MEDICAL,
INFOTAINMENT

Smooth Operator

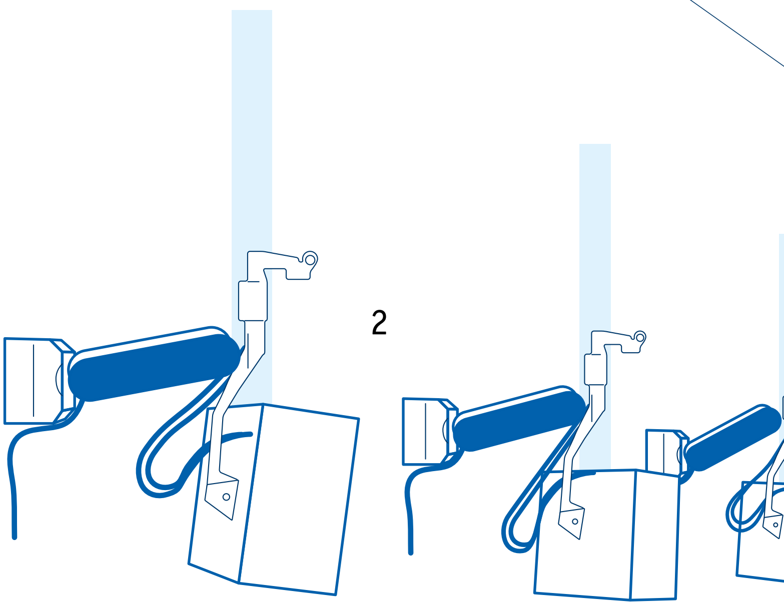
Together, we develop intelligent solutions – because all sides benefit from a strong partnership

Technical information

1 The KBox C-100 Industrial Box-PC (IPC) combines energy-efficient, high-performance Intel Core processor with high connectivity via 4 x Gigabit Ethernet and 6 USB ports.

The system consists of a CPU module COM Express® Computer-on-Modules plus Carrier Board. The CPU modules run with CPU chips from Celeron to Core-i7 Quad.

2 Combined with Schleicher Electronic's control software, the IPC is able to operate up to 32 axes in parallel.



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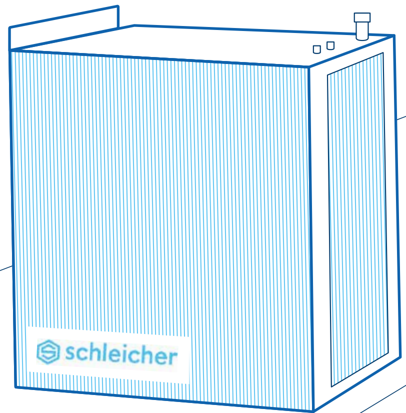

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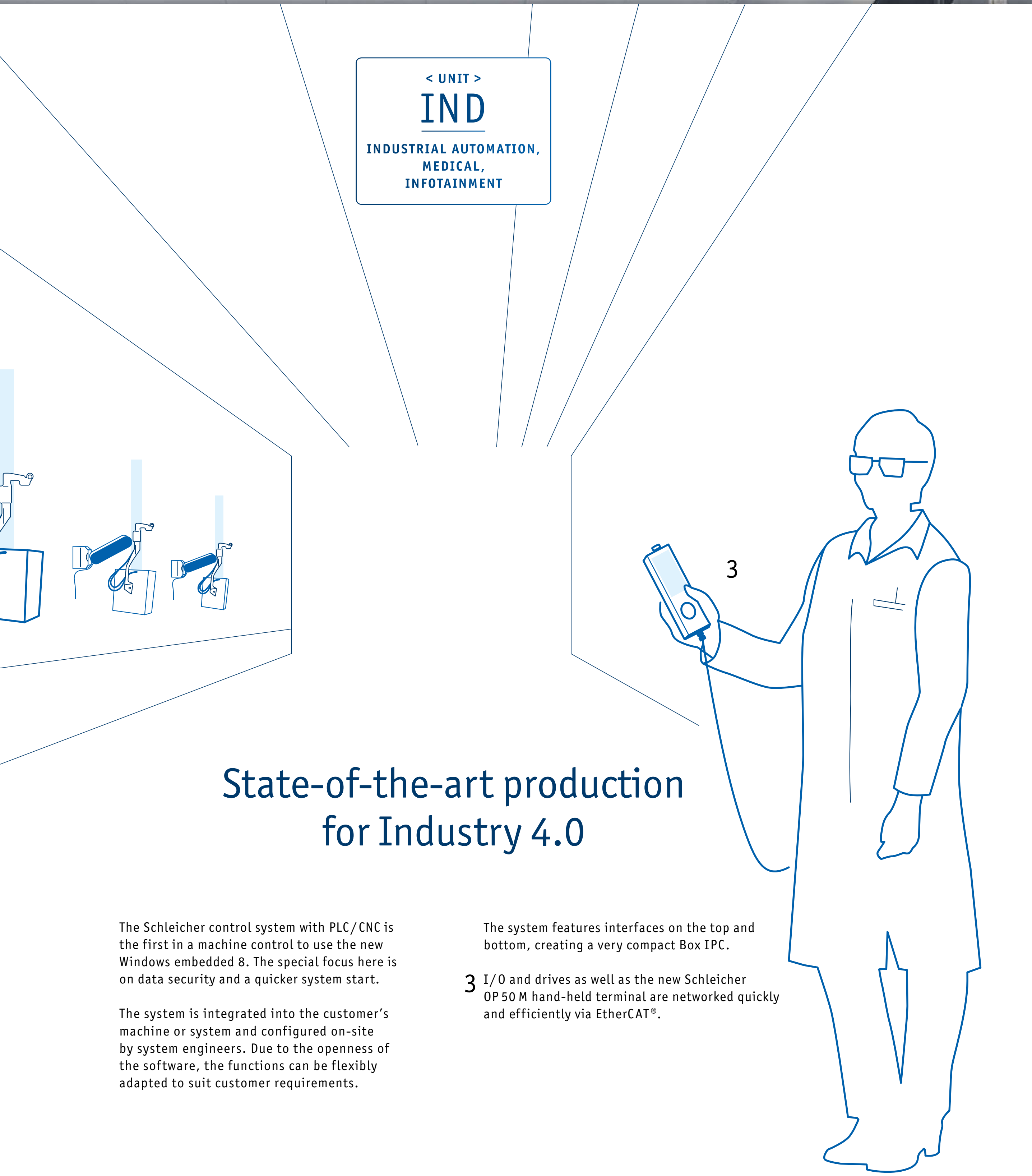


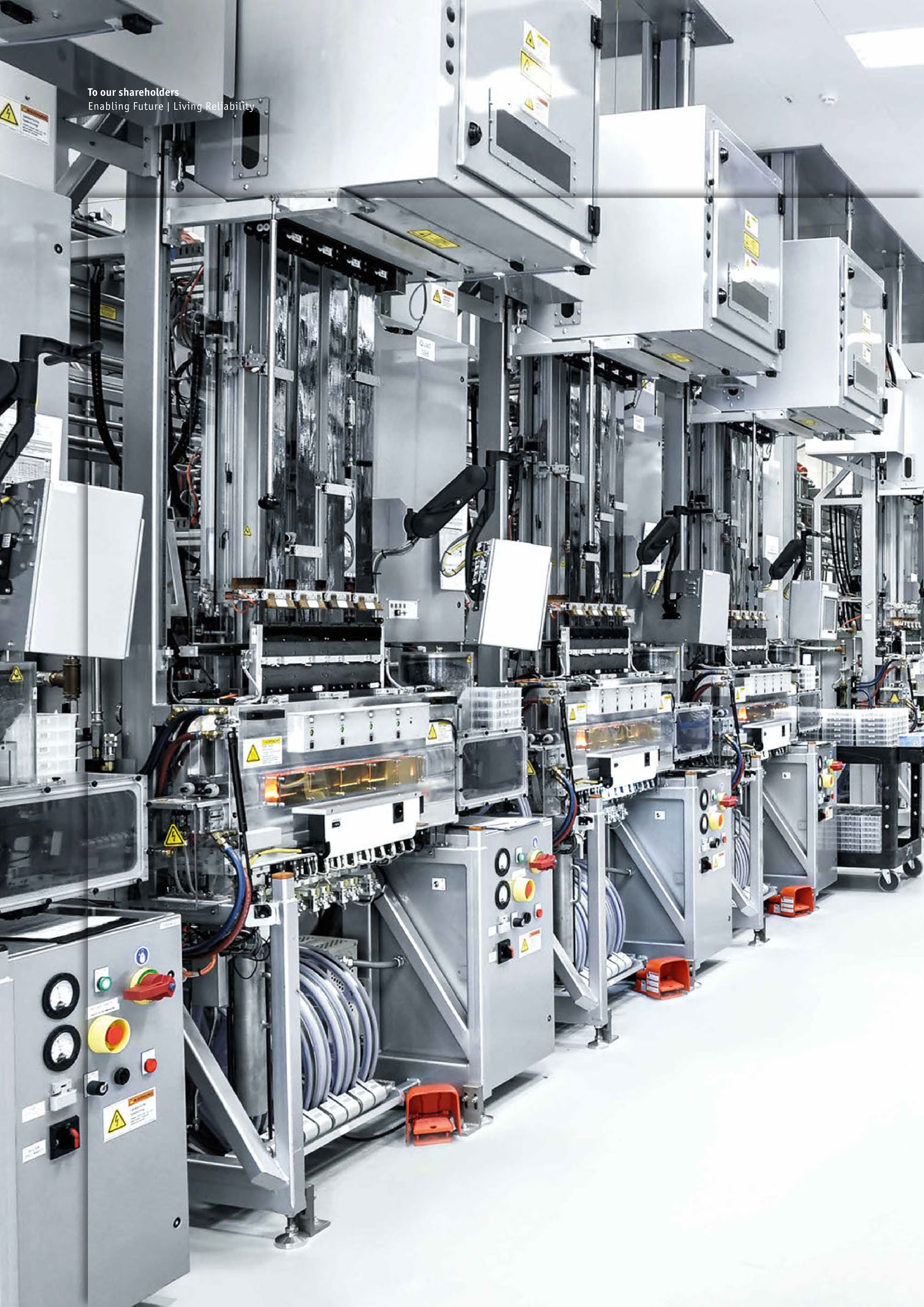
State-of-the-art production for Industry 4.0

The Schleicher control system with PLC/CNC is the first in a machine control to use the new Windows embedded 8. The special focus here is on data security and a quicker system start.

The system is integrated into the customer's machine or system and configured on-site by system engineers. Due to the openness of the software, the functions can be flexibly adapted to suit customer requirements.

The system features interfaces on the top and bottom, creating a very compact Box IPC.

3 I/O and drives as well as the new Schleicher OP 50 M hand-held terminal are networked quickly and efficiently via EtherCAT®.



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MEDICAL,
INFOTAINMENT

"Kontron is a reliable partner with extensive know-how. By combining our skills, we can meet customer requirements even better."

SVEN DÜBBERS
CEO SCHLEICHER ELECTRONIC

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INDUSTRIAL AUTOMATION, MEDICAL, INFOTAINMENT

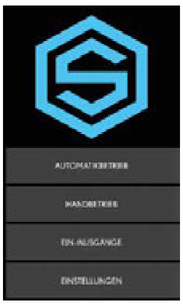
Precision is everything
How Kontron and Schleicher Electronic are working together on new automation solutions

Whether in automotive production, mechanical engineering or furniture production: When quality is important, precision is key, not to mention reliable service. In industrial automation, precision and production safety are essential – and customers are therefore increasingly interested in all-in-one solutions. To meet this demand, Kontron and control specialist Schleicher Electronic last year signed a far-reaching cooperation agreement. “The collaboration with Kontron gives us quick access to new technologies, reliable high-quality service and an international reach,” comments Sven Dübbers, Managing Director of Schleicher Electronic.

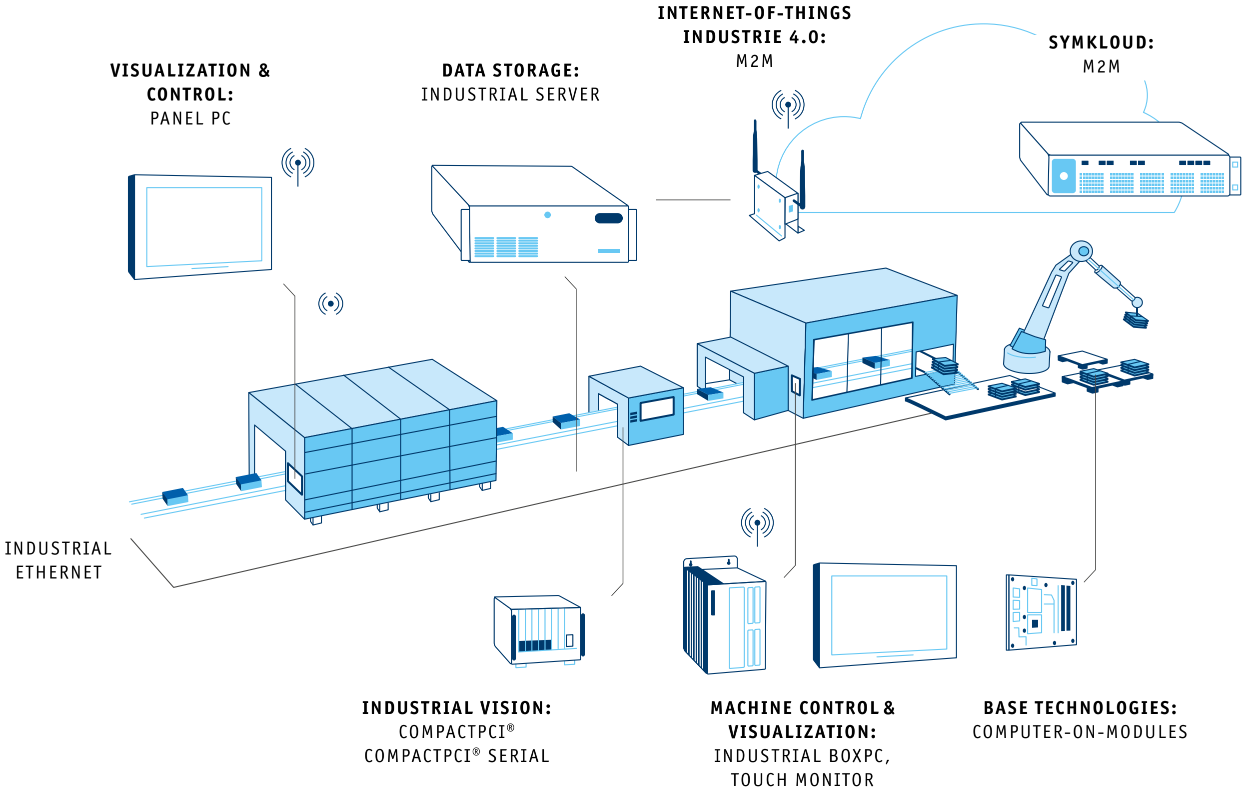
Kontron’s industrial PC “KBox C-100” combined with the software from Schleicher Electronic, the “ProNumeric XCI600” created the first system solution for PLC (programmable logic controllers) and CNC (computerized numerical controls), based on Windows 8. This will be integrated into the customer’s system and individually configured. Up to 32 axes with different functions can be operated with this in parallel.

Numerous joint projects are already in the pipeline; in future the cooperation is set to be expanded. Whilst Schleicher Electronic as so far concentrated its business to date on Germany and Europe, the company now wants to assert a global position. “We want to develop new markets together,” comments Sven Dübbers.

Schleicher Electronic’s new hand-held control device OP 50 M can be connected efficiently via EtherCAT.



Kontron products enable Automation



INTERVIEW WITH MARCEL VAN HELTEN
EXECUTIVE VICE PRESIDENT IND

Why are partnerships with companies like Schleicher Electronic important for Kontron?

Solution providers for industrial automation such as Schleicher Electronic want to offer their customers improved machine controls at favorable conditions. Kontron has strategically aimed to support this company with Embedded Computer Technology (ECT). As a result, together we can drive forward innovations, expand the product portfolio and significantly reduce the product launch time. Partnerships like this allow our customers to identify market trends early on and to use these for their business.

Which particular trends are these?
The main trend in the industry at the moment is optimizing the user experience for operation – a trend, which is strongly influenced by new technologies in the consumer market. At the same time, the operating costs must be kept as low as possible and a close link between machine, manufacturer and customer must be guaranteed – above and beyond the entire value chain. An example of this is the optimized remote drive service model, which was enabled with the “Internet of Things”.

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INDUSTRIAL AUTOMATION, MEDICAL, INFOTAINMENT

What exactly is the "Internet of Things"?

The term "Internet of Things" describes the possibility of integrating various devices into a virtual network via broadband, thereby linking them together. These unique solutions enable, for example, production machines to emit automatic messages when maintenance is required and independently request spare parts from the manufacturer. Another example is helping doctors in rural areas in their diagnoses through the use of remote-controlled medical equipment.

What must Kontron do to actively shape these developments?

Kontron invests in three main areas with IND Business Unit: Bringing silicon innovations to the market, developing maintenance-free technologies, and guaranteeing secure, simple connectivity and compatibility with the "Internet of things". Kontron's strength lies in its global engineering team, which continually sets new standards in module and PCB development, Thermal/mechanical development and software support. In addition, our extensive process capability allows us to handle even complex development projects and to produce high-quality products. The aim of the IND Business Unit is to convert this expertise into a direct advantage for our customers.

What is the future of the IND Business Unit?

The IND Business Unit is already perfectly positioned to play a leading role in the convertible markets of industrial automation, energy, medical and infotainment/gaming. We are a global provider for ECT, we develop, produce and assist our customers in all centers of the world. We support our customers and manufacturers to continually create new ideas for development and support their strategic initiatives. Furthermore, in future we want to invest even more time in working on innovative concepts together with our partners – by combining our expertise, we can distance ourselves from the competition even further.

Automation for the manufacturing industry:
Kontron's IPC combined with Schleicher Electronic's control software can operate up to 32 axes in parallel.

New methods of customer interaction
How Kontron helps its customers enhance their customer loyalty and develop new business areas

The business segment Infotainment combines the products and systems for point of sale (POS), point of information (POI), digital signage, kiosk and terminals. The segment is focused on bringing solutions designed for the retail, gaming and governmental infrastructure market.

In today's world, everything is connected. The Internet of Things has enabled the development of new business models and solutions that improve the customer experience. Data is being transmitted between companies and their customers faster and more frequently than ever before: Companies want to provide content and services to fulfill a specific customer need. Consumers on the other hand are interacting with brands more frequently and in much more depth than any time in the past. But ubiquitous information and data can also be abundant and overwhelming – for companies and consumers. The key for both is being able to capture the relevant data, analyze it and turn it into relevant and timely information. By succeeding in this, companies can personalize the interactions with their brand, improve conversion rates and increase revenue through targeted up-and-cross selling opportunities. Kontron's embedded computer technology makes this next generation of the digitally connected consumer experience possible.

In the world of Infotainment, Kontron is at the forefront of engineering embedded computing technology platforms in POS/POI solutions, digital signage technology or kiosks and terminals that enables OEMs and system integrators to meet these goals.

Through the evolution of the Internet of Things, security, connectivity and real-time data analytics powered by Kontron's embedded computing technology enables its customers to capture and interpret data into actionable insights, allowing brands to deliver highly-targeted and timely content. Whether it is utilizing software in a digital signage device that captures anonymous analytics to deliver personal, in-store recommendations for purchase or enabling casinos to better manage their assets – Kontron's embedded computing technology is at the heart of these applications.

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INDUSTRIAL AUTOMATION, MEDICAL, INFOTAINMENT

For instance, Kontron enables digital consumer intimacy in the gaming industry. Connecting casino assets via integrated player tracking solutions allows the delivery of personalized advertisements and games based on customer preferences and behavior. This empowers casinos with better asset management and provides a 360-degree view of their customers, creating a deeper, more connected relationship with their brand.

For the retail market, the focus is on providing a personalized shopping experience. Through connectivity and wireless content management, Kontron embedded computer technology enables the seamless integration of the connected experience with brick and mortar. Utilizing mobile connectivity, retail outlets are able to deliver highly-targeted and timely content while shopping on the store floor. By using real-time data analytics in digital signage solutions, they're also able to create up-and-cross selling opportunities. Next generation vending machines will be able to determine consumer demographics and automatically optimize product mix, deliver relevant promotions and connect consumers with their brands on social media.

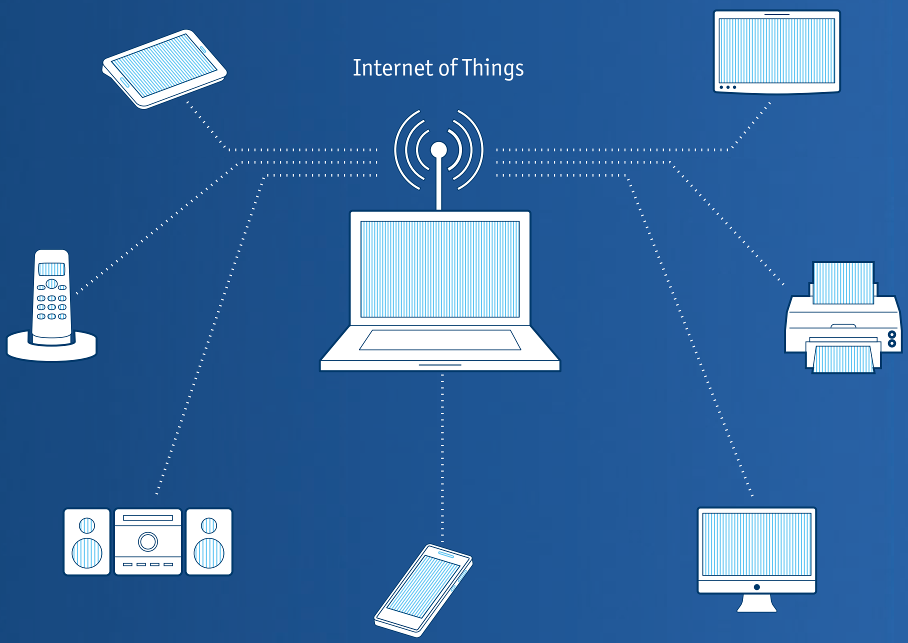
In the governmental infrastructure segment it is about ease of use and throughput, for example self-service terminals, which are easier to operate by people of all ages or wireless payment transactions through NFC. Moreover, Kontron is constantly developing new ways to provide information to patients and visitors in a hospital or to travelers at an airport, enabling additional personal advertisement opportunities to create a secondary revenue stream.

Through an industry-leading ecosystem, Kontron utilizes the latest in processing technology to engineer cutting-edge Infotainment embedded computing boards, systems and platforms. From Computer-on-Modules and Motherboards to Software and Services, Kontron creates an end-to-end application-ready platform for OEMs and system integrators. Owning the whole process from initial design to final production and after sales services Kontron delivers diverse solutions starting from an individual designed processor motherboard up to a complete kiosk solution. This is how Kontron enables its customers to rapidly prototype solutions and significantly improve their time to market.

Facts & Figures

$ 32.4 billion

The market for technology and service in Big Data is expected to grow by 27 percent annually by 2017, reaching a volume of more than $ 32.4 billion. The market is therefore growing six times quicker than the rest of the information and communication technology market.



190,000 units

The global market for robotics is expected to grow by 6 percent anually between 2014 and 2016. In 2016 the sales figures for industrial robots are expected to reach 190,000 units.

In 2020 the volume of data produced globally is expected to be 35 zettabytes – more than one third of this will be located in the Cloud.

20 %

Through innovation Kontron's new generation of platforms achieves 20 percent more computing power and 100 percent more graphic performance.

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COM

COMMUNICATIONS

FORCING SPEED

The Communications market is a challenging one. The demand for faster, smarter, and cost-effective solutions is growing commensurate to the digitalization of our daily life. More than ever, our customers need solutions to enable them to compete and thrive in this fierce market. For Kontron, this means that we need to continue to be extremely responsive, operationally effective, and provide innovative solutions that exceed client expectations. This is how we ensure our customers' success in challenging market conditions.

“Kontron excels at evolving its products and services to better anticipate customer requirements in the rapidly changing telecom and cloud markets.”

ROBERT COURTEAU
EXECUTIVE VICE PRESIDENT COM

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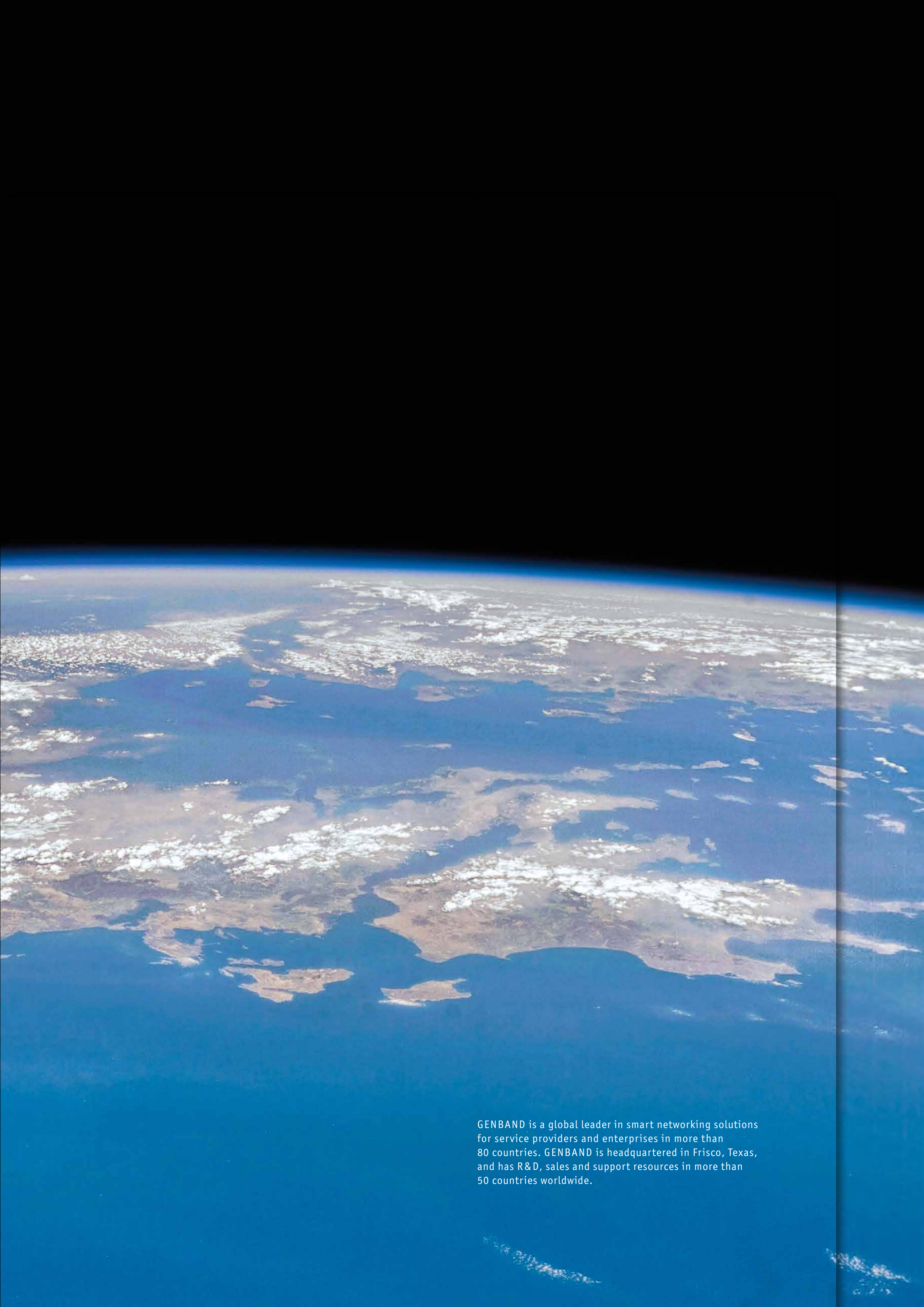
COMMUNICATIONS

With a little help from my friends
Together, we make communications faster – and smarter



GENBAND is a global leader in smart networking solutions for service providers and enterprises in more than 80 countries. GENBAND is headquartered in Frisco, Texas, and has R&D, sales and support resources in more than 50 countries worldwide.

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COMMUNICATIONS

Fast communication needs the right hardware

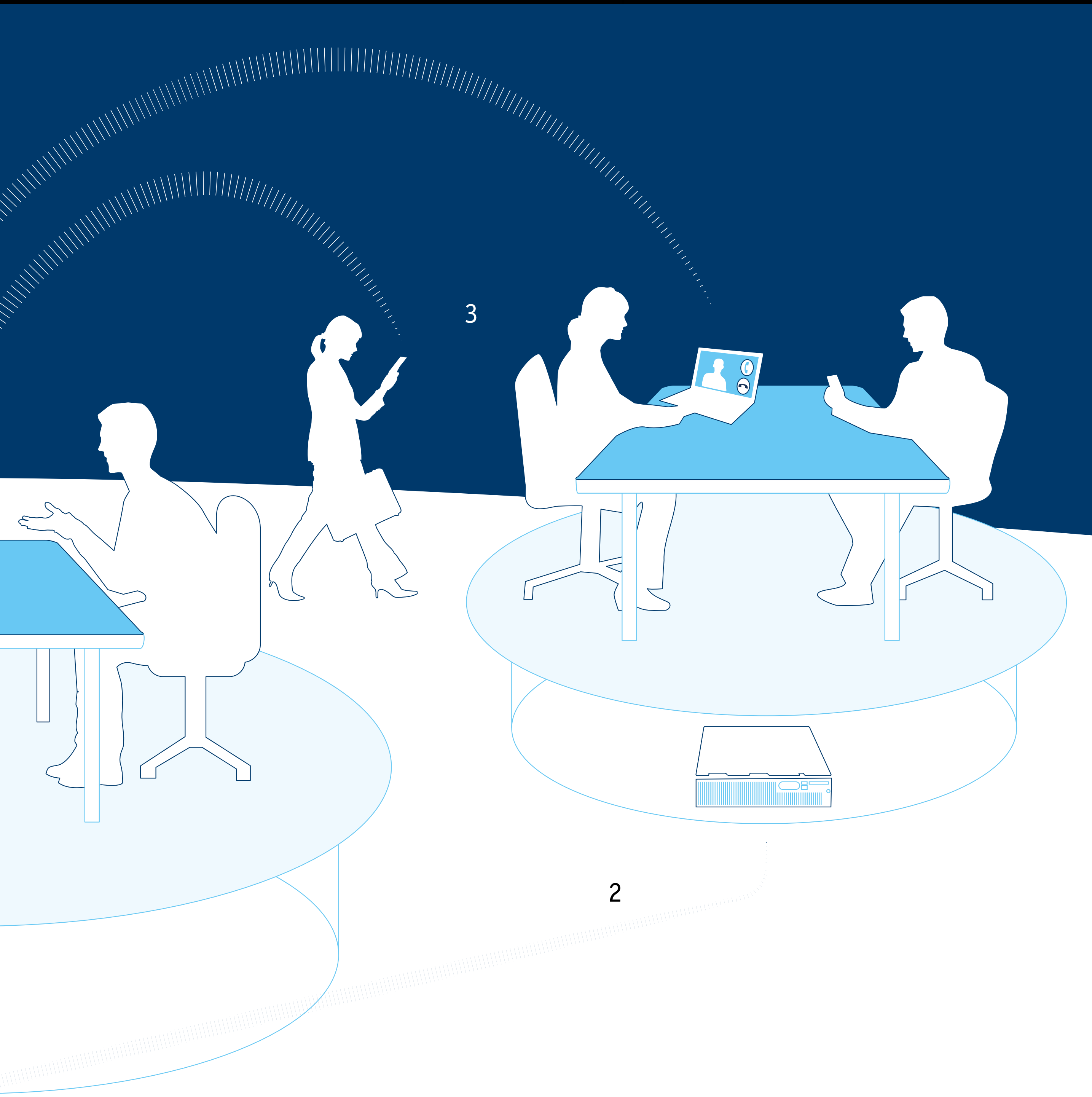
Technical Data

The Kontron CG2200 carrier grade communication rack mount server features dual 8-core Intel Xeon E5-2600 processors. It combines high memory, flexible I/O and storage features as well as dual redundant AC or DC power options into a compact 2U form factor. The 20', deep ruggedized server is built to meet NEBS compliance and is backed by an extended lifecycle.

1 Significant challenges in the market are fueling GENBAND's Making Networks Smarter approach. Sophisticated service providers want to connect across multiple networks, devices, social networking sites and that puts more pressure on the infrastructure. Service providers and enterprises require products and services with the intelligence to span the multiple technology and compatibility chasms at the core, edges and application layers of today's networks. They especially need to enable services that redefine the user experience for the 21st century.

From the Core to the Edge to the Experience™, GENBAND's technology seamlessly evolves IP networks to new levels in scalability, security, profitability and efficiency.

GENBAND's market-leading technology supports multimedia voice, data and video sessions and "anywhere" and "any device" services that scale on public and private networks. With a flexible, cloud-ready platform, GENBAND's IMS, sessions and application solutions help its customers compete effectively by increasing revenues, improving profitability, and attracting and retaining customers.

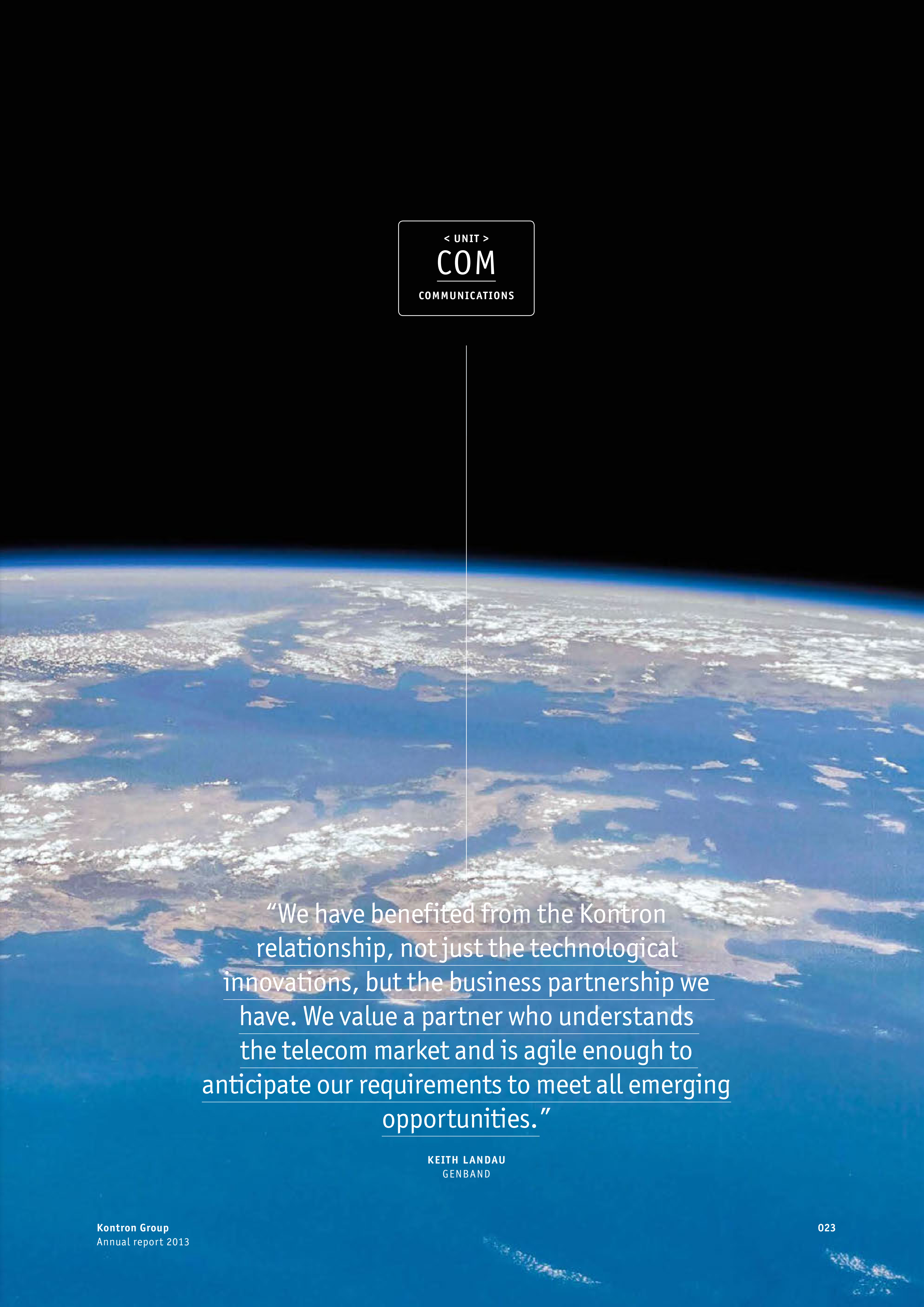


2 As a Carrier Grade Server with an annual downtime of less than five minutes, the CG2200 delivers the "5 Nines"-reliability (99.999%) demanded by carrier or enterprise customers.

Through innovative technology, the CG2200 supports the rising processing demands of a broad range of next generation applications.

Integral to state-of-the-art communication services, the Kontron CG2200 can be scaled up to support large scale deployments.

3 Thanks to multiple dedicated teams – global account managers, program management, global supply chain, operations, as well as technical support – Kontron and GENBAND can ensure reliable, safe and fast communications for end users all around the globe.



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COM

COMMUNICATIONS

"We have benefited from the Kontron relationship, not just the technological innovations, but the business partnership we have. We value a partner who understands the telecom market and is agile enough to anticipate our requirements to meet all emerging opportunities."

KEITH LANDAU
GENBAND

< UNIT >
COM
COMMUNICATIONS

A revolution in communication
How Kontron and GENBAND face the challenges of the communications market

Life is more digital than ever. It's also much more social. At one time, colleagues were only available (or not) via one landline number. Today, getting hold of them may include calling mobile phones, office phones and home office phones, email and any host of social media. As a global company developing IP multimedia application software and infrastructure, GENBAND wanted to make communications efficient again. The idea to "Make Networks Smarter" sounds simple: Why not have people contact people instead of devices? Why not use one number and then let the network provide the most effective means to find that person – wherever they may be.

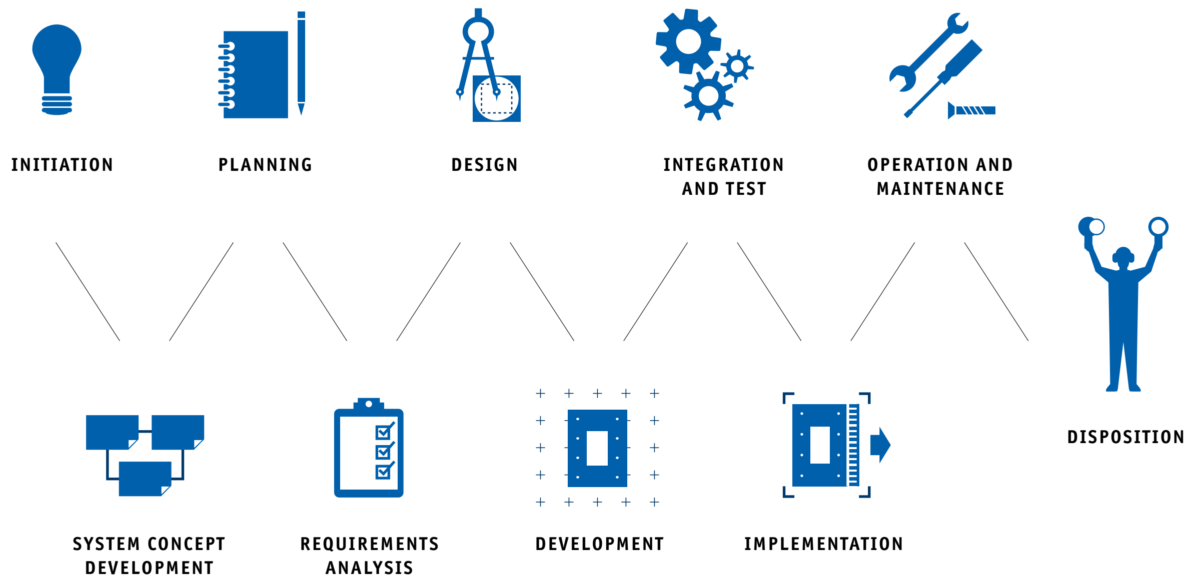
"The key to our success with customers like GENBAND is simply the result of our entrepreneurial approach to design innovative technology and business solutions that can be seamlessly delivered by versatile global supply chain."

ROBERT COURTEAU
EXECUTIVE VICE PRESIDENT COM

But innovative solutions need high performance and reliable equipment. As a world market leader in embedded computer technologies, Kontron can look back on years of experience in the business it has helped to bring forward from the start – GENBAND acquired Nortel's VoIP division in 2010 to get access to the resources and technologies, including the relationship with Kontron, that today are the foundation of GENBAND's product strategy.

To support their project, GENBAND selected Kontron's CG2200 Carrier Grade server, a solution meeting all the requirements: high performance, absolute reliability and adaptability to fluctuating traffic demands. Because Kontron knows that speed is not only important when it comes to IP-communication itself, but also in reacting to market changes and responding to customers' needs. Due to an overwhelming growth in data and video traffic, the communications business relies on thought leadership and innovation force. And on a dedicated team, that knows its particular challenges.

Lifecycle Management at Kontron



For Kontron, serving global application providers like GENBAND means that unplanned demands can come up suddenly – and as a valuable partner we need to be able to provide products and added-value services in a timely and efficient manner. In 2013, Kontron was able to support GENBAND's dynamic forecast demands – a sustainable growth in business that was enabled not least by Kontron's improved global operations. But the collaboration does not simply include the delivery of technology: nearly all Kontron departments are involved in the project. Through technical support, supply chain management and engineering services, the CG2200/SMARTCORE and SMARTEXPERIENCE projects are "a true team effort". As Greg Tiedemann, the Kontron Key Account Manager responsible for GENBAND globally on behalf of the Kontron Communications Business Unit, explains: "This is how we can differentiate ourselves in the market – with a commitment to quality products, personalized services, and a willingness to exceed client expectations, every day."

Over the last few years, the cooperation has expanded: starting off with the CG2200 in a single platform, GENBAND now relies on Kontron's support for a number of different platforms in the network. In the future, the two companies will continue to work together to find innovative solutions for the next big communications market challenge. For example, migrating various network applications, particularly video traffic to a cloud environment, or designing next generation servers to support next generation applications.

Greg Tiedemann ties this success to the collaborative approach that Kontron brings to the table to support GENBAND: "We team up with our customers. We don't see it as a sales transaction; it's an investment in a long-term business relationship. When we help realize the customer's competitive advantage and they win, then we all win."

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COMMUNICATIONS

INTERVIEW WITH KEITH LANDAU
GENBAND

What does the future of communications look like?
This is a very exciting time to be in the communication services market because it is evolving at a very rapid pace. In the next few years, several market disruptive technologies are taking center stage, including web browser–based communications, (WebRTC), carrier OTT and a new generation of unified communications and collaboration tools.

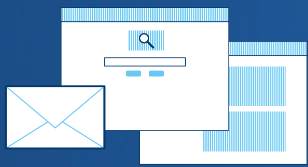
Each of these technologies has the potential to improve the end user experience, reduce the total cost of these services and deliver high value and high margin for operators.

What are the biggest challenges the communications market is facing and will have to face in the near future?
We all know that data, both fixed and mobile, is growing at an exponential rate. Additionally, end users have an ever expanding appetite for communications services that will make them more productive. Today's operators are adding services to their business models to include cost effective ways to support the market for communications services. Operators are no longer just providing the data connectivity.

GENBAND is well positioned to work hand-in-hand with the service providers and enterprises as they transition their networks to meet these rapidly evolving market conditions.

What do you value in the relationship with Kontron that will help you meet these challenges?
Being able to work closely with a partner like Kontron enables us to plan accordingly and to help fulfill our customer deployment requirements more seamlessly. They take the worry out of designing and supplying the necessary server hardware that match carrier grade performance, scalability, and are ready for our leading-edge communication applications.

Facts & Figures



60 secs

In one minute, more multimedia content is uploaded to the Internet than one person could watch in a lifetime.

204 million

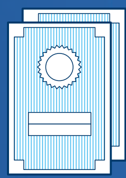
emails are being sent.

>4 million

queries are being made over Google.

>1 million

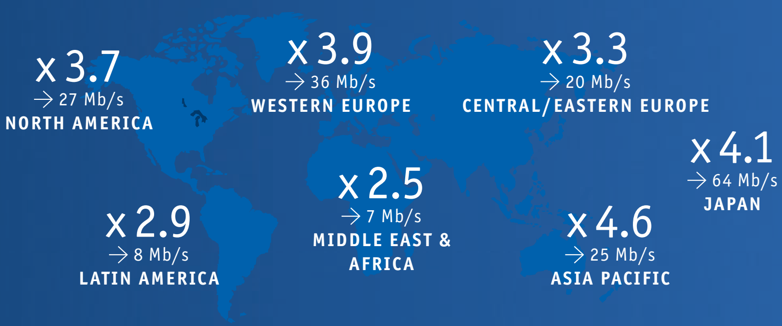
Facebook pages are being accessed.



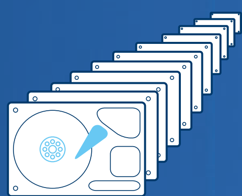
340 patents

GENBAND holds 340 Patents worldwide, 240 of which in the USA.

Growth of broadband speeds by region 2010 – 2015



In 2012, the volume of all data in the Internet amounted to 2.8 Zettabyte. One would need 588 billion DVDs to store this data.



The volume of data in the Internet doubles every two years.

The global Unified Communications as a Service (UCaaS) market is due to grow by 24.8 percent annually – from $ 2.52 billion in 2013 to $ 7.62 billion in 2018.

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MILITARY, AVIONICS, RAILWAYS

PUSHING INNOVATION

The world is undergoing a constant process of renewal. Whether it is about making military operations safer, offering ubiquitous access to knowledge and entertainment or developing state-of-the-art transportation systems: Embedded Computer Technology is key to Innovation. Therefore, Kontron, based on many years of experience, operates with an ongoing, strong commitment to research and development. This is how we help create the world of tomorrow.

“For many decades, Kontron has been acting as one of the main innovation drivers in Embedded Computer Technology. This is why, whenever there’s a significant development in the business, Kontron technology is part of it.”

ERIC SIVERTSON
EXECUTIVE VICE PRESIDENT MAR

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MILITARY, AVIONICS, RAILWAYS

Stairway to heaven

Together, we keep you connected – bringing Wifi to an altitude of 30,000 feet

As of 2013, Hainan Airlines operates a fleet of 117 aircraft. Their extensive network routes cover China, Asia, and extend to Europe, America, Oceania and Africa, with nearly 500 domestic and international routes flying to almost 90 cities worldwide.

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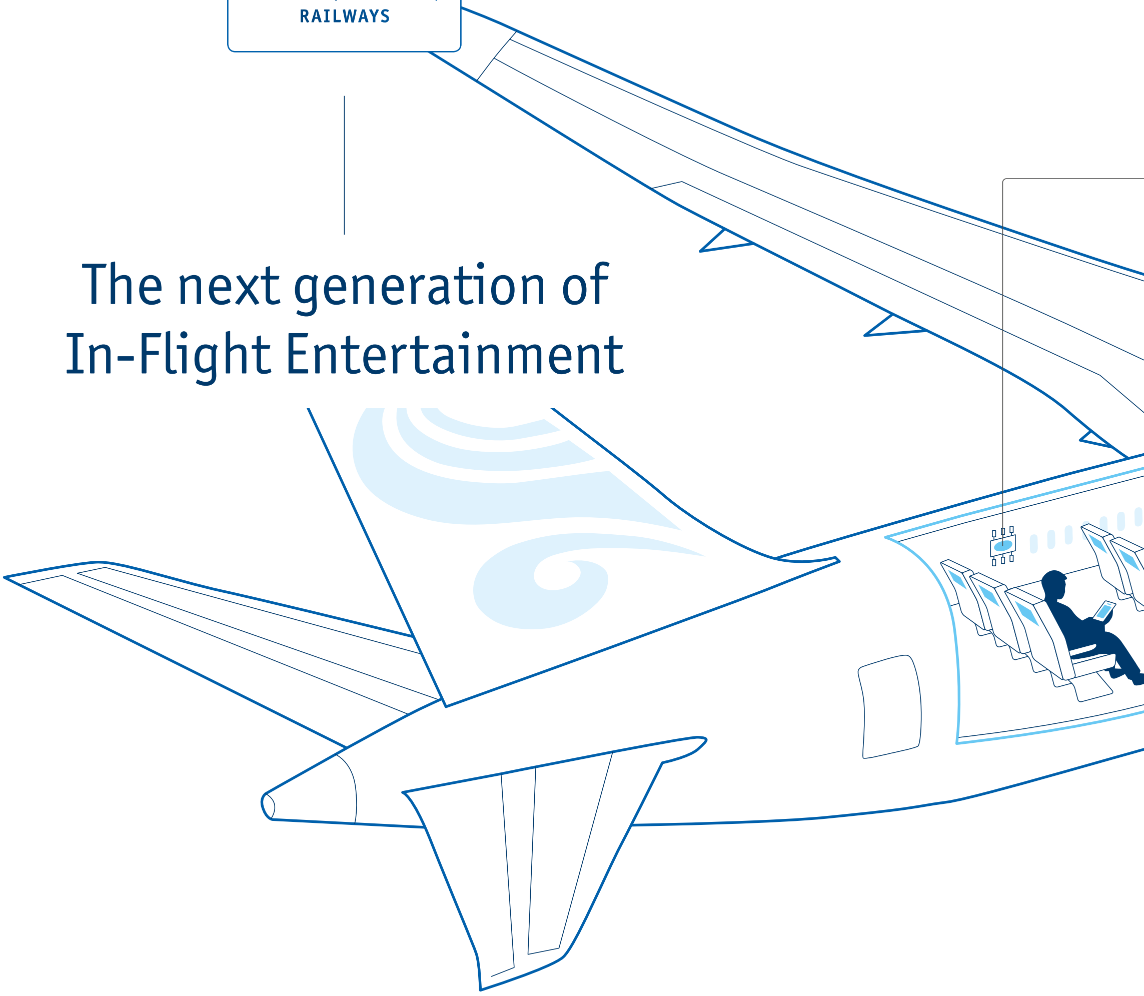
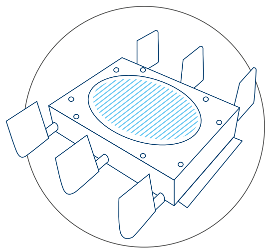
The next generation of In-Flight Entertainment



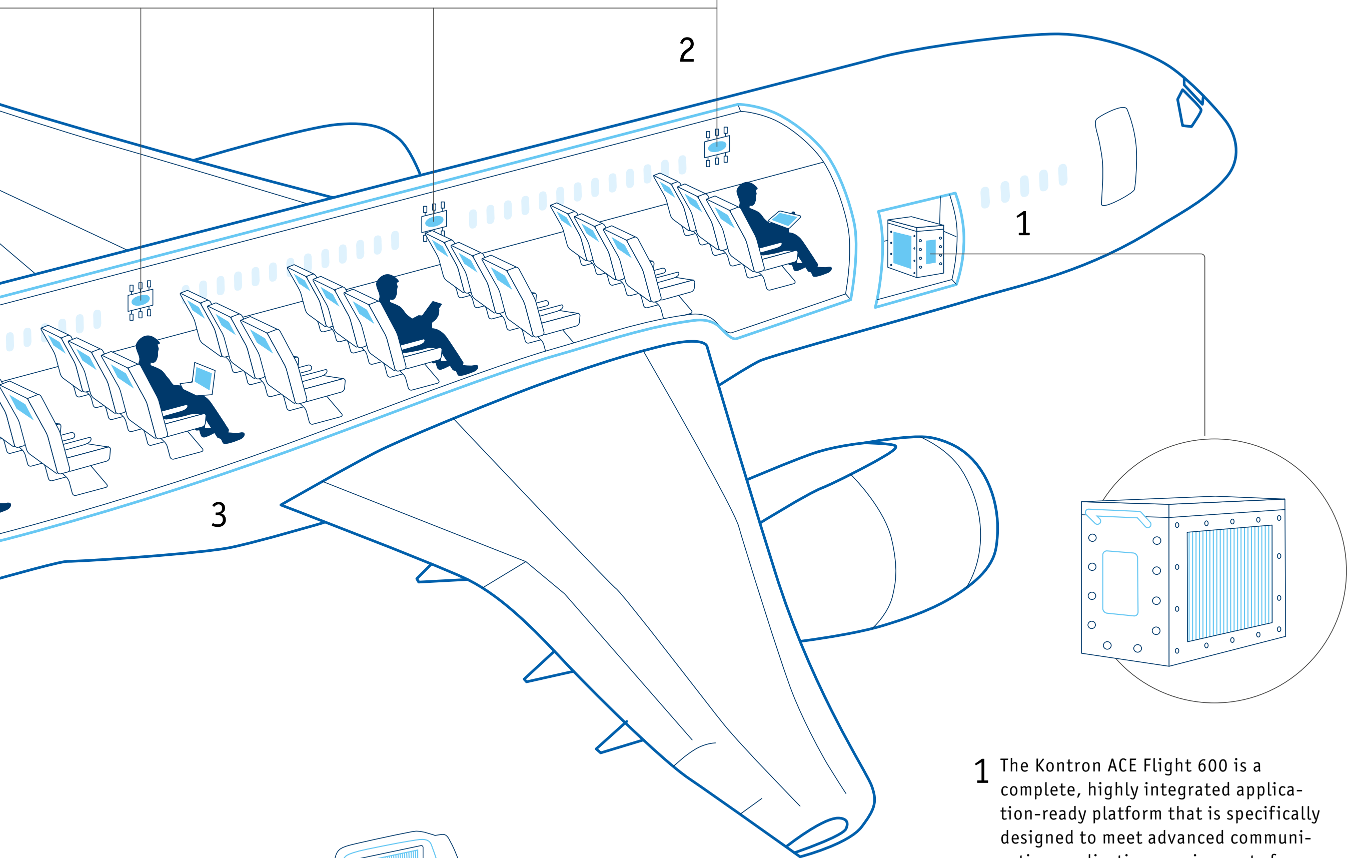
Technical Information

The Kontron ACE Flight 600 integrates the latest dual core 1.5 GHz Intel® Core™ i7 processor, 16 GB of DDR3 memory and up to 1.8 terabytes (TB) of combined SATA SSD storage to address increased demands in performance, software and data access. It contains lots of information, such as an L2/L3 managed Gigabit Ethernet Switch with multiple 10/100/1000 BT ports.

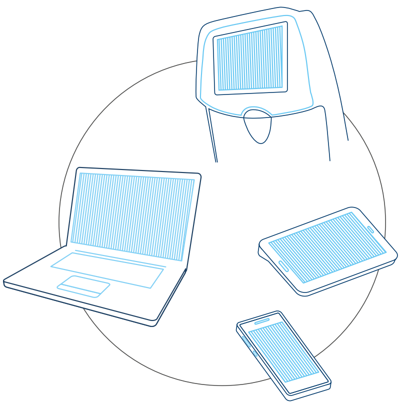
The Cab-n-Connect access point takes advantage of the IEEE 802.11n specification, which increases maximum throughput to wireless clients from 54mbps to over 300 mbps. Based on Motorola's award winning AP-7131 802.11a/b/g/n enterprise-grade access point, Cab-n-Connect provides secure wireless connectivity for commercial airlines and general aviation.



2 The Cab-n-Connect product family provides secure wireless connectivity for commercial airlines and general aviation. With the release of a 28VDC power input option, the CWAP also supports the DC requirements of smaller business and regional jets.



1 The Kontron ACE Flight 600 is a complete, highly integrated application-ready platform that is specifically designed to meet advanced communication application requirements for Ethernet-based network installations on both linefit and retrofit aircraft.



3 With Kontron's technology and HNA Technik's software, passengers are now able to access the Internet and stream Video-on-Demand to in-seat-displays as well as their Personal Electronic Devices.

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“Kontron is well-known around the world for high quality and state-of-the-art engineering. Combined with HNA’s market access and fast business development, this partnership will allow for outstanding customer service – at a competitive price.”

XU JIN
VICE PRESIDENT OF HNA TECHNIK


Hainan Airlines
海南航空
B-2722
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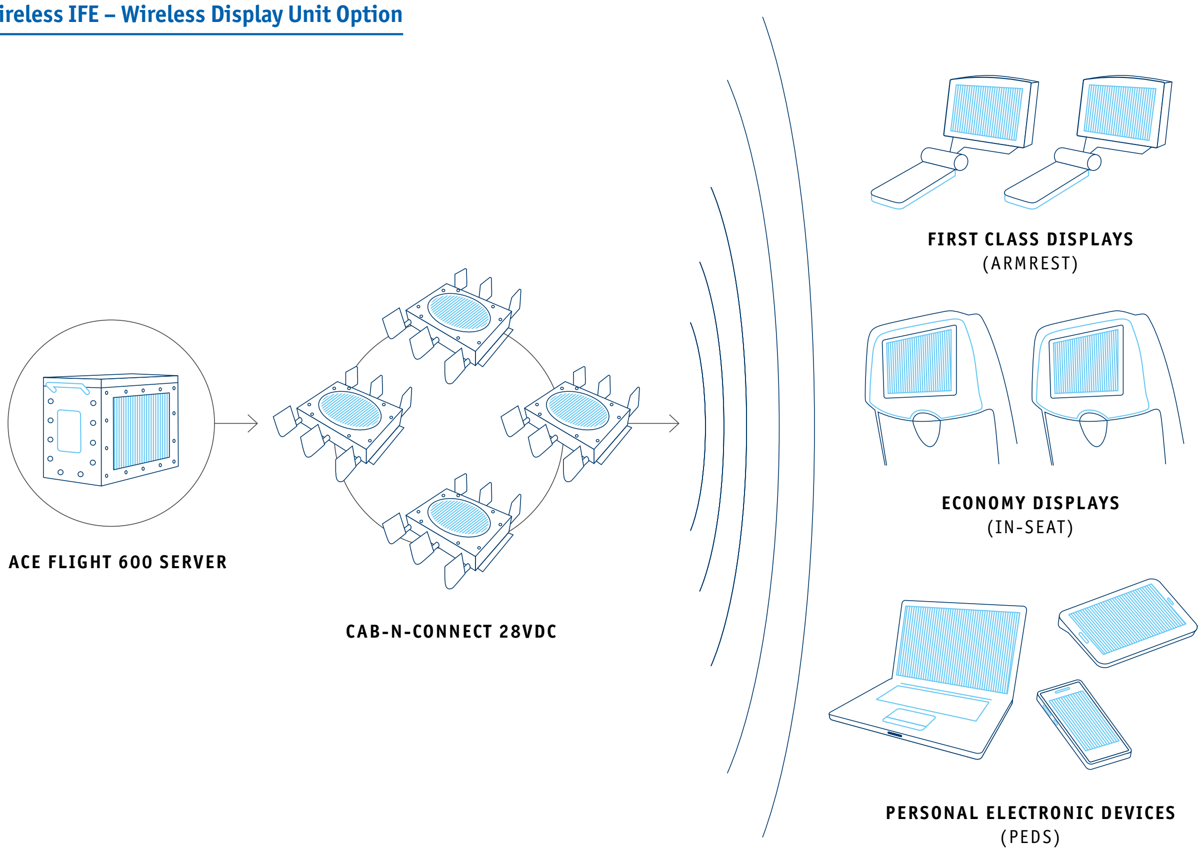
"Flight mode" has a new meaning
How Kontron and Hainan Airlines bring individual entertainment to commercial avionics

There used to be a time when flying, especially on business trips, meant being disconnected from what happened on the ground for several hours. By switching to "Flight mode" passengers were cut off from the telecom network and internet. And even if there was an entertainment program – one had to watch or listen to what was on offer, whether it fitted their personal taste or not.

With wireless connection to the internet being a substantial part of everyday life, many commercial airlines want to offer their passengers a special service: offering WiFi connection and video streaming to in-seat-displays as well as personal electronic devices. One of the pioneers in In-Flight Entertainment is HNA Technik, the technical branch of Hainan Airlines, the fourth largest airline in China. To address the rapidly growing Chinese commercial aviation market, HNA Technik decided in 2011 to bring onboard WiFi to their fleet – and chose Kontron as their partner in this comprehensive project.

As world market leader with more than 25 years experience in developing system solutions for commercial and military aviation customers, Kontron knows the special challenges of this sector well: to be certified for airworthiness by FAA/EASA and regional Civil Aviation Administrations, products need to adhere to strict regulations regarding size, weight and safety. Combined with customers' requirements relating to performance and costs, commercial avionics is one of the most challenging – while thriving – sectors these days.

Wireless IFE – Wireless Display Unit Option



After first trials in 2012, the equipping of Hainan aircrafts has begun in 2013. The solution that Kontron is providing consists of a complete set of hardware products necessary to implement the WiFi network onboard the aircraft and support complementary services such as Video-On-Demand; notably the ACE Flight 600 server and Kontron's Cabin Wireless Access Point Cab-n-Connect as well as associated control panels and management terminals. Already, around 3,000 aircraft worldwide have been equipped with the same Kontron technology. And this number will increase over the next years: until 2016, Kontron will be delivering more than 100 servers to equip the Hainan fleet.

"Our platforms are open and upgradeable", says Peng Xiaowei, Managing Director of Kontron China. "HNA Technik wanted to use their own software – most of our competitors would have

"Strict requirements in the commercial avionics sector can only be met with a hands-on commitment to quality, reliability and innovation."

ERIC SIVERTSON
EXECUTIVE VICE PRESIDENT MAR

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offered the complete package only, without the possibility of integrating external technology." Uniting their forces, HNA Technik and Kontron can now allow passengers to easily access information and in-flight entertainment using their own Personal Electronic Devices (PEDs). Innovative Kontron technology, combining light weight and low cost, enables the installation of the system on narrow-body and regional aircraft that could not be equipped previously.

But the work is never done for the Kontron engineering team: already, they are working on a next generation of airborne servers – even lighter, smaller and faster. Pushing forward new developments in CPU, storage and wireless technology, Kontron is able to address SWaP-C (size, weight, power, cooling and cost) challenges in order to meet evolving airline system requirements. Thereby, Kontron sees opportunities in the continued growth not only of the civil aviation industry in China, but all around the globe.

INTERVIEW WITH ERIC SIVERTSON
EXECUTIVE VICE PRESIDENT MAR

What makes the commercial avionics sector especially challenging for a company like Kontron?
Any equipment for commercial aircraft has to be certified by national and international authorities – like the FAA in the United States or the CAAC in China. To get this certification, products need to meet a variety of strict regulations – size, weight and safety being the most crucial ones. We have extensive experience with the certification process; our engineers know exactly what is possible, and what isn't. This is why our competitive position is extremely strong – even in such a challenging and rapidly growing market.

The avionics sector might be growing fast, but what about the other two segments you are responsible for – Defense and now, transportation?
The Defense segment has slowed down due to budget pressures in the US. The Prime Contractors have to seek external suppliers with more commercial off-the-shelf solutions – a significant growth opportunity within the ECT market. Kontron is strongly positioned to service the key areas like Military Cloud Computing, unmanned systems and global Cyber Security.

The transportation segment on the other hand is growing at a steady pace. Worldwide population growth and an increase in freight volumes necessitate modernization of aging systems, the development of new transportation opportunities and an overall growth of public transport. The market will need application-ready platforms that meet key safety requirements – and we're the specialists in this business.

What is Kontron doing to keep up with this acceleration in technical progress?
Winston Churchill once said: "To improve is to change; to be perfect is to change often." We can never rest on our laurels as innovation leader in our business. We need to constantly invest in new solutions and thought leadership – financially and personally.

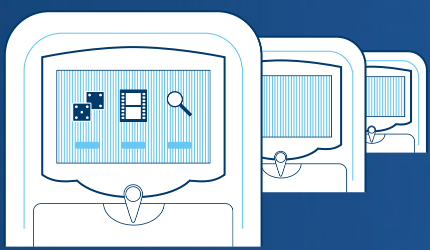
Facts & Figures

12 % → 50 %

2011 → 2020

Aircraft featuring WiFi

While in 2011, only 12 percent of commercial aircraft offered access to WiFi, the number rose to 15 percent in 2012. By 2022, the percentage is supposed to rise to 50 percent. Then, around 14,000 commercial aircraft will offer some form of connectivity – 5,000 of which will have both WiFi- and cellular access.



6.65 %

The global In-Flight Entertainment market is due to grow by 6.65 percent annually.

€ 39.6 million

In 2013, Kontron AG spent € 33.2 million on R & D, which corresponds to a rate of nine percent.

3,000 aircraft

Around 3,000 aircraft today fly with the same technology that Kontron is delivering to HNA Technik.

Members of the Management Board

ROLF SCHWIRZ
CHAIRMAN OF THE MANAGEMENT BOARD

Rolf Schwirz has been the CEO of the Kontron Group since 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 the 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 Western Continental Europe, Managing Director Nordic-Germany and Vice President 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 [German: Diplom] in Business Administration Studies at the University of Applied Sciences Düsseldorf.

ANDREAS PLIKAT
MANAGEMENT BOARD MEMBER

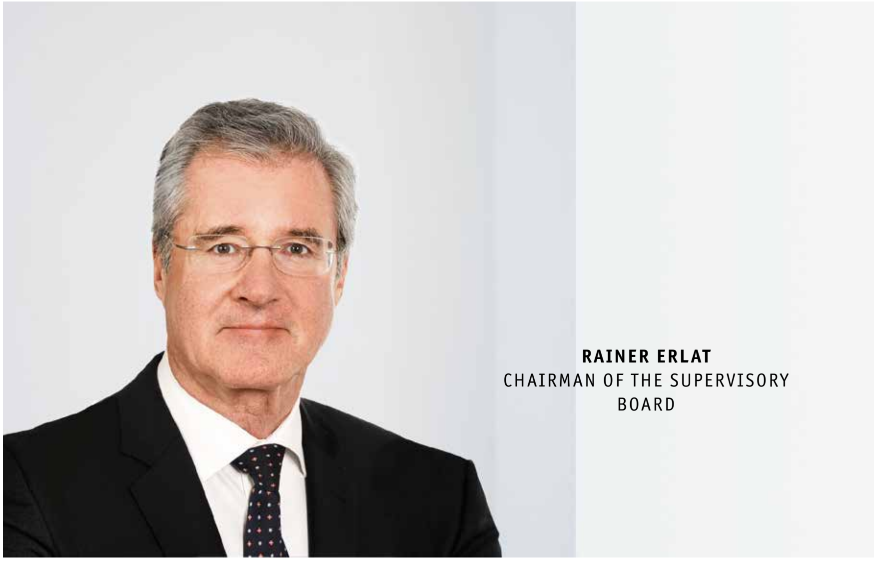
Andreas Plikat has been a Management Board member of the Kontron Group since September 2012.

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 others 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 region EMEA at the European headquarter 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 responsibilities among 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).


ROLF SCHWIRZ
CHAIRMAN OF THE MANAGEMENT BOARD


ANDREAS PLIKAT
MANAGEMENT BOARD MEMBER



Report of the Supervisory Board

Dear Shareholders,

The 2013 financial year was a year of transition and realignment for Kontron. Together with the Management Board, we decided to follow up the “Shape” reorganization program launched in 2012 with a radical restructuring program in the year of this report. The “New Kontron” program initiates a systematic realignment of the company and includes extensive measures for significant cost reductions and efficiency improvements.

In this context, the Management Board and the Supervisory Board also decided to initialize the sale of the project business Energy in order to focus in future entirely on its core competences in the market for embedded computer technology.

Advising and monitoring in dialogue with the Management Board

In the past financial year, the Supervisory Board performed the duties and responsibilities required of it by law, the Articles of Association and the Rules of Procedure with dedication and great care. We regularly advised the Board on the management of the company and carefully monitored its activities. The Management Board complied with its reporting obligations in full at all times.

After the re-election of the Supervisory Board at the Annual General Meeting on June 5, 2013, its new members were informed comprehensively by the Management Board on the activities of Kontron AG and its subsidiaries. For this purpose, the Supervisory Board held more meetings and longer meetings than provided for in the Rules of Procedure of the Supervisory Board. This was also due to the personnel changes in the Board, which the Supervisory Board had to decide upon in the past financial year.

In the Supervisory Board meetings and in the periods between the meetings, the Supervisory Board was informed regularly, comprehensively and in a timely manner on business policy, corporate planning, including financial, investment and personnel planning, strategic development, business operations and the financial position of the company and the group, including the risk situation. Deviations from planning were explained in detail by the Management Board and examined closely by the Supervisory Board. The information was given both written and orally. In addition, the Supervisory Board and the Audit Committee were informed by the auditors of Kontron AG in several sessions. Thereby, the Supervisory Board has also received information about the audit priorities and discussed these with the auditors.

The Supervisory Board and Management Board worked together confidently and constructively in all phases of the reporting year. The Supervisory Board was directly involved in all decisions that were of particular significance for the company. Measures requiring the approval of the Supervisory Board were discussed and examined in particular detail. Approval was granted in all necessary cases. The Chairman of the Supervisory Board is also in regular contact with the Chairman of the Management Board outside the scope of board meetings.

During the 2013 reporting year, the incumbent Supervisory Board held meetings or passed resolutions by written circular vote on total of seven sessions up to the Annual General Meeting on June 5, 2013. In the second half of the year, the newly appointed Supervisory Board held meetings or adopted written resolutions on a further eleven sessions. All Supervisory Board members were generally present at the meetings or resolutions. Individual Supervisory Board members gave their apologies for three meetings and three resolutions.

In preparation for the meetings, we were given the reports and draft resolutions prepared by the Management Board in good time, meaning that we always had the opportunity to examine these in detail and, where appropriate, to devise proposals for changes. The company is not aware of any conflicts of interest of the Management Board that needed to be disclosed to the Supervisory Board or constituted an information requirement for the Annual General Meeting. From the group of Supervisory Board members, Dr. Harald Schrimpf stated in the reporting year that the company PSI AG, of which he is CEO, intends to submit a bid for a call for projects in Russia, for which RTSoft will probably also compete as a subsidiary of Kontron in Russia. The Supervisory Board and the company did not see this as a conflict of interest, since the corresponding tender of RTSoft was not the subject of discussion in the Supervisory Board.

In accordance with the regulations on transactions requiring approval in the Rules of Procedure of the Management Board, the Management Board submitted individual relevant decisions to the Supervisory Board for approval. These concerned in particular the new hires at first management level below the Management Board.

Main topics of discussion

In addition to the regular review of the current business performance, the following focuses for discussion arose in the past financial year:

In the first quarter, the meetings of the Supervisory Board dealt in particular with the budget planning of Kontron AG, the selection of candidates for Management Board positions and for the proposal list for the election of the Supervisory Board, as well as the efficiency review of the Supervisory Board.

The meetings in the second quarter focused again on the determination of the proposal list for the election of the Supervisory Board, as well as on personnel changes on the Management Board. After the Annual General Meeting on June 5, 2013, the constitutive session of the Supervisory Board took place on the same day; in this, the organization within the Supervisory Board and the appointment of committees were key topics.

In the third quarter, the main focuses of the activities of the Supervisory Board were, in addition to obtaining comprehensive information about the Group's business and adopting resolutions on restructuring measures proposed by the Management Board, the appointment of board positions and the compliance and risk management policies of the Group. In this quarter, the Rules of Procedure of the management bodies were also revised and approved by the Supervisory Board.

The meetings and resolutions of the Supervisory Board in the fourth quarter related mainly to changes in the composition of the Management Board as well as issues related to the financial statements of Kontron AG and the Kontron Group.

Committee work

The work of the Supervisory Board is organized into two committees: Audit Committee and Nomination Committee.

The Audit Committee convened on six occasions in the past financial year. The meetings dealt with the report of the Chief Financial Officer on the financial position of the Group as well as the presentation of the quarterly results and the annual financial statements of Kontron AG for the 2013 financial year.

At the meeting in March 2013, the Committee examined the consolidated and separate financial statements for the 2012 financial year. The auditors of Kontron AG participated in this meeting. Following the Annual General Meeting, the Audit Committee engaged the auditor to audit the consolidated and separate financial statements for the 2013 financial year. In this context, we received the declaration of independence of the auditor in accordance with section 7.2.1 of the German Corporate Governance Code. The audit and other fees incurred in the respective financial year were disclosed to the Supervisory Board.

The new Supervisory Board elected in June 2013 decided, due to personnel changes in the Management Board of Kontron AG, to discuss all issues related to the Management Board directly in the Supervisory Board. After the Annual General Meeting, the Nomination Committee was thus dissolved.

Corporate governance

The enhancements of the corporate governance standards anchored with the company and the implementation of the German Corporate Governance Code were also a focus of our work in the reporting year. The Management Board and the Supervisory Board jointly published in the financial year 2013 a mid-year update of the declaration of conformity pursuant to §161 AktG (German Stock Corporation Act), which was made permanently available to shareholders on the company's website.

The corporate governance report, which was published in connection with the declaration on corporate governance pursuant to §289a HGB (German Commercial Code) on the company's own website, includes detailed information on corporate governance. The current declaration of conformity pursuant to §161 German Stock Corporation Act with the company-specific variations has been available for shareholders on the company's website since February 2014.

As part of the further development of corporate governance, the Management Board has formed an expanded management team, which consists of the leaders of Kontron business divisions and significant cross-departmental positions. This management group assists the Board in the management of business processes in the Kontron Group.

Efficiency review of the Supervisory Board

In the course of our meetings of February 22, 2013 and February 2, 2014, the Supervisory Board discussed in detail the findings and conclusions of the efficiency review of the respective previous year and evaluated its method of operation in the past 10-month period. The review found that the Supervisory Board and Management Board worked together well and efficiently, and no significant changes in the manner of cooperation are required. The Supervisory Board itself likewise assesses its work to be efficient; no changes to the operation are thus intended here either.

Personnel changes

Mr. Rolf Schwirz was appointed CEO of Kontron AG from January 1, 2013. He succeeded the previous CEO, Mr. Ulrich Gehrmann, who stepped down from the Management Board on December 31, 2012. Also retiring from the Management Board were Mr. Christopher Burke, who ended his temporary, six-month board mandate in accordance his contract on February 28, 2013. Similarly, Dr. Jürgen Kaiser-Gerwens and Mr. Thomas Sparrvik have retired. They resigned from office on June 5, 2013 and June 28, 2013 respectively. Ms. Andrea Bauer took over from Dr. Jürgen Kaiser-Gerwens as the new Chief Financial Officer on September 16, 2013. Ms. Bauer left the company again on December 31, 2013 by friendly, mutual agreement.

The composition of the Supervisory Board of Kontron AG also changed considerably in 2013. Mr. Mathias Hlubek, Mr. Helmut Krings, Mr. David Malmberg and Mr. Hugh Nevin stepped down at the Annual General Meeting on June 5, 2013. Reaching the age limit for the appointment of supervisory boards of Kontron AG was primarily the deciding factor for these changes of personnel. On the same day, Mr. Peter Bauer, Mr. Martin Bertinchamp, Mr. Sten Daugaard, Mr. Rainer Erlat, Mr. Lars Singbartl and Dr. Harald Schrimpf were appointed to the Supervisory Board by resolution of the Annual General Meeting. At the end of the reporting year, the Supervisory Board consisted of six members.

Audit of the annual and consolidated financial statements

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft audited the financial statements as prepared by the Management Board in accordance with the regulations of German-GAAP (HGB), including the accounting records and the management report, and issued an unqualified audit opinion. The consolidated financial statements and the Group management report were prepared in accordance with §315a 1 HGB, considering the IFRS standards. Here, too, the auditor issued an unqualified audit opinion. The audit engagement was awarded in accordance with the resolution of the Annual General Meeting of June 5, 2013.

The auditor also examined whether the Management Board, in accordance with the requirements of §91 of the German Stock Corporation Act, has established an appropriate monitoring system for the early detection of developments that might threaten the continued existence of the company. The audit revealed that the current risk management system complies with the legal requirements.

The financial statement documentation and the auditor's report were presented to the Supervisory Board in good time. They were discussed and examined in detail with the Management Board and the auditor in the meeting of the Audit Committee and in the financial statement approval meeting of the Supervisory Board on March 20, 2014. The auditor reported on the key findings of the audit and was available to both the Audit Committee and the whole Supervisory Board for questions. All questions of the Supervisory Board were answered comprehensively. After our own examination and extensive discussion of the annual financial statements and management report, consolidated financial statements, and the group management report as well as the audit reports, we have no reservations and concur with the audit findings of the annual auditor. We approve the annual financial statements and consolidated financial statements compiled by the Management Board on December 31, 2013. The financial statements of Kontron AG are thus adopted. The Supervisory Board discussed the proposal of the Management Board regarding the appropriation of the net result for the year in detail and approved it.

Also on behalf of my colleagues on the Supervisory Board, I would like to thank the members of the Management Board and all employees of Kontron AG for their extraordinary commitment in the past financial year. We are convinced that, by initiating the measures of the "New Kontron" program, we have set the right course to lead Kontron AG to its former strength and thus further expand our leading position in one of the most promising technology markets in the world.

Eching, March 20, 2014

RAINER ERLAT
Chairman

Members of the Supervisory Board

Rainer Erlat
since June 5, 2013
Chairman of the Supervisory Board

Peter Bauer
since February 22, 2013
Vice Chairman of the Supervisory Board

Sten Daugaard
since June 5, 2013
Chairman of the Audit Committee

Lars Singbartl
since October 20, 2009
Member of the Audit Committee

Martin Bertinchamp
since June 5, 2013
Member of the Audit Committee

Dr. Harald Schrimpf
since June 5, 2013
Member of the Supervisory Board

Retired from the Board in the year under review:

Helmut Krings
until June 5, 2013

Hugh Nevin
until June 5, 2013

David Malmberg
until June 5, 2013

Mathias Hlubek
until June 5, 2013

The Kontron share

Performance on the stock markets

After the sovereign debt crisis in Europe had been the dominant topic on the capital markets in the first half of 2013, the announcement by the American Federal Reserve Board that it would continue with its expansionary monetary policy saw an increasingly dynamic uptrend set in. Although the (at times) contradictory economic indicators, weak half-year results reported by individual companies, and the worsening conflict in Syria held back this trend, it was only of a temporary nature. At the same time, high liquidity on the stock market and low opportunities for yields on securities intensified the flow of funds into stocks. In this trading environment, the key German stock index, the DAX, closed its last trading day at 9,552 points, thereby achieving a considerable increase of 22.8 % over the year compared with the end of 2012. Equally, the TecDAX recorded a clear plus in 2013, and closed the year at 1,167 points (+ 38.64 %).

Performance of the Kontron share

Although the Kontron share performed solidly at the start of the year, its price curve was characterized by considerable volatility. After the publication of the provisional annual figures on February 9, 2013, and the quantification of necessary one-off charges, it fell to € 4.08. Following a Capital Markets Day in Augsburg on April 30, 2013, which gave detailed insights into the current business environment and clearly defined the challenges facing the company, the stock price fell slightly further and reached its lowest point for the year at € 3.32 on July 23, 2013. The development in the first half-year showed that market participants were initially placing more store on short- to mid-term exposure than on the long-term perspectives that Kontron offers upon completion of all of its measures. However, on July 24, 2013, after providing clarification of “New Kontron”, Kontron AG’s comprehensive package of proposals for increasing efficiency, the share price once again developed with considerable dynamism: the Kontron share price climbed to € 4.74 by the end of the third quarter of 2013, thus closing slightly under the previous annual high of € 4.76 achieved on January 14, 2013. Following roadshows in Frankfurt and Paris in November 2013, the Kontron share reached its annual high of € 5.77 on November 12, 2013. The year-end closing price was € 5.20. Overall, the share generated a plus of 21.29 % in 2013.

Key figures for the Kontron share at a glance

Table 002

		2013	2012
Share capital			
Number of shares at the balance sheet date	Shares	55,683,024	55,683,024
Market capitalization	€ million	289.55	228.86
Year-end closing price (XETRA year-end)	€	5.20	4.11
Highest closing price (XETRA)	€	5.77	6.55
Lowest closing price (XETRA)	€	3.32	3.16
Earnings per share (incl. discontinued operations)	€	– 0.56	– 0.59
Equity per share	€	4.43	5.15
Operating cash flow per share	€	0.04	0.83
Dividend per share	€	0.00	0.04
Trading volume (XETRA)	Million shares	34.37	40.00

Source: Bloomberg

Price performance of the Kontron share versus the TecDAX *Graphic 001*

Stock market listing and turnover

The Kontron share is listed on the regulated market in Frankfurt and fulfills the transparency requirements of Deutsche Börse's Prime Standard. It is also traded over the counter in the regional stock exchanges in Berlin, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart. Kontron ranks among the 30 largest listed technology companies and is also listed on the TecDAX. By the end of December 2013, the Kontron AG share was ranked 27th for market capitalization and 28th for turnover on Deutsche Börse AG's index ranking list.

In total, 34.4 million shares (previous year: 32.1 million shares) were traded in the reporting year. This corresponds to an average daily trading volume of 135,834 shares (previous year: 126,273). The highest turnover was recorded in February 2013, with 4.83 million shares, and the weakest turnover was recorded in June 2013, with 2.18 million shares.

Key data on the Kontron share

Table 003

German Securities Identification Number	605 395
ISIN code	DE 000 605 395 2
Bloomberg symbol	KBC GR
Number and type of shares	55,683,024 no-par value bearer shares with a proportional interest in the share capital of € 1.00 per no-par value share

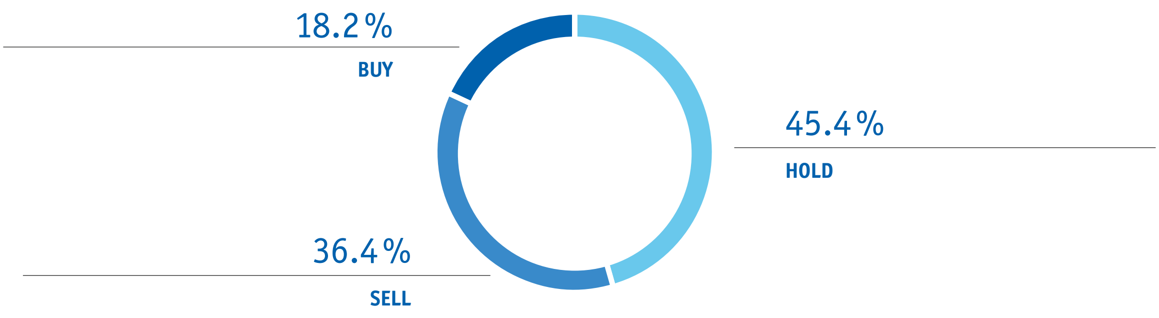
Analyst recommendations

In the 2013 financial year, 11 analysts published regularly updated recommendations on the Kontron share. As of the end of the 2013 financial year, 18 % (December 31, 2012: 33 %) of the analysts recommended purchasing the Kontron share, 45 % (December 31, 2012: 56 %) rated it a hold, and 36 % (December 31, 2012: 11 %) recommended selling it. As of the end of the reporting period, the median of the analysts' price targets was € 4.50, compared with € 4.92 at the end of 2012. Recommendations by financial analysts serve as an important basis upon which investors can make decisions.

Analyst recommendations

Graphic 002

Status: 12/31/2013



Shareholder structure

67 % of shares belong to the company's freefloat, a considerable portion of which is held by institutional investors. At 18.62 %, the largest single investor is the private equity firm, Warburg Pincus. The investment firm, Triton, holds a total of 12.87 % of the shares. As of December 31, Kontron AG owns 111,976 treasury shares.

Dividends

As a result of the unsatisfactory operating results and charges to the balance sheet arising from restructuring measures, a net loss was generated. For this reason, the Supervisory Board has aligned itself with the Management Board's suggestion regarding the use of the net result. It is the view of the Management Board and the Supervisory Board that a dividend payment for the 2013 financial year cannot be justified.

Annual General Meeting of Shareholders 2013

More than 250 shareholders attended the annual general meeting of shareholders on June 11, 2013 in the Luitpoldhalle in Freising, thereby representing around 49 % of the entire share capital. A central theme of the annual general meeting was the appointment of five new members of the Supervisory Board and the re-election of one incumbent member of the Supervisory Board. With Peter Bauer, Martin Bertinchamp, Rainer Erlat, Sten Daugaard, Dr. Harald Schrimpf and Lars Singbartl, a number of high-caliber industry experts were elected to the Supervisory Board. The annual general meeting passed all resolutions proposed by the management by a clear majority. The ordinary annual general meeting for the current financial year is planned to take place on June 5, 2014 in Augsburg.

Intensive dialog with the capital market

We are committed to engaging in open and reliable communication with all stakeholders, in particular with our shareholders, investors, analysts, and members of the press, but also with employees and interested members of the public. We provide comprehensive, up-to-date reports on the company's development and also seek to engage in an active exchange of views. It is important to us to establish transparency and trust through ongoing dialog.

To this end, the Management Board and the Investor Relations team regularly participated in discussions in one-on-one / group meetings or conference calls with analysts, investors, and bank representatives. In addition to such activities, Kontron AG presented itself at two investor conferences in Munich.

Additionally, Kontron AG organized a Capital Markets Day in Augsburg on April 30, 2013. The Management Board provided analysts and investors with detailed insights into the current business environment, explained the cornerstones of the "New Kontron" program, and provided information relating to the Company's future prospects. Almost 20 analysts and investors took part in the event.

Private investors represent a further significant shareholder group. The Investor Relations pages of the Kontron AG website provide such investors with a practical focal point. Equally, the annual general meeting provides all shareholders with the opportunity to form their own picture of Kontron AG and to experience the Management Board in action.

http://www.kontron.com/investor

CONSOLIDATED MANAGEMENT REPORT

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Business environment

Business activities and organization

Strong position on the market for Embedded Computer Technology

Kontron is a worldwide leading developer and producer of Embedded Computer Technology (ECT). On this basis the company offers its customers a modern product portfolio that covers the whole range of standard products up to customized system solutions. The development and solution competence of the engineers as well as the customer and product know-how of the sales and distribution make Kontron a partner which is highly respected on an international level.

Embedded Computer Technology is used in technical applications in order to implement monitoring and control functions as well as special forms of data processing or transmission. The requirements are as versatile as the possibilities for use of ECT. Kontron's products have to satisfy the necessary certifications depending on the market as well as detailed customer specifications and be available unchanged from a technological point of view throughout the whole product life cycle of the application. Essential for the successful marketing of the high-quality products are features such as reliability, safety, resilience and durability. The development of solutions, which require less and less space and energy, enables the use of ECT in a growing number of technological applications. The market segments, which are relevant for Kontron, are distinguished by a special need for ECT products, promising growth and perspectives which are fit for the future.

New global strategic business units introduced

The operative activities of the Kontron Group were still divided into the three regions EMEA (Europe without Russia, Middle East and Africa), North America as well as Emerging Markets (including Russia) in the year under review.

With the introduction of the vertical group structure on April 1, 2013 the business was initially broken down into four global business units:

- The Industrial business segment focuses on the markets for industrial automation and medical technology.
- The Communications business segment covers the telecommunication market.
- In the Military / Avionics / Rail business segment the activities are bundled on the markets for safety & defense, civil aviation and transport by rail,
- whereas the Multimarket sector comprises among others the business fields road vehicles / traffic, Infotainment, oil & gas and indirect distribution channels.

In order to further improve the efficiency in customer support it is planned to further place the focus on the business segments over the course of the first quarter of 2014 and in this context to essentially transfer the activities of the Multimarket sector into the Industrial business segment. The Military / Avionics / Rail business segment will be renamed "Aerospace / Transportation / Defense". The aim of this initiative is to optimize the sales and distribution via the direct and indirect channels.

In this context it is a major challenge for Kontron to introduce a globally functioning IT infrastructure, in order to apply standard business principles and processes worldwide and to be able to present and control the new organizational structure in full with the necessary performance key figures.

Global presence

Kontron is present worldwide with its subsidiaries and sales offices. On the whole with the head office in Eching near Munich and subsidiaries the company has branches in 15 countries, in particular in Germany, USA, Canada, Russia, China, France, Great Britain, India and Australia. Through the proximity to the customers it is possible to minimize development and delivery times and to record the specific requirements of regional markets directly in the interaction with the customers.

Kontron is planning to sell the energy project business in order to fully concentrate on the core competences in the market for Embedded Computer Technology in future and thus set the trends for the future orientation of the company.

Within the framework of the full focus on the pure ECT business it is planned to sell the companies ubitronix system solutions gmbh in Hagenberg / Austria and Affair 000 in Moscow / Russia with its further Russian participations RTSoft Project, RTSoft ZAO and Training Center RTSoft. The business segment, which is intended for sale, offers specific and far-reaching project services in the sector of energy / electricity for a few, often public respectively state companies within the framework of general contractor services and as subcontractor of general contractors. Customized infrastructure projects in the sector of energy / electricity, which are obtained through invitations to tender, form the core of this business segment. These are processed according to milestones over several years and settled as parties involved in the project together with other companies. The discontinued business segment is almost not linked with the value added, sales and settlement processes of the Kontron ECT business and owing to the long-term project business requires a different risk and opportunities management.

The ECT business segment with a revenue of € 4 million per annum, today, which is included in RTSoft ZAO, is to be continued through a distribution agreement. It is envisaged that RTSoft ZAO will operate as an Indirect Channel Partner for Kontron on the Russian market after the sale.

Legal structure of the company

Transparent group structures

Kontron AG is the parent company of the Kontron Group. It controls the whole company centrally as a holding company and takes over the classical central group functions. These include above all Controlling, Risk Management, Group Accounting, Internal Audit, Legal & Compliance, Treasury, Human Resources, IT, Marketing, Corporate Communication and Investor Relations. The AG directly or indirectly participates in 22 companies, of which all companies (2012: 22 companies) were included in the consolidated financial statements and were fully consolidated in the year under review. The conversion of the whole group to a vertical group structure began on April 1, 2013. The introduction of a standardized comprehensive IT system is also necessary for this purpose. The structure with new business units will formally be reflected in the annual report 2014. Owing to the conversion, which was started during the year, this report is still based on the old structure.

Changes in the corporate legal structure

There was no change in the legal and organizational group structure in the year under review 2013.

Takeover law disclosures

Details according to §§ 289 Par. 4, 315 Par. 4 HGB [German Commercial Code] and at the same time explanatory report

a) Composition of the subscribed capital

As of the balance sheet date on December 31, 2013 the subscribed capital of Kontron AG amounted to € 55,683,024 (in the previous year as well). It is divided into 55,683,024 (in the previous year as well) no-par individual stock certificates denominated in the holder’s name with a pro rata amount of the nominal capital in the amount of € 1.00 per stock.

The same rights and obligations are associated with all stocks of the company. One vote will be granted for each stock in the General Meeting and is decisive for the share of the stockholders in the profit of the company. In addition, the stockholders shall be entitled administrative rights, e. g. the right to take part in the General Meeting and the authorization to ask questions and file motions. The further rights and obligations of the stockholders can be derived from the AktG [German Companies Act], in particular from §§ 12, 53 et seq., 118 et seq. AktG.

b) Restrictions, which relate to the voting rights or the assignment of stocks

The exercising of the voting rights and the assignment of the stocks are not subject to any restrictions and are possible within the framework of the statutory provisions as well as the statutes of the company. Agreements between stockholders, from which a restriction to the voting rights or the transferability of stocks can be derived, are not known to the Management Board.

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

The largest stockholder is unchanged the Private Equity company Warburg Pincus, which through WP International II S.à r.L. with the registered seat in Luxembourg according to its last voting right threshold notification of March 18, 2011 holds a total of 18.62 % (this corresponds with 10,369,000 voting rights) of the stocks of Kontron AG. Moreover, the holding company Triton, according to the notification of May 23, 2012, has a share in the amount of 12.87 % (this corresponds with 7,166,500 voting rights) of the nominal capital of Kontron AG, which is held by various companies, that are to be attributed to Triton and in particular Komondor S.à.r.l., Luxembourg.

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

The appointment and recall of the members of the Management Board are exclusively carried out in compliance with the statutory regulations of §§ 84, 85 AktG. A specification of these provisions is carried out by § 8 of the statutes of Kontron AG. Accordingly the Management Board of the company consists of at least two persons. A number of the Management Board members, which possibly exceeds this, is determined by the Supervisory Board, which can also appoint a chairman (spokesman) and a deputy chairman (deputy spokesman) of the Management Board. In addition, the Supervisory Board can appoint deputy Management Board members. A new member of the Management Board was appointed in the fiscal year 2013. Four members laid down their mandates.

The stockholders shall decide on amendments to the statutes in the course of the General Meeting. According to the option of § 179 AktG, § 26 of the statutes of Kontron AG shall determine that resolutions of the General Meeting are passed with a simple majority of the votes cast and, insofar as a capital majority is necessary, with a simple majority of the nominal capital represented during the voting, insofar as not otherwise stipulated as mandatory by law or the statutes. The passing of resolutions with a simple majority shall also apply, insofar as permitted by law, to amendments to the statutes and capital measures. According to § 18 Par. 4 of the statutes of Kontron AG the Supervisory Board is entitled to make amendments to the statutes, which only relate to the version. No amendments to the statutes were passed within the framework of the General Meeting of June 5, 2013.

e) Authorizations of the Management Board for the issue of stocks and to repurchase stocks

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

- According to the resolution of the General Meeting of June 7, 2011 the Management Board is authorized to increase the nominal capital of the company with the approval of the Supervisory Board by June 6, 2016 one-time or several times by a total of up to € 27,841,512 by issuing up to 27,841,512 new individual stock certificates denominated in the holder's name against cash contributions and / or contributions in kind (approved capital 2011). The stockholders are principally entitled to a subscription right to the new stocks that, according to the provisions of § 4 Par. 3 of the statutes, 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 approved capital.

- Likewise with the resolution of the General Meeting of June 7, 2011 the Management Board is authorized, with the approval of the Supervisory Board, to issue one-time or several times convertible bonds or option bonds denominated in the holder's name, profit participation rights or profit-participating bonds or a combination of these instruments (together "bonds") with a total nominal amount of up to € 200,000,000 by June 6, 2016 and to hereby grant options for conversion rights or options up to 16,876,662 individual stock certificates denominated in the holder's name with a pro rata amount of the nominal capital totaling up to € 16,876,622. The authorization resolution principally envisages a subscription right of the stockholders to the Bonds.

- With the approval of the Supervisory Board this right can however be excluded under certain pre-requisites, which are listed in the resolution template relating to item 10 on the agenda, which was passed by the General Meeting. The nominal capital is increased conditionally by up to € 16,876,622 by the issue of up to 16,876,662 new individual stock certificates denominated in the holder's name (conditional capital 2011) in order to grant shares to the holders of conversion rights or options from convertible bonds or option bonds, profit participation rights or profit-participating bonds or a combination of these instruments after the exercising of their rights to serve their conversion rights or options or to fulfil their conversion obligations. The issue of new shares is carried out at the conversion or option price, which is respectively to be stipulated according to the authorization. The Management Board has not exercised the authorization to issue convertible bonds or option bonds, profit participation rights or profit-participating bonds or a combination of these instruments as well as to increase the nominal capital from approved capital so far.

- The nominal capital of the company is in addition increased conditionally by up to € 1,104,850 by the issue of a total of up to 1,104,850 new individual stock certificates denominated in the holder's name (conditional capital 2003 I). The conditional capital increase exclusively serves to fulfil options, which were issued within the framework of the stock option program 2003. With the resolution of the General Meeting of June 9, 2010 the term of the issued and not yet exercised stock options is extended until December 31, 2013. Stock options from the stock option program 2003 have partly lapsed, partly been forfeited, they were partly compensated for in cash and partly serviced by own stocks from the portfolio of the company. No stock options are outstanding as of the balance sheet key date.

- Finally the nominal capital of the company is increased conditionally by up to € 1,500,000 by the issue of a total of up to 1,500,000 new individual stock 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 stock option program 2007, exercised their option. With the resolution of the General Meeting of June 9, 2010 the term of the stock options issued and not yet exercised within the framework of the stock option program 2007 has been extended until December 31, 2013. The stock options from this stock optio program have partly lapsed or been forfeited already so that no stock options are outstanding as of the balance sheet key date.

Kontron AG's Management Board of has the following authorization to acquire own stocks:

- The General Meeting of June 9, 2010 authorized the company to acquire own stocks until June 8, 2015 to an extent of up to 10 % of the nominal capital. The acquisition of own stocks can be carried out via the stock exchange or by means of a public purchase offer, which is directed at all stockholders of the company. The use of the own stocks acquired based on the passed authorization comprises the legally admissible purposes, in particular the offer to third parties in connection with the acquisition of companies or participation in companies or the collection of the stocks. The admissible purposes are listed in detail in the resolution template passed by the General Meeting relating to the item on agenda 7. As of the balance sheet date a total of 111,976 own stocks were in the portfolio of the company owing to previous authorizations. The company has not exercised the authorization to acquire own stocks, granted by the General Meeting of June 9, 2010, so far.

f) Material agreements subject to the condition of a change of control following a takeover offer, and compensation agreements for the event of a takeover offer

The revolving credit facility of Kontron AG, concluded in April 2012, envisages a right of termination of the creditor for the event that Kontron AG becomes a subsidiary of another company or a person respectively a group of jointly acting persons acquire at least 50 % of the shares or the voting rights – directly or indirectly – in Kontron AG. In this case all outstanding amounts will be due and repayable immediately.

Management and control

According to the provisions of the AktG [German Companies Act] Kontron AG has a dual management system consisting of Management Board and Supervisory Board. A total of six members belonged to the Management Board in the period under review, thereof a maximum of five members at the same time. The following retired in 2013, Mr. Christopher Burke, who laid down his Management Board mandate as of February 28, 2013, as well as Dr. Jürgen Kaiser-Gerwens and Mr. Thomas Sparrvik, who left the Management Board as of June 5, 2013 and June 28, 2013 respectively. In addition, the Supervisory Board appointed Ms. Andrea Bauer as the new chief financial officer as of September 16, 2013. Ms. Bauer left the company by amicable mutual agreement effective as of December 31, 2013.

Composition of the Management Board as of December 31, 2013

Table 004

	Ressort
Rolf Schwirz	Chief Executive Officer (CEO)
Andreas Plikat	Chief Operating Officer (COO) Supply Chain, Production, Purchasing, Quality Assurance, IT

There were also essential changes in the Supervisory Board of Kontron AG in 2013. Mr. Helmut Krings, Mr. Hugh Nevin, Mr. David Malmberg and Mr. Mathias Hlubek resigned as members as of June 5, 2013. According to the resolution of the General Meeting of June 5, 2013 Mr. Rainer Erlat, Mr. Peter Bauer, Mr. Sten Daugaard, Mr. Martin Bertinchamp, Dr. Harald Schrimpf and Mr. Lars Singbartl were appointed to the Supervisory Board. As of the end of the year under review the Supervisory Board thus consisted of six members.

Statement on Corporate Governance and Corporate Governance Report

For Kontron AG Corporate Governance means the implementation of a responsible company management oriented to a sustainable value added as well as a corporate control, which guarantees the necessary transparency in all segments of the company. Both national regulations as well as the principles of the recommendations of the Government Committee of German Corporate Governance Code as well as international standards are complied with hereby. The Management Board and Supervisory Board are convinced that good Corporate Governance, which takes the company- and industry-specific aspects into consideration, is an important basis for the success of the company. The compliance with and implementation of these principles represents a central management task.

The Management Board and Supervisory Board also occupied themselves intensively with the Corporate Governance of Kontron AG and of the Kontron Group in the closed fiscal year. The recommendations of the German Corporate Governance Code were also included in this respect. Both executive bodies submitted the following declaration of conformity with the German Corporate Governance Code on February 17, 2014:

Declaration of conformity according to § 161 AktG
According to § 161 German Companies Act (AktG) the Management Board and Supervisory Board of listed joint stock companies have to declare each year that the recommendations of the "*Government Committee of German Corporate Governance Code*" announced by the Federal Ministry of Justice in the official part of the Electronic German Federal Gazette [Bundesanzeiger] were and will be complied with respectively which recommendations were not or will not be applied and why not. The Management Board and Supervisory Board of Kontron AG submitted the declaration, which can be found under the following Internet link, in this respect in February 2013 (http://www.kontron.com/investor/financial-reports/2014/deutscher-corporate-governance-kodex---2014-februar.pdf).

The actual declaration of conformity as well as those of the past six years are permanently accessible to the public on the company homepage.

Relevant standards and practices of the company management
The financial success of Kontron is based on the responsible conduct of all employees which is marked by integrity. The management commits itself to a proper and value-oriented company management. The aim is to increase the enterprise value in the long-term and at the same time to promote the interests of the customers, employees and investors as well as the integrity of the business transactions.

Compliance, i.e. the compliance with statutory requirements and group-internal regulations, represents an essential tool of good Corporate Governance. Kontron has a Compliance Organization, which is subject to a continuous optimization process. This organization supports the Management Board in further developing the structures of a functional Compliance Management System. Kontron AG has defined a *Code of Conduct*, which obliges the employees of Kontron Group worldwide to act according to high legal and ethical standards. The focus of the *Code of Conduct* is placed upon binding minimum standards, in particular with regard to honest and sincere contacts at the workplace, compliance with laws, integrity and fairness, data protection and rights of third parties, correct reporting, avoidance of corruption, bribery and conflicts of interest as well as the handling of gifts and other concessions. Moreover, informer guidelines were stipulated in order to give employees the possibility to be able to report possible violations of law in the company to an external ombudsman ("whistle-blowing").

Function of the Management Board and Supervisory Board as well as composition and function of the committees
The Management Board and Supervisory Board cooperate closely for the welfare of the company and maintain regular contacts.

a) Composition and function of the Management Board

The Management Board runs the Group at its own responsibility. The Management Board is hereby bound to the interests of the company. Regulations concerning the company management have in particular been stipulated for the Management Board in the rules of procedure, which were re-written in the year under review and were passed by the Supervisory Board. The Management Board develops the strategic orientation of the company by coordination with the Supervisory Board and is responsible for its implementation. The CEO has the task to coordinate all Management Board departments. He maintains a direct exchange with the chairman of the Supervisory Board and represents the company towards the public. The distribution of tasks between the Management Board members is defined in the schedule of responsibilities. Each director shall manage the segment allocated to him within the framework of the Management Board resolutions at his own responsibility; the responsibility for the whole management lies jointly with all Management Board members. The strategic orientation of the company as well as essential topics of the business policies and all matters with a special scope for the company and the group shall therefore remain reserved to the decision by the Management Board in its entirety. Business transactions, which are important for the company respectively, require the prior consent of the Supervisory Board in line with the internal guidelines. The Management Board members cooperate in a collegial manner and shall inform each other regularly about important measures and events in their Management Board segments. The Management Board shall as a rule meet for joint Management Board meetings at intervals of two weeks.

The schedule of responsibilities of the Management Board envisaged three Management Board segments as of the end of the fiscal year 2013: the CEO, the Chief Financial Officer (CFO) and the COO.

In regular at least quarterly meetings the Management Board will report to the Supervisory Board about the development of business and further important activities of the company. Business transactions, which could be of essential significance for the further development of the company as well as the profitability and liquidity, are to be reported to the Supervisory Board in time so that it can make its statement in advance. In line with § 90 Par. 1 Sentence 3 AktG a report will be submitted to the Supervisory Board immediately in case of important reasons.

b) Composition and function of the Supervisory Board

Kontron AG's Supervisory Board consists of six members, who are elected by the General Meeting.

The Supervisory Board appoints and dismisses the members of the Management Board and is responsible for the fixation of the remuneration for the Management Board. The fundamental activities of the Supervisory Board as well as the cooperation with the Management Board are defined in the rules of procedure of the Supervisory Board, which were also rewritten and passed by the Supervisory Board in the year under review. The Supervisory Board advises and monitors the Management Board in the management of the company and is integrated into decisions of fundamental importance by the Management Board. For the specification of the submission obligation of the Management Board the Supervisory Board has installed a catalogue of business transactions which require approval, which is part of the rules of procedure of the Management Board. The Supervisory Board is convinced that, as recommended by the German Corporate Governance Code, a sufficient number of independent members belong to the Supervisory Board in order to enable autonomous advice and monitoring of the Management Board.

The Supervisory Board will support the Management Board within the scope of consultations and discussions and perform the tasks, for which it is responsible by law and according to the statutes. The activities of the Management Board members and the management in its entirety are monitored by regular Management Board reports and information as well as joint meetings. Twelve Supervisory Board meetings took place in the fiscal year 2013. In addition, the Supervisory Board passed further resolutions by way of written circulation proceedings.

The Supervisory Board carried out an efficiency check in the fiscal year 2013. The self-assessment was carried out based on an extensive questionnaire. Committees were set up by the Supervisory Board in order to optimize its activity.

c) Composition and function of committees

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

The Supervisory Board formed an Audit Committee as well as, until its replacement in June 2013, a Personnel Committee.

The *Audit Committee* in particular supports the Supervisory Board with the following tasks: The monitoring of the accounting process, the efficiency of the internal control system, the risk management system and the internal audit system, the audit of the financial statements including the independence of the auditor of the financial statements as well as the services additionally provided by auditors of financial statements and the compliance. Details with regard to the group of tasks and duties are recorded in the rules of procedure for the Audit Committee, which were rewritten in the closed fiscal year and were passed by the Supervisory Board.

Principles of the remuneration system and remuneration report

Basic principles of the remuneration system according to §§ 289 Par. 2 No. 5, 315 Par. 2 No. 4 HGB [German Commercial Code]

The remuneration system for the Management Board of Kontron AG and the individual remuneration of the individual Management Board members were stipulated by the Supervisory Board and were checked regularly in the closed fiscal year. The remuneration system consists of fixed and variable components so that there is an incentive for a successful and sustainable corporate development.

The tasks and services of the individual Management Board members, the size and global orientation as well as the financial position of the company form criteria for assessing the remuneration of the Management Board of Kontron AG by taking into account the remuneration of management boards of similar companies both at home and abroad. Details relating to the basic principles of the remuneration system are explained in more detail below.

Remuneration report

This remuneration report concurs with the recommendations of the DCGK of May 13, 2013 in the version published in the official part of the Bundesanzeiger [German Federal Gazette] on June 10, 2013. It explains the basic principles for the stipulation of the remuneration of the Management Board and Supervisory Board of Kontron AG as well as the amount of the income of the individual Management Board and Supervisory Board members.

Report on the remuneration of the Management Board members

The Supervisory Board plenum is responsible for the stipulation of the Management Board remuneration. In compliance with the requirements of stock corporation law and the recommendations of the DCGK the remuneration structure is oriented to a sustainable corporate development. The remuneration of the Management Board members consists of fixed and variable components as well as components with a long-term incentive effect. It is specifically composed of the following essential components:

The fixed remuneration corresponds with the annual fixed salary that is paid out in equal parts monthly as a salary after deduction of the statutory duties.

The variable, performance-based remuneration bound to the business success is carried out in the form of a bonus, the payment of which depends on the achievement of budgeted results stipulated in advance. The budgeted results of the individual Management Board members are stipulated by the chairman of the Supervisory Board annually in advance. The starting point is a target bonus, which can accordingly be exceeded and fallen short of. In the year under review the performance-based remuneration was linked with the growth in revenue as well as the operating income of the Kontron Group (EBIT). This variable remuneration is dependent upon the achievement of certain minimum targets and is moreover capped. These principles were deviated from in the period under review for the Management Board member Christopher Burke. Mr. Burke was appointed to the Management Board by the Supervisory Board for the duration of six months (September 1, 2012 to February 28, 2013). In addition to the Management Board mandate Mr. Burke had taken over further mandates outside of Kontron. In order to guarantee a remuneration suitable for the work the remuneration of Mr. Burke was settled based on day rates.

The members of the Management Board received the following total remuneration in the fiscal year 2013:

Management Board remuneration *Table 005*

in €k	Remuneration not based on performance			Performance-based remuneration**	Total remuneration
Management Board	Salary	Other*	Severance	Bonus	Total
Rolf Schwirz	600	70	0	500	1,170
Andreas Plikat	250	15	0	150	415
Dr. Jürgen Kaiser-Gerwens (until 06/05/2013)	135	21	760	0	916
Thomas Sparrvik (until 06/28/2013)	241	7	930	86	1,264
Andrea Bauer (09/16/ until 12/31/2013)	117	64	0	100	281
Christopher Burke (until 02/28/2013)	44	1	0	46	87
Total	**1,387**	**178**	**1,690**	**878**	**4,133**

* Remuneration components listed in the column "other" comprise monetary benefits from the provision of a company car, additional allowances to the private pension provisions and a second place of residence, relocation costs as well as the reimbursement of costs for lawyer's advice in connection with the termination of employment contracts.

** Without remuneration components from the stock option program, the Performance Share Unit-Plan as well as the Performance Options-Plan.

Options on stocks of Kontron AG from the stock option program 2003 (in the changed version of September 2004) as well as 2007 represented the variable remuneration components so far with long-term incentive effect and risk character for the Management Board. From the stock option programs 2003 and 2007 income in the total amount of € 24k related to the members of the Management Board in the fiscal year 2013 (further details can be taken from the disclosures in the consolidated notes of Kontron AG). Members of the Management Board did not receive any stock options in the year under review. Morever, no stock options were exercised by members of the Management Board. The term of the stock option programs 2003 and 2007 ended as of December 31, 2013. Thus, all still outstanding stock options ceased to apply as of the balance sheet date. Further stock option programs or other management participation programs do not exist.

Performance Options currently serve as variable remuneration components with a long-term incentive effect and a risk character. These were issued to the members of the Management Board for the first time in the fiscal year 2013 over the course of a Performance Option Plan (POP). The final value is determined according to the sustainability of the business development. This sustainability is expressed in the growth in revenue (70 %) as well as in a defined EBIT target (30 %). The Performance Options are issued in the form of so-called "Basis Performance Options" and "Premium Performance Options", which are distinguished by the respective amount of the strike price. A cash disbursement is carried out no earlier than after the expiry of four years, thus for the first time in 2017, in the amount of the difference between the average share price over a period of 20 trading days after the respective time of exercising and the agreed strike price.

In the fiscal year 2013 the members of the Management Board received the following original promises as well as actually allocated volumes from the Performance Options Plan 2013:

Variable Management Board remuneration component Performance Options *Table 006*

in pieces	Basis Performance Options		Premium Performance Options	
Management Board	Originally granted number of POs at the time when they were granted (100 %)	Allocation volume by taking the achievement of targets into consideration	Originally granted number of POs at the time when they were granted (100 %)	Allocation volume by taking the achievement of targets into consideration
Rolf Schwirz*	300,000	300,000	100,000	100,000
Andreas Plikat	100,000	80,877	50,000	40,439
Dr. Jürgen Kaiser-Gerwens (until 06/05/2013)	0	0	0	0
Thomas Sparrvik (until 06/28/2013)	0	0	0	0
Andrea Bauer** (09/16/ until 12/31/2013)	100,000	0	50,000	0
Christopher Burke (until 02/28/2013)	0	0	0	0
Total	**500,000**	**380,877**	**200,000**	**140,439**

* According to a regulation in individual contracts the Performance targets for 2013 are not applied and 100 % of the Performance Options are deemed as allocated.
** All promises from the Performance Options-Plan were covered within the framework of the concluded severance agreement.

In total 710,000 Basis Performance Options and 200,000 Premium Performance Options were issued to the members of the Management Board as well as employees of Kontron AG and their group companies.

The provision made in the fiscal year for the payment of the long-term remuneration components from the Performance Options-Plan includes a total of € 126k for the members of the Management Board. Thereof € 95k relating to Mr. Rolf Schwirz and € 31k to Mr. Andreas Plikat.

Promises for virtual stock options, which were issued in the fiscal years 2011 and 2012 within the framework of the so-called "Performance Share Unit"-Plan to members of the Management Board as well as employees of Kontron AG and their group companies, represent a further variable remuneration component with a long-term incentive effect and a risk character.

The provision disclosed in the fiscal year 2013 for the payment of the long-term remuneration components from the Performance Share Unit-Plans 2011 and 2012 relates in the amount of € 15k to Mr. Andreas Plikat.

The cancellation agreements of Dr. Jürgen Kaiser-Gerwens and Mr. Thomas Sparrvik covered all promises from the Performance Share Unit-Plans 2011 and 2012. This is reflected in the corresponding reversal of the provision in the amount of € 75k.

In the fiscal year 2013 members of the Management Board did not receive any promises from Performance Share Unit-Plans.

Pension and benefit commitments of the Management Board in the financial year 2013

No fixed amount for the company pension plan has been promised to the members of the Management Board as per contract. For this reason no pension provision was to be made as of December 31, 2013.

In the fiscal year 2013 Mr. Rolf Schwirz received an additional payment to the private pension plan in the amount of € 50k and Mr. Thomas Sparrvik in the amount of € 2k.

Ancillary payments and other commitments to the Management Board in the financial year 2013

- The members of the Management Board did not receive any ancilliary payments in addition to the remuneration components listed in the column 'other'.

- Settlement limitations were agreed with the directors Rolf Schwirz and Andreas Plikat in line with the German Corporate Governance Code. Accordingly, in the event of a premature termination of the Management Board activity without an important reason, payments to the director may not exceed the value of two annual total remuneration payments or may not be higher than the total remuneration for the residual term of the employment contracts.

- The director Andreas Plikat is entitled within the framework of a Change-of-Control-agreement to terminate his activity prematurely in the event of a take-over factual element. Accordingly a continued payment of the salary has been promised to the director until the regular end of the Management Board member contract. In this case the director shall receive a settlement in the maximum amount of two annual total remuneration payments.

- Within the framework of a Change-of-Control-agreement the director Rolf Schwirz is entitled to end his activity prematurely in the event of a take-over factual element. The contractual remuneration claims shall be upheld hereby until the expiry of the period of notice, however by no longer than until the expiry of the regular contractual term of 48 months. At the end of the period of notice the director will receive a settlement in the amount of one annual total remuneration.

- In the event of the recall within the first 24 months of his period of employment the director Rolf Schwirz is entitled to terminate the employment contract prematurely. In this case the director shall receive a one-off payment in the amount of two annual total remuneration payments as well as 50 % of the remuneration for the period of time until the end of the residual term, which exceeds a duration of 24 months.

- Ms. Andrea Bauer has resigned from office as CFO as of December 31, 2013. According to the severance agreement she is entitled to an annual remuneration in the amount of one annual fixed salary of € 400k from January 1, 2014 until the end of her employment contract on June 30, 2016. All income, which Ms. Bauer generates from the commencement of work otherwise from January 1, 2014 onwards, will be offset against this remuneration. If Ms. Bauer terminates the employment contract, she shall receive a one-off settlement for the premature termination of the employment contract in the amount of 50 % of the outstanding remuneration in the period of time between the date of termination and the end of the employment contract. Ms. Bauer is further entitled to use the company car made available to her until July 31, 2014. If the employment contract continues to exist beyond this date Ms. Bauer shall be entitled to a monthly motor vehicle flat rate in the amount of € 1k from August 1, 2014 until the time of termination.

- The members of the Management Board did not receive any loans from the company.

- The company has taken out D&O insurance for the Management Board. In a damaging event the Management Board shall pay an excess of 10 % of the damages up to the amount of one and a half times of the annual fixed remuneration.

- With regard to their Management Board activities, members of the Management Board have also not been promised or granted payments from third parties.

Report on the remuneration of the Supervisory Board members

The remuneration of the Supervisory Board is oriented to the size of the company, to the tasks and the responsibility of the Supervisory Board members as well as to the financial position and development of the company. The remuneration of the Supervisory Board is regulated in § 20 of the statutes. According to this each member of the Supervisory Board shall receive, in addition to the reimbursement of his expenses incurred when performing his office, a fixed remuneration in the amount of € 34k per fiscal year (§ 20 Par. 1 of the statutes).

The chairman of the Supervisory Board shall additionally receive a remuneration in the amount of € 32k (§ 20 Par. 2 of the statutes) per fiscal year. The chairman of the Audit Committee shall additionally receive a remuneration of € 16k, each other member of the Audit Committee € 4k (§ 20 Par. 3 of the statutes) per fiscal year. For the membership of the Personnel / Nomination Committee the committee members shall receive a remuneration in the amount of € 4k (§ 20 Par. 4 of the statutes) per fiscal year. If a person is only a member of the Supervisory Board for a part of the fiscal year, he shall receive a twelfth of the remuneration (§ 20 Par. 5 of the statutes) for each started month of his activity.

The members of the Supervisory Board will be included in assets liability insurance for executive bodies and certain executives, which is maintained by it in the interest of the company in a reasonable amount insofar as such exists. The premiums for this shall be paid by the company (§ 20 Par. 7 of the statutes).

In addition, the members of the Supervisory Board shall receive a value added tax amount, which is possibly due on the reimbursement of expenses or the Supervisory Board remuneration, insofar as they are entitled to invoice the value added tax separately to the company (§ 20 Par. 6 of the statutes).

The members of the Supervisory Board received the following total remuneration in the fiscal year 2013:

Supervisory Board remuneration

Table 007

in €k	Remuneration not based on performance	Performance-based remuneration	Total remuneration
Supervisory Board member			
Rainer Erlat (since 06/05/2013)	39	0	39
Peter Bauer (since 02/22/2013)	31	0	31
Lars Singbartl	38	0	38
Sten Daugaard (since 06/05/2013)	29	0	29
Martin Bertinchamp (since 06/05/2013)	22	0	22
Dr. Harald Schrimpf (since 06/05/2013)	20	0	20
Helmut Krings (until 06/05/2013)	35	0	35
Hugh Nevin (until 06/05/2013)	21	0	21
David Malmberg (until 06/05/2013)	19	0	19
Mathias Hlubek (until 06/05/2013)	27	0	27
Total	**281**	**0**	**281**

- The members of the Supervisory Board did not receive any loans from the company.
- The company has taken out D&O insurance for the members of the Supervisory Board. This currently does not envisage – as explained in the declaration of conformity of the Management Board and Supervisory Board on February 22, 2013 – any excess as the members of the Management Board and the Supervisory Board are principally not of the opinion that motivation and responsibility, with which the members of the Supervisory Board perform their task, could be improved by such an excess.
- The Supervisory Board member David Malmberg additionally received a consultancy fee in the amount of € 22k. A long-term consultancy contract exists with Mr. David Malmberg, which features a term until December 31, 2020 and envisages an annual remuneration of $ 30k.
- Further remuneration, in particular for consultancy and mediation services of members of the Supervisory Board, have not been provided or agreed.

Corporate strategy

Kontron is one of the leading developers and producers on the ECT market worldwide. With a strong focus on innovation, quality, reliability and speed Kontron AG pursues the strategic approach to create permanent competitive advantages for the customers by innovative ECT solutions. The company's customers include well-known Original Equipment Manufacturers / OEM, system integrators and application providers. The maxim is to enable the best possible functionalities for the applications of the customers by using Kontron products and solutions and thus to make a substantial contribution to the corporate success of the customers.

Excellent positioning on the global ECT market

With a leading market position and high-quality products Kontron has an excellent position with the customers in order to profit globally from the enormous perspectives for sustainable growth of the ECT market. Due to the new, worldwide operating business units, customers can be served quicker and better and new customer potentials can be developed. Kontron has oriented itself to several global market segments, such as Industrial Automation, Medical Technology, Communication, Safety & Defense, Transport as well as Energy and Infotainment. This diversification makes the company one of the few "full-line supplier" on the ECT market worldwide and reduces the dependency on individual partial markets with their fluctuations in demand.

As one of the few "full-line supplier" worldwide Kontron serves all important market segments already. The aim is to cover a greater part of the value added chain in future. The strengths as a provider of platform solutions, which are ready for application, are to be emphasized with a broader standard system portfolio and played out on the market more consistently.

Innovation is a key for growth for Kontron. Due to the increasing variety of functions with at the same time the need for less and less space, new fields of application are offered to ECT, which open up possibilities for innovation for the providers of technical applications themselves. Innovative Embedded Computer Technology offers a substantial gain in comfort of use and speed of information with the simultaneous potential for reducing costs. Megatrends such as mobility, connectivity, aging societies and increasing device "intelligence", which are all substantially dependent on ECT components, promise strong market growth. However, this also means that innovations will have to anticipate requirements of the market and customers even more in future. Kontron makes it possible for the customer to hereby fully concentrate on its own core business through its marked strength at innovation and its high standard of quality.

Complete and consistent product and service portfolio

The portfolio of Kontron offers a broad selection of various products and services, which can be selected freely scalable by the customers and can thus be exactly adjusted to the individual requirements of the applications. The offer comprises a large selection of boards and mezzanine cards, Computer on Modules (COMs), carrier boards, HMI systems or rack mount computers, industrial chassis and Panel PCs. The focus of the portfolio is particularly placed on products, which are distinguished by a customized adjusted design or are even developed completely by Kontron as an individual solution for the customer. The extensive services all relating to the Kontron solutions can be designed with similar flexibility so that the customers always receive the optimum support. With the customized developments Kontron also takes over services relating to the application and operation. These include for example the provision of the latest technical information, driver, BIOS and operating system updates as well as the quick and competent solution of problems in the regular operation.

Program "New Kontron" continues "Shape"

After the negative development of results in the past fiscal years the comprehensive cost reduction and efficiency improvement program "New Kontron" was created and initiated in the year under review. The optimization program "Shape", which was initiated in 2012 and which had the aim of introducing globally operating business units together with the also worldwide orientated functional areas Supply Chain as well as Research and Development, could be successfully completed on April 1, 2013.

"New Kontron" – which was announced at the end of April 2013 and specified at the end of July – extends the organizational new orientation which was initiated by "Shape" even more clearly. A consistent concept for the restructuring and new organization of the company based on the three pillars 'strategy', 'organization' and 'business infrastructure' is now available with this program. A simplification of the product portfolio, an optimization of the purchase and a location merger are envisaged in detail. In this context in particular branches in Germany will be amalgamated and the business activities concentrated and further expanded at the location in Augsburg. The aim is to significantly improve the inhouse structures and processes.

The new strategic orientation and reorganization are moreover the starting points for the urgently needed reduction in costs. The program takes all important cost blocks as well as the structural optimization and adjustment of the portfolio into consideration. Synergies, which have currently not yet been exhausted, can be boosted and the efficiency can be improved hereby. In the closed fiscal year the company was already able to initiate first important steps for the implementation of the measures.

Medium- and long-term aims

It is the aim of Kontron to become the leading company on the ECT market. This includes taking over the market leadership in core segments as well as substantially increasing the revenue and the EBIT margin by 2016. The basis for this is formed by the new global management structure with market-oriented business units and the focus on the relevant application markets. Based on the well positioned locations with Sales, Research & Development and Operations on three continents (North America, Europe and Asia) Kontron can achieve an even clearer customer, production and R&D profile. The company will hereby also be oriented to all relevant industries in future and serve the customers as innovation leader and solution provider based on strong and highly-profitable standard products. At the same time the Kontron Group is to be an attractive employer for employees, with which the focus is placed on fairness, open communication and respect.

Management and control of the company

Kontron uses a system for the corporate control which consists of various financial and non-financial key figures or controlling factors that enables an overview of the actual operational situation as well as conclusions about the future development. The controlling system takes both short-term as well as long-term factors into consideration hereby.

The Management Board of Kontron AG is responsible for the planning and realization of long-term group aims. The first aim of the corporate development is the sustainable increase in the enterprise value by profitable growth. The annual long-term planning is oriented to market survey, analyses of competition, developments on the procurement markets, technological developments, the actual development of business as well as the more recent past values of the respective operative units.

This long-term planning supplements an annual planning for the individual operative units.

Within the framework of this planning the heads of individual operative units make assumptions in cooperation with the responsible sales units for the forecasted period. Following this, the Management Board and Controlling review the assumptions and forecasts amongst others during discussions with the responsible persons to create a summarized planning for all segments.

Relevant controlling factors are hereby revenue, growth in revenue, gross margin, operative costs, EBIT, Working Capital and the associated key figures for the turnover frequency of the stocks and the term of the receivables. In addition, sales-oriented factors such as incoming orders and orders on hand are also important controlling guidelines for the operative planning.

The examination of the stipulated targets is carried out by means of Plan-Actual comparisons within the framework of monthly reports, which serve the Management Board and Supervisory Board as well as the responsible executives as important information about the actual development. For this purpose information is used from the Finances, Sales, Research & Development segments as well as Operations. Analyses of deviations demonstrate the essential factors for the exceeding or falling short of plan values and make it possible to initiate measures in real time in case of essential deviations.

In addition, weekly or monthly reports will be created about the financial situation from the point of view of the Treasury segment. The development of important key figures such as bank debts, liquidity, net cash, hedging transactions, guarantees and utilization of the credit lines will be presented regularly in these reports.

The monthly report will be supplemented by information from the monthly risk management in order to be able to react to a changed risk and opportunity situation at an early stage. In this process each company and each function sector describes the risks both from a quality and quantity point of view.

On the whole a controlling system and reporting system are thus available that depict the monthly business development in a transparent manner.

The IT landscape of Kontron consists so far in the various regions of various sub-systems of SAP and was only partly standardized for historic reasons. All other regional companies are still working with own ERP systems (Enterprise Resource Planning). Within the framework of the “New Kontron” program a uniform, efficient and standardized IT system is to be introduced group-wide which further promotes the transparency and productivity.

Development of essential controlling factors (continuing operations) *Table 008*

		2013	2012
Revenue	€ million	445.3	466.9
Gross Margin	€ million	113.4	112.4
EBIT	€ million	– 29.0	– 24.7
Equity ratio	%	55.5	62.3
Net Cash-Position	€ million	– 8.4	13.2
Number of employees		1,479	1,574

Research and development

The research and development activities of Kontron are essential for the intended stronger orientation to customized solutions and the future successful placement of innovative ECT in additional application environments. The group profits from the power of innovation and technological competence as important unique selling propositions in the world market which is becoming increasingly harder. The intensity of the development services and the organization in global units, which are near to the customer, distinguish Kontron from competitors. For this reason investments are increasingly made in technological innovations and the set-up of a more efficient development organization in order to be able to react more flexible on the market and to establish already developed ECT solutions more quickly in applications with similar requirements. As of the end of the fiscal year the Kontron engineers were currently working on more than 90 development projects.

Global development approach

The development teams of Kontron worldwide cooperate in order to be jointly able to work both on innovative solutions as well as on standard products for regional and global customers. The development projects are stipulated globally. The coordination of the German, Western and Eastern European, North American and Asian engineers is carried out by the respective regional organizations. This way the company succeeds in assigning the employees efficiently and in the proximity of the customers and to recognize technological trends at an early stage by a close dialogue and to implement these into intelligent ECT solutions. With the decision for the regional distribution of individual development projects regional aspects are also playing an increasing role in addition to the individual qualifications of the engineers. In the year under review Kontron, for example, reinforced the Asian development capacities in order to develop and market ECT solutions directly on site by close coordination with the customers. The responsible sales employees will be integrated into the processes at a very early stage of the development already not only on the Asian market, but principally as a firm part of the global development maxims. This way needs of the customers can be taken into consideration directly and false developments can be minimized from the start.

The team of employees working in the segment of Research & Development fell by 88 employees to 488 employees in the year under review due to the discontinuation of several products and services. However, it still accounts for around a third of the total workforce of Kontron – a value, which emphasizes the significance for the sustainable corporate development. The close cooperation with universities and universities of applied sciences over many years makes it possible to cover the need for highly qualified employees to a large extent.

52 Product launches in 2013

The speed with the successful launch of new products in the various markets remained unchanged at a high level. On the whole Kontron developed 52 products (2012: 42 products) from various technological fields worldwide for the use in the addressed core markets until the readiness for the market.

A focus of the product launches was placed on the new Computer-on-Module-(COM)-standards for scalable solutions ready for use based on Intel® Core™ processes of the fourth generation and the newest Intel® Atom generation E38XX. At the same time as the launch of the fourth generation of Intel® Core™ processer platform Kontron had launched a total of five different platforms (COM-Express, 6HE CompactPCI, processor AMC as well as two Embedded main boards in the Mini-ITX and Flex-ATX format) on the market for various applications.Compared with the previous generation the platforms offer a higher energy efficiency with at the same time around 20% more computing performance, 30% more Graphic-Execution-Units and double HD-Media- and 3-D-Graphic performance. The new platforms thus enable attractive new possibilities for use for the customers and the expansion of functionalities with the simultaneous reduction in costs in the regular operation.

The newest energy-saving Intel® Atom technology BayTrail ie gained further in importance in the year under review both for Kontron as well as for the customers. The development of own modules and boards was continued as planned. Thus various Atom-based platforms were launched in 2013. Above all these innovative solutions can be used valuable for accumulator or battery-operated portable systems from fields of application such as test or medical systems and the data recording as well as with stationary solar-operated devices. In addition, this applies in all places where the focus is particularly placed on the energy costs, for example also in the field of POS/POI for cash register and weighing systems in supermarkets.

The SMARC standard, which was launched a year ago, is met with a broad-based demand on the market and at customers. SMARC is a new global standard for energy-saving COMs, which was passed by the Standardization Group for Embedded Technologies (SGET), an amalgamation of leading ECT producers, under the leading participation of Kontron.

In addition, the product portfolio was expanded by new processor modules of the so-called AdvancedMC™-product series, which are also based on Intel® Core™-processors of the fourth generation. The main advantage of the AdvancedMC™-processor modules lies in the substantial flexibility, which enables a broad range of applications – from the cost-sensitive applications to efficient Data-Plane to Control-Plane applications – by the individual adjustment to existing system configurations. Accordingly the development costs and the development time for the customers decline so that applications can be launched faster on the relevant markets.

Flexible possibilities for use are also offered by the new variants of the successful 10-Gigabit-Ethernet-Rackmount-Switch family with up to 30 ports. Owing to the high shock and vibration-resistance, an extended temperature range and a high interference resistance (EMV) they are suitable for the most varied use scenarios: from the industrial automation to the civil aviation to the safety and defense. With a first 19"-Rackmount-Server, which was developed completely in China, Kontron has brought a solution onto the market, which is customized to meet the regional requirements there, which can be configured and used modular for the application in industrial automation, in the energy sector or in the transport sector.

Also as flexible is the new Box-PC family KBox with three different variants with regard to performance, ventilation concept and ability for extensions. The three versions of the KBox family were presented at the SPS IPC Drives 2013. The requests of the customers for freedom from service have been taken into account with the development of the A- und C series. For the industrial automation Kontron presented a monitor product family in the field of Human Machine Interface in the year under review. The families Omni View and Omni Remote in the modern Widescreen-Display format 16:9 and with innovative Multitouch-Technology were successfully launched on the market. Versatile possibilities in the market segment energy are offered by a new, fan-less 2HE-Rackmount-computer with up to ten GB Ethernet-Ports and up to 20 RS232 interfaces. Owing to its high shock-, vibration- and interference-resistance (EMV) it is suitable for various use scenarios. With a first fan-less 2HE-Rackmount system completely developed in Asia Kontron has also created a solution, which is customized to meet the regional requirements here, ready for the market.

The further increasing networking and the continuing IoT-Trend (Internet of Things) have had Kontron begin 2013 with extensions to the existing Kontron-APIs. The Kontron-Remote-Services enable a remote access to the parameterization of Embedded Systems – from updates to the firmware to the continuous remote monitoring. Machine suppliers can thus monitor the function of their products at the end customers better or even realize a foresighted service planning. The aims are less service work on the one side and a more efficient use of the products on the other side.

The Machine-to-Machine (M2M)-communication is used as a standard in the meantime by using existing mobile radio networks in the remote service of machines, the building management or in toll systems. At the same time additional fields of application arise in medical devices, production systems, lifts or in energy management. Kontron also achieved important progress in this field in the year under review. Thus, Kontron AG is now a M2M partner of Deutsche Telekom. The aim of this cooperation is to further develop the M2M solutions. The partnership with one of the worldwide leading network operators and service providers is a valuable expansion of the marketing and distribution channels. At the same time it emphasizes that the strategic investments of Kontron in Embedded Computer-based solution platforms are right for a multitude of M2M applications, which are suitable for the industry.

Key figures for the Research & Development in the Kontron Group (continuing operations) *Table 009*

		2013	2012
R&D employees	Number	488	576
Share of R&D employees of the whole team of employees	%	33.0	36.6
R&D costs[1]	€ million	33.2	33.4
Order-related development costs[1]	€ million	6.4	7.2
Capitalized development costs	€ million	15.2	20.0
Depreciations on capitalized development costs[1]	€ million	13.3	11.6
Capitalization ratio[2]	%	27.7	33.0
R&D ratio based on the group revenue[3]	%	9.0	8.8

1 Part of the profit and loss statement
2 Capitalization ratio = Capitalized development costs / (order-related development costs + R&D costs + capitalized development costs)
3 R&D ratio = (R&D costs + order-related development costs) / revenue

Business situation

Macro-economic and industry-related basic conditions

The year 2013 was marked by an improvement in the economic situation in the industrialized countries and a slowing down of the growth in the Emerging Markets. Nevertheless, the Emerging Markets still made the greatest contribution to global growth. According to the results of the International Monetary Fund (IWF) the gross domestic product (GDP) increased by 2.9 % worldwide in 2013. Whereas the industrialized countries were merely able to generate an increase of 1.2 %, the GDP in the Emerging Markets and developing countries increased by 4.5 %.

The start of 2013 was initially marked by a further slowing down of the global economic development. Despite the announcement of the President of the European Central Bank (ECB) to do everything necessary to uphold the Euro the economic activity worldwide fell in the subsequent period of time. However, over the course of 2013 the global economy looked modestly more positive and factors, which had previously posed a burden on the global economy, noticeably lost in significance.

The GDP of the largest economy worldwide, the USA, increased by 1.6 % in 2013 and therefore less than expected one year ago. The growth in the USA was slowed down by the budget consolidation and disputes about the increase in the upper limit for debts. Owing to the uncertainty about the basic financial political conditions companies created increased stocks on a broad-based front, whereas investments in equipment stagnated and the private consumer spending merely increased by 1.4 %.

The Chinese economy grew in 2013 with a growth rate of 7.7 %, a similarly weak rate as in the previous year already. The industrial production increased moderately by 9.7 %, after a growth of 10 % had been achieved still in 2012. The 2013 thus marked the longest period of weak growth of the Chinese economy since the introduction of the economic reforms in 1979. A further indicator for the economic stagnation were the figures of Taiwan and South Korea. The export of both countries, which is oriented to China, featured falling growth in exports. As of the end of the year this trend stabilized however. The growth momentum of further Emerging Markets also continued to fall compared with the high growth rates in the past.

The IMF noted a fall in GDP by 0.4 % for the Eurozone. Whereas the countries in the south of Europe still had to battle with difficulties, the core countries gave indications of a recovery.

There were positive signs for a tentative economic upturn in the Eurozone over the course of 2013. The economy in the Eurozone thus grew for the first time in six quarters in the second quarter of 2013 and the economic downturn in the crisis-hit countries slowed down.

As an export nation the German economy could not be fully spared the weakening momentum worldwide. According to first calculations the German GDP only grew moderately with 0.4%. The private consumption was the strongest driver of the German economic growth and rose price-adjusted by 0.9 %, also thanks to the good position on the labor market. On the other hand, German exports only increased slightly, with an increase of 0.6 % after 3.2% in 2012. The surplus of the German trade balance also reached a new record value, which rose to the record level of € 200 billion and thus according to figures of the ifo Institute achieved around 7.3 % of the GDP. There were various developments behind this figure. On the one hand, it emphasizes the strong world market position, which German companies held in 2013. On the other hand, the German trade balance indicates a weakness in economic investments in the domestic country. The level of investments in machinery and plants, that sank by 2.2 % in the whole year of 2013 compared with the previous year, developed disappointedly accordingly.

Development and trends on the ECT market
The ECT market continues to be marked by growth, above all in the Emerging Markets. However, this growth has not yet regained the momentum of the years before the financial crisis, when two-digit growth rates were consistently achieved still. Today the ECT market is growing differently – regionally and according to sectors – in the average to upper one-digit range.

The market growth was marked by various factors. On the one hand, this is the trend towards miniature formats such as SMARC, COM Express-Mini or Pico-ITX, which enable an energy- and space-saving device design. On the other hand, this is also supported by the development of the new INTEL ATOM SoC (System on Chips) generation. The increased acceptance of the ARM-processors on Embedded boards, BOX IPCs and Embedded Panel PCs can further be recognized. These offer the basis for applications, which with the consumption of electricity achieve new, ultra-low dimensions. These are in particular needed for mobile devices.

In addition, new technologies such as Cloud Computing or the "Internet of Things", thus the connection of industrial applications and Machine-to-Machine-Communication (M2M), are influencing the ECT market. In this context new integrated technologies and communication solutions as well as services such as remote service will develop. This will give the ECT market positive momentum in the next few years.

Developments in the strategically relevant partial markets
In the segment Industrials two contrary developments could be observed in 2013. Whereas the market for industrial automation was further affected by the pressure on prices, the market for medical technology developed unchanged positively. This development was above all driven by a general renewal of the product portfolios of the leading medical OEMs.

The sector of industrial automation was also marked by a challenging environment in 2013, above all based on the pressure on prices within the market. The uninterrupted trend continued to be seen was that automation suppliers outsource their main control technology as well as the design and the production of industrial PCs. The main driver of this development are continuously increasing investments in order to keep up with the newest process technology and to be able to participate in the development of new technologies such as the "Internet of Things". After years of stagnation the current renaissance of the manufacturing industry in the USA will lead to a moderate growth in the investment limits in this sector. The Single European Market is expected to remain flat and will record modest growth due to the export of machines and infrastructure investments overseas.

In the sector of the leading OEMs a trend is recognizable towards the use of "standardized" products in order to reduce investments in special, customized developments. A growth in the market for PCs with Human-Machine Interface is expected, based on the trend towards larger and multi-touch screens.

On the whole it can be expected that the use of ECT in the Industrials business segment, based on Cloud- and Big Data applications, will continue to grow. Both the suppliers of the automation industry as well as the larger OEMs will have to develop solutions which take this need into account.

The oil & gas market will grow moderately in future. Digital oil fields, investments in shale gas and the deep sea exploitation and production will increase the demand for developed computer systems for the analysis, monitoring and control. The long investment cycle will however level off the growth curve.

The ECT market for medical technology is growing, in particular driven by a general renewal of the product portfolios of the leading medical OEMs and the development of more cost-efficient solutions for the health care.

Based on customized solutions the market for medical technology is increasingly relocating to Emerging Markets such as Brazil and the region Asia / Pacific. The largest manufacturers for medical devices are continuing to develop their range of offers by taking the newest User Interface Technology and the conversion into digitalized solutions into consideration. The increased use of mobile units and the requirement for digital patient data will support further innovations and investments in technologies.

Based on the comprehensive trends “Internet of Things” the integration of mobile devices will experience a technological revolution in the next few years. In the long-term the demand for firmly-installed large devices will fall and the sector of portable smartphones and tablets will grow substantially. In addition, an integrated digital approach in the sectors of retail trade, travel (e. g. with railway stations or airports) and leisure (among others sport) will generate a broad-based field of use for ECT solutions. A close cooperation with software developers and content providers is essential for a strong differentiation compared with competitors and continuing innovations. A focus on “operative” critical systems is necessary for the delimitation towards the end customer products of the Asian manufacturers and to secure sufficient margins.

In the communication sector the market for telecommunication solutions remained under substantial pressure worldwide. The network operators face the unchanged challenge to cope with the continuously increasing data traffic in their networks and to generate corresponding revenues in the customer business for their high investments in the infrastructure. Whereas the data volume and, accordingly associated with this, the need for bandwidths are growing dynamically in faster and faster cycles owing to the increased use of smartphones and web applications as well as the continuing convergence to an All-IP-Network, the network operators are increasingly losing the control over subscriber-based contents. At the same time the significance of new and strongly growing so-called Over-the-Top-providers is increasing, which are pursuing a similar path as Apple, Google or Amazon. Nevertheless, the economic environment in 2013 was very tense owing to the situation on the financial markets, with very few large investments in the network infrastructure.

However, these difficult market conditions also offer opportunities. Many of the large providers of network equipment have moved away from the strategy of the “One-Stop-Shop” and are focusing more on selected segments. Small and flexible companies in this segment can profit from this development. This enables Kontron to win additional projects, for example with platform solutions which are ready for application.

In the summarized segment Military / Avionics / Rail the reluctant placement of orders of the public municipal authorities could be recognized on the market for safety & defense. However, the governments should principally retain their long-term planned investments in high-technological and electronic weapons systems, however a significant trend can be observed towards more cost-efficient standard components (Commercial off the shelf, COTS). This represents a substantial possibility for growth for providers of ECT solutions, which can make the COTS platforms available. Due to its broad-based product portfolio and its unique service offers Kontron is in a strong position in order to profit from this field of growth.

The two partial markets civil aviation and regional transport by rail were distinguished in the year under review by noticeable growth rates. In the civil aviation the international airlines pursue expansive investment policies in order to be able to offer comprehensive media or communicative services for their passengers on board of short- and long-haul flights. ECT technology is essential in order to transmit the contents to the mobile terminals of the passengers in an impeccable condition and target-oriented. The focus of the interest is placed on technologies for wireless entertainment and communication during the flight in combination with innovative server solutions. Kontron has a product portfolio, which is exactly customized to meet these high demands, and significant experience by first, successfully realized projects in this segment so that the company is in a unique position in order to profit from the further development.

In the market for transport by rail there is still a trend towards modernization and increased investments in modern train technology, driven by the increase in the volume of passengers and cargo worldwide. Regions with large growth rates will above all be North and South America, Western Europe and Asia. Modern systems increasingly place their bets on ECT solutions, which have to be exactly coordinated to the individual requirements. Kontron profits from its technological know-how and the already available, necessary certifications, which have to be proven in order to be able to operate successfully in this regulated market.

Significant events

Personnel changes within Management Board and extended management group

The Supervisory Board of Kontron AG carried out one new appointment within the Management Board in the year under review, four Management Board members left the company. Thus, Ms. Andrea Bauer was appointed as CFO of Kontron AG effective as of September 16, 2013. In her function she followed Dr. Jürgen Kaiser-Gerwens, who left the company as of June 05, 2013. Ms. Andrea Bauer left the company by amicable mutual agreement as of December 31, 2013. The Section "Management and Control" from page 3 contains further information relating to the Management Board.

New in the extended management group are also Mr. Michael Väth, since June 6, 2013 head of Sales and Marketing worldwide, Mr. Marcel van Helten, since September 1, 2013 head of the business segment Industrials, as well as Mr. Eric Sivertson, since September 23, 2013 head of the business segment Military, Avionic and Rail.

Program "New Kontron" for more efficiency and lower costs

In July 2013 the Management Board of Kontron AG released an extensive cost reduction and efficiency improvement program (CRP) "New Kontron" for implementation. The optimization program "Shape", which was started in 2012, had previously been ended as scheduled in April 2013 with the introduction of four new global business units. The aims of the new CRP program are the simplification of the product portfolio, the savings of direct and indirect costs as well as the reduction in overhead functions owing to the consolidation of the location as a result of the relocation of a total of nine branches. The business activities are to be concentrated and expanded at the location in Augsburg. A technology center with a high level of innovation is moreover planned in Augsburg in order to take advantage of synergies in the segments of Research and Development as well as Production and Sales. The implementation of the measures of "Shape" and "New Kontron" caused one-off costs in the amount of € 33.5 million until the end of the current fiscal year. These include costs from the Shape Program, which was concluded on April 1, 2013, as well as part of the total costs of the "New Kontron" Program. In total the CRP / "New Kontron" Program should enable significant cost savings in the amount of around € 40 million by 2016.

Results of operations, net assets and financial position

Results of operations

Reporting already adjusted to new structure after planned disposal of Energy project business

The following report is already based on the structure that will apply to the group in future after the planned disposal of the Energy project business division. The Energy project business division has accordingly been disclosed as "discontinued operations". The values for the 2012 financial year have been adjusted accordingly.

Explanation of the development of sales

The market and sector environment in which Kontron is active continued to be difficult in the year under review. Against this background revenues from continuing operations of € 445.3 million (2012: € 466.9 million) were achieved. In view of a difficult market environment the reduction in revenues by 4.6 % primarily resulted, however, from a change in the business model of two particular customers from North America and from currency effects, particularly with reference to the US dollar. In the course of the financial year 2013 the business model for two customers was changed to the effect that certain products were no longer manufactured by Kontron, but by the customers themselves. This led to the result that since the conversion of the business model for the two customers, Kontron no longer achieves revenues from the sale of these products but receives corresponding licence fees. If the business model had not been converted to a licence model, higher revenues of € 13.5 million would have been achieved. Due to currency effects sales fell by a further € 7.3 million.

Taking account of the effects from the licence fees model and from currency, revenues of € 466.1 million were generated in 2013. If, for the purposes of normalization, the previous year's revenues are adjusted by the negative investments in AP Parpro Inc. and Merz s.r.o. (€ 7.9 million), a total increase in sales of 1.5 % was generated in 2013 in comparison with the previous year.

The distribution of sales across the geographical segments shows that a decline in sales was posted in all regions. In the EMEA region Kontron earned revenues of € 218.3 million or 49.0 % of total sales. The reason for the sales minus of 2.8 % was mainly the liquidation of Kontron Compact Computers AG commenced in the report year. Without taking this measure into account, EMEA sales were at around the level of 2012. In North America revenues of € 204.8 million or 46.0 % of total sales were due. This is equivalent to a decline of 5.9 %, which was largely caused by the sale of AP Parpro Inc., the negative development of the exchange rate and the change to a licence fees model of two customers that has already been described. Taking these effects into account, there was sales growth in North America during the report year. Finally, sales of € 22.2 million or 5.0 % of total sales were due to emerging markets. Compared to the previous year this represents a fall in sales of 10.4 %.

Sales by regions (continuing operations) *Table 010*

	2013		2012	
EMEA	€ 218.3 million	49.0 %	€ 224.6 million	48.1 %
North America	€ 204.8 million	46.0 %	€ 217.5 million	46.6 %
Emerging markets	€ 22.2 million	5.0 %	€ 24.8 million	5.3 %
Total	**€ 445.3 million**		**€ 466.9 million**	

There is an analogous picture for orders received and the order position as with the development of revenues. Accordingly, before normalization, orders received reached a value of € 446.4 million after € 455.0 million in 2012. Taking into account normalization with respect to the licence fee model and the currency effects as well as the negative investments in AP Parpro Inc. and Merz s.r.o., orders received were calculated at € 459 million in 2013 and € 415.8 million in 2012 and thus equivalent to an increase of 10.5 %.

The orders in hand at the end of the year amounted to € 280.0 million and were thus almost at the same level as in 2012.

Explanation of the development in earnings

The earnings before interest and taxes (EBIT) from continuing operations were largely burdened by restructuring costs due as part of the cost reduction and efficiency improvement program "New Kontron" in the past financial year. More detailed information can be found in the following explanations as well as in the explanations in the consolidated notes.

Cost of goods sold fell by 6.4 % in the report year to € 331.8 million (2012: € 354.5 million) and thus experienced a sharper decline in percentage terms than revenues. The significant decline in the cost of materials by 7.6 % to € 281.0 million (2012: € 304.0 million) is largely attributable to the sale of the US subsidiary AP Parpro Inc., whose cost of materials ratio was considerably higher than the group average, the closure of the Swiss company Kontron Compact Computers AG and initial cost savings arising from the measures of the cost reduction program (CRP).

Other production costs amounted to € 31.1 million for the 2013 financial year and thus remained below the previous year's level of € 31.7 million.

Amortization of capitalized development projects rose from € 11.6 million in 2012 to € 13.3 million as a result of higher investments in internally generated intangible assets in past financial years. In contrast, order related development costs declined slightly. Within the year order related development costs went down from € 7.2 million in 2012 to € 6.4 million in 2013, because the volumes of order related development costs fell in North America in particular. In contrast to this, the project business in Eastern Europe developed positively, whereby order related development costs at the Polish company rose significantly due to a large project.

The gross margin of € 113.4 million was slightly above (0.9 %) the previous year's value of € 112.4 million. The gross margin rose significantly to 25.5 % compared to 24.1 % in the 2012 financial year.

Operating costs went down in the report year, mainly due to lower distribution and administrative costs, by 4.4 % to € 109.0 million (2012: € 114.0 million). Selling and marketing costs fell by 2.0 % to € 42.5 million (2012: € 43.4 million), largely because lower sales dependent costs were incurred in comparison with the previous year. At € 33.3 million general and administrative costs were significantly lower than in the previous year (2012: 37.2 million; – 10.5 %). This is largely attributable to the costs still included in the financial year 2012 for the companies that have since been sold or liquidated and initial costs savings from the cost reduction program. In contrast, research and development costs hardly changed (2013: € 33.2 million; 2012: € 33.4 million). The R&D ratio as an expression of research and development costs (excluding order related development costs) in relation to sales was 7.5 % in fiscal year 2013 (2012: 7.2 %).

The restructuring costs in the financial year 2013 amounted to € 33.5 million (2012: € 13.2 million). The rise compared to previous year resulted from the implementation of the measures from "Shape" and the cost reduction and efficiency improvement program CRP/"New Kontron" which started in 2013.

In this context the largest portion of the restructuring costs was expenses on staff restructuring of € 12.7 million. This mainly resulted from expenses on changes in the management and the social compensation plan concluded in December in order to move the activities of the branches in Eching, Kaufbeuren, Roding and Ulm to the locations in Augsburg and Deggendorf. In this context, in December 2013 a reconciliation of interests and social compensation plan was agreed with the joint works council that mainly included severance payments and assumption of costs to promote mobility. Expenses for severance payments of € 4.9 million were taken into account in the 2013 financial year for redundancy regulations agreed in the social compensation plan and mutual commitments. Furthermore, in this context provisions for legal proceedings costs of € 1.1 million were made. The extensive regulations to promote mobility in the social compensation plan, which provide travel costs refunds for employee, financial support for second homes and lump sums for relocation expenses, will have an effect on net income after the implementation of the location merger and thus in future financial years only.

Expenses on staff measures of € 0.8 million were taken into account as provisions for restructuring the foreign branches Kontron Technology A/S in Denmark and Kontron UK Ltd.

Consultancy costs for the reorganisation and restructuring as well as expenses on legal advice and IT costs amounted to a total of € 6.8 million in the reporting period.

The adjustment of the product portfolio agreed in the cost reduction and efficiency improvement program involved unscheduled depreciation on internally generated intangible assets of € 7.5 million and on inventories of € 3 million. Further effects of the program are impairments in the Sales / Customer area of € 3.5 million.

After depreciation of € 9.6 million on goodwill was carried out in 2012, no further impairments were posted in continuing operations in fiscal year 2013.

Other operating income almost halved to € 6.8 million (2012: € 13.8 million). The significant decline resulted mainly from lower capital gains of € 6.4 million (2012: € 13.5 million). This contrasts with a comparable decline in other operating expenses of € 14.1 million to € 6.7 million due to lower capital losses of € 6.5 million (2012: € 13.6 million).

Earnings before interest and taxes (EBIT) of the continuing operations thus amounted to € – 29.0 million and fell compared to the previous year's value by € 4.3 million (2012: € – 24.7 million).

The financial result of the continuing operations improved to € – 1.6 million after € – 1.9 million in the previous year. Financial income, which fell to € 0.3 million (2012: € 0.6 million) was compensated by the decline in financial expenses to € – 1.9 million (2012: € – 2.5 million).

The tax income resulting in the financial year 2013 of € 6.6 million is mainly attributable to the increase in deferred taxes assets. The basis for this is formed by tax losses carried forward that can be offset with corresponding tax profits in future years. In addition, in comparison with the previous year, in the financial year 2013 there were lower expenses on actual taxes on income.

The result from continuing operations of € – 24.0 million thus improved slightly after a negative period result of € 26.1 million in 2012.

Regarding the discontinued operations a loss of € – 7.6 million was posted in 2013. In the year before a loss of € – 7.6 million was incurred. This result after tax includes an impairment expense of a total of € 7.9 million for the RTSoft Group, which was recorded at € 3.7 million (previous year: € 5.0 million) as an impairment of goodwill and of € 1.2 million (previous year: € 2.0 million) as an unscheduled depreciation of other intangible assets, as well as of € 3.0 million (previous year: € 0) as a value adjustment of receivables from construction contracts.

The results from continuing and discontinued operations thus totalled a net income of € – 31.6 million (2012: € – 33.7 million; + 6.2 %). Thereof € – 31.2 million (2012: € – 32.9 million) was due to the shareholders of Kontron AG. Accordingly, the earnings per share amounted to € – 0.56 (2012: € – 0.59). The earnings from continuing operations per share amounted to € – 0.43 in 2013 (2012: € – 0.46).

Financial position

Principles and targets of financial management

The financial management system of the Kontron Group is controlled by the global Treasury and managed centrally. Important targets of financial management are group-wide financial solvency to be guaranteed at all times by efficient liquidity management, continually improving financial strength and minimizing currency risks by using financial instruments.

The core of corporate financing is a revolving credit facility concluded in 2012 with a bank consortium consisting of five consortium banks with a total volume of € 170.0 million and a term until April 19, 2017. This credit facility is sub-divided into a “cash” line of € 140.0 million and a “guarantee” line of € 30.0 million. The cash line can be used by Kontron either through term loans with a term of three or six months or through bilateral current account lines with the individual consortium banks, so-called “ancillary lines”. Furthermore, there is the possibility to agree local credit lines through branches or subsidiaries of the consortium banks for foreign subsidiaries that cannot be financed through internal group loans due to various restrictions in the respective countries.

On the balance sheet date, from the cash line there was € 90.6 million for term loans available to the group, of which € 23.0 million had been used. The term of these term loans is three months each. With regard to the bilateral credit lines (ancillary lines), out of a total of € 29.4 million, an amount of € 11.9 million had been claimed. In addition, a subsidiary line of € 4.1 million was made available to a foreign subsidiary, which is disclosed in the discontinued operations, of which € 3.8 million was utilized.

As part of this subsidiary line concept two surety lines were made available via two consortium banks for this subsidiary of a total of € 13.2 million. These surety lines, which can be used by the subsidiary for necessary bank guarantees, impacted the cash lines as part of the credit facility, because they were taken from the Kontron cash line.

Taking currency related translation differences into account, there was thus € 124.1 million in cash lines available to the Kontron Group from the facility. Including the foreign subsidiary described above, € 38.7 million had been drawn, so that the Group has sufficient credit possibilities available from this financing source.

Alongside the credit lines agreed as part of the long-term credit facility, the group still had access to further bilateral credit lines from foreign subsidiaries of a total of € 2.0 million, of which € 0.2 million had been drawn to December 31, 2013.

In total, the group thus has € 126.2 million in credit lines, of which € 38.9 million has been used. The theoretically still available credit line for the group was thus € 87.3 million.

The credit facility requires adherence to certain financial key performance indicators. The relationship of net finance debt to EBITDA, the relationship of the net financial result to EBITDA and a minimum equity ratio can be named here. In this context it should be mentioned that the definition of these key performance indicators has been adjusted in the credit agreement in Kontron's favour and the consolidated result can be corrected by one-off effects, for example.

In the past financial year and in the whole previous term of the credit facility all agreed covenants were met. The company assumes that these key performance indicators can also be adhered to in future.

At the time the annual financial statements were prepared Kontron was in contractual negotiations with the bank consortium about an adjustment of the credit facility concluded in 2012. As part of this contractual amendment the facility volume of € 170.0 million will be reduced to € 130.0 million. Due to the changed corporate environment since the conclusion of the agreement and the resulting financing need – including with respect to the discontinued operations – the cash line should be reduced by € 25.0 million and the surety line by € 15.0 million. At the same time, on signing the contractual amendment, it was agreed with the consortium banks to calculate a moderately higher credit margin. Because the commission for providing this facility has also been reduced for Kontron at unchanged utilization of the lines made available, this margin rise does not essentially influence the financial result of the group from the current point of view. Because the credit agreement to date merely provides a co-liability of important subsidiaries of Kontron AG to the lending banks, the consortium should be offered additional credit securities. Alongside encumbrances on property, global cession of non-current and current assets and transfers by the way of security can be mentioned here. The financial covenants agreed in this context remain largely unchanged. The conclusion of this contractual amendment is probably expected in the second quarter of 2014.

Kontron AG ensures the sufficient financing of the subsidiaries with internal group loans – mostly in the form of current account lines. Foreign subsidiaries that cannot be financed in this manner due to existing foreign exchange controls cover their needs via bilateral credit lines at a local bank from the bank consortium. Kontron AG assumes the liability for this within the context of the existing credit facility. Some existing bilateral credit lines that were set up before the facility was concluded were continued without Kontron AG assuming liability and can be used individually for short-term finance on a current account basis in close coordination with the global Treasury. Liquidity surpluses are invested at usual market conditions directly at banks. Short-term availability and high security take priority over maximizing income in this connection. In this manner Kontron has the greatest possible flexibility at all times.

Explanations of the cash flow from operating activities

In the concluded financial year 2013 the cash flow from operating activities fell dramatically to € 2.0 million (2012: € 46.2 million). The burden in the report year resulted in particular from the high restructuring expenses of € 33.5 million, of which € 11.6 million was already cash effective in the financial year 2013. In contrast, the negative result in 2012 primarily resulted from the high goodwill impairment, which did not influence the cash flow from operating activities.

Furthermore, the fall in the cash flow from operating activities is also largely attributable to the change in working capital: in the reporting period there were outflows of funds of € 1.5 million arising from the purchase of inventories. In the previous year's period a one-off effect due to the sale of inventories in Malaysia was posted in particular, which led to inflows of funds of € 23.8 million. Higher funds commitments of € 2.1 million through an overall increase in trade receivables contrasted with inflows of funds of € 11.2 million in the previous year's period. The positive effect on the cash flow from increasing payables and provisions was € 4.4 million lower than in the previous year.

Explanations of the cash flow from investing activities

Outflows of funds due to investing activities totalled € 20 million in the report year and thus rose by 5.8 % (2012: € 18.9 million) on the previous year. The volume of outflows of funds due the purchase of property, plant and equipment fell to € 3.4 million (2012: € 6.9 million). The outflows of funds from the purchase of intangible assets fell to € 17.3 million (2012: € 22.9 million) in 2013. This reduction is a result of the significantly lower investments by Kontron Europe GmbH and Kontron America Inc. in developing internally generated intangible assets in the form of capitalized development costs. The proceeds from the sale of assets posted a decline to € 0.4 million. In the previous year inflows of funds of € 4.8 million were still due because of the disposal of production capacities in Malaysia. The proceeds from the sale of subsidiaries also fell to € 0.4 million (2012: € 6.1 million). Thus this resulted overall in a negative cash flow from investing activities overall of € 20.0 million.

Explanations of the cash flow from financing activities

The cash flow from financing activities amounted to € 23.0 million (2012: € – 38.0 million) in the reporting period. The outflows of funds for investments of a total of € 20.0 million could only be financed by long-term loans due to the significant fall in cash flow from operating activities. Thus proceeds from long-term bank loans increased by € 9.3 million to € 23.1 million in comparison with the previous year. In the previous year the cash flow from financing activities was largely influenced by outflows of funds to repay short-term bank loans.

Explanations of net indebtedness and the debt to equity ratio

On the balance sheet date December 31, 2013 cash and cash equivalents in the group stood at € 30.7 million (including cash and cash equivalents from discontinued operations) and were thus € 3.2 million higher than on the previous year's balance sheet date (2012: € 27.5 million). Short-term bank loans fell by € 0.3 million to € 0.2 million, while long-term bank loans of € 21.1 million were taken out of bank. In total, short and long-term bank loans increased by € 20.8 million and thus amounted to € 35.1 million. This resulted (for the continuing operations) in a reduced net cash position of € – 8.4 million to the end of the reporting period (2012: € 13.2 million).

The debt to equity ratio (external borrowing / equity) of 80.1 % was around 20 percentage points above the previous year's value of 60.6 %. The rise in the debt to equity ratio is particularly a result of the net income situation and the increase in bank loans.

Net assets

Structure of the consolidated balance sheet changed

Due to the planned disposal of the business division Energy project the structure of the consolidated balance sheet as per December 31, 2013 has changed accordingly. All assets and debts of this division have been reclassified into the item “Assets held-for-sale”or “Debts associated with assets held-for-sale”. In contrast, the balance sheet as per December 31, 2012 remained unchanged.

Decline in total assets

The total assets amounted to € 444.6 million as per December 31, 2013 and has fallen in comparison to the previous year’s total of € 460.4 million by € 15.8 million or 3.4 %. Non-current assets have declined by € 13.2 million to € 188.6 million (December 31, 2012: € 201.8 million). Current assets posted a decline by 1.0 % to € 256.1 million (December 31, 2012: € 258.6 million). On the liabilities side current liabilities rose to € 137.8 million (December 31, 2012: € 132.8 million; + 3.8 %). Non-current liabilities increased by € 19.0 million to € 59.9 million (December 31, 2012: € 40.9 million). Equity fell by – 13.9 % or by € 39.8 million to € 246.9 million (December 31, 2012: € 286.7 million).

Explanation of current and non-current assets

Cash and cash equivalents fell by € 0.7 million and amounted to € 26.8 million (December 31, 2012: € 27.5 million) as per December 31, 2013.

Inventories reduced by € 15.3 million to € 84.7 million in comparison to the previous year and were thus 15.3 % below the corresponding value in the previous year of € 100.0 million. Significant for the decline were the inventories still held by the discontinued operations in 2012 of € 14.8 million.

The decline in prepayments and receivables from production orders of € 11.0 million also resulted from the reclassification of the business division Energy project into assets held-for-sale.

At € 88.6 million trade receivables were € 21.4 million below the previous year’s value of € 110.0 million. The reclassification of trade receivables from the discontinued business division Energy project of € 19.9 million into the balance sheet item assets held-for-sale was decisive for the decline.

Income tax receivables amounted to € 3.6 million (December 31, 2012: € 2.9 million) as per December 31, 2013 and were thus above the level on the previous year‘s value on the balance sheet date.

Other current receivables and assets fell – particularly due to the reclassification of the energy project business – to € 12.1 million and were € 6.1 million below the corresponding value of the previous year of € 18.2 million.

Assets held-for-sale amounted to € 40.3 million (December 31, 2012: 0 million) as per December 31, 2013 and included the assets of the energy project business.

Investments fell in the reporting year by € 0.1 million to € 0.6 million (December 31, 2012: € 0.7 million).

Property, plant and equipment fell by € 3.1 million to € 19.3 million as per December 31, 2013 (December 31, 2012: € 22.4 million) due to lower investment activities at the locations affected by the cost reduction program.

The other intangible assets primarily consist of capitalized development cost and amounted as of December 31, 2013 to € 58.3 million compared with € 68.6 million as of December 31, 2012. In particular the restructuring of the product portfolio in the course of the commercial year and corresponding extraordinary depreciations due to product discontinuations and changed profit opportunities were responsible for the decline in other intangible assets.

The goodwill fell due to an impairment as a consequence of the reassessment of the fair value of the RTSoft-Group, that is reported as held-for-sale, and amounted to € 88.7 million as per December 31, 2013 (December 31, 2012: € 93.3 million).

The other non-current receivables and assets declined by € 0.4 million to € 1.6 million (December 31, 2012: 2.0 million).

The deferred tax assets increased as of December 31, 2013 to € 20,2 million (December 31, 2012: € 14.8 million) due to capitalized deferred taxes on the fiscal losses carried forward in the commercial year 2013 that were incurred in particular in the companies in Germany.

Development of current and non-current liabilities

In total, the current liabilities in connection with the restructuring increased by € 5.0 million or 3.9 % to € 137.8 million (December 31, 2012: € 132.8 million). This increase in current liabilities is essentially due to the reclassification of the liabilities of the energy project business into line item "Liabilities associated with assets held-for-sale" as well as increased current provisions set up with regard to the restructuring cost.

Trade accounts payable at € 67.2 million, were € 20.4 million or 23.3 % below the year-end level 2012 (December 31, 2012: € 87.6 million). Decisive for this decline is in this case also the regrouping of the energy project business amounting to € 18.1 million from accounts payable and received down payments to line item "Liabilities associated with assets held-for-sale".

The current provisions increased by € 7.0 million to € 14.2 million (December 31, 2012: € 7.2 million) essentially due to provisions for personnel cost resulting from the restructuring and the social compensation plan concluded in December 2013 as well as assurances given in individual contracts. The closure of Kontron Compact Computers AG, initiated in 2012, proved possible to complete in the year of this report.

The non-current liabilities increased in comparison with the previous year by € 19.0 million and, as of the key accounting date, amounted to € 59.9 million (December 31, 2012: € 40.9 million). A decisive factor for this is the increase in the long-term borrowings towards banks to a total of € 34.9 million (December 31, 2012: € 13.8 million) in order to finance investing activities in the current fiscal year.

The other non-current liabilities increased due to a deferred insurance compensation payment for the flood damage suffered at the plant Deggendorf of € 3.5 million (2012: € 1.5 million), whereas the deferred tax liabilities declined by € 2.5 million to € 17.6 million.

Development in total equity

As of the balance sheet date, the total equity amounted to € 246.9 million and has thus decreased in comparison to the previous year's total of € 286.7 million by € 39.8 million. The equity ratio derived from this was 55.5 % and is thus 6.8 percentage points lower than in the previous year (December 31, 2012: 62.3 %). The decline in equity is to be attributed first and foremost to the negative net income (€ – 31.6 million) and the distribution of dividends in the year of this report (€ 2.2 million). The reduction in the additional paid-in capital of € 33.7 million results from a withdrawal from the reserve in order to compensate the net loss under commercial law of Kontron AG in the year 2013. Exchange rate differences also led to a decline in equity of € 5.5 million.

Non-financial Performance Indicators

Employees

Reduced number of employees due to concentration on the core business

As of the key date December 31, 2013 1,479 employees (2012: 1,574) were employed at Kontron worldwide within the continuing operations among them 50 trainees. Together with the discontinued operations of the business sector Project Business Energy the number of employees was, as of December 31, 2013 all in all 2,110 persons (2012: 2,208).

Employees grouped according to functions (continuing operations) *Table 011*

	2013*	2012*	Change
Production	394	408	– 14
Research & Development (R&D)	488	576	– 88
Sales & Marketing	375	381	– 6
Administration & IT	222	209	13
Total Group	1,479	1,574	– 95

* Number of employees as of the key date December 31st, (“Headcount”)

Due to the centralized management of the regional purchasing departments introduced in the year of this report and to extensive procedural optimizations within the purchasing organization, it proved possible to increase efficiency. This resulted in a reduction of the number of employees on the Supply Chain by 14 persons. The important Research and Development sector continues to be decisive for the sustained success of the company. The cutback of 88 employees in that area is primarily due to the restructuring of the product and services portfolio implemented in 2013. Through the setting up of global structures in the group the number of employees in the Administration & IT sector increased by 13 persons to a total of 222. The number of employees working in Sales & Marketing remained almost unchanged.

Employees according to regions (continuing operations) *Table 012*

	2013	2012	Change
EMEA	857	926	– 69
North America	467	476	– 9
Asia	155	172	– 17
Total	1.479	1.574	– 95

The regional development in employee numbers is particularly characterized by the restructuring measures initiated in 2012. In Europe the Kontron-workforce was reduced in total by 69 employees to a remaining 857, 47 members of staff left the group in connection with the final closure of the Swiss company Kontron Compact Computers AG. The other reductions in personnel result essentially from restructuring measures at Kontron Europe GmbH in Germany. There, the decision was taken in July 2013 to relocate the activities of the branches in Eching, Kaufbeuren, Roding and Ulm to the locations in Augsburg and Deggendorf.

Due to the consolidation of the functions purchasing and sales it proved possible to reduce the workforce in Asia. The number of employees declined from 172 in 2012 to 155 in 2013. During the same period in North America the number of employees went down from 476 to 467.

This reduction in the number of workers is also reflected in personnel expenditure. Personnel expenditure was accordingly reduced to € 104.1 million in the fiscal year 2013 and was thus € 8.8 million less then the previous year’s figure of € 112.9 million.

Included in the personnel expenditure are cost for social security contributions amounting to € 17.3 million (previous year € 16.7 million).

Employees as the basis for sustained success

For a business enterprise such as Kontron with a strong focus on the development of innovative technological solutions, the competence of its employees is the key to sustained success. This is why the career advancement and further education of its employees are central features of personnel work. Kontron thereby puts its faith in a broad range of individual and team-based instruments that are attuned to the personal- and company related demands and targets.

Combining creativity and internationality

As a globally operating technological company Kontron offers its employees an attractive working environment that enables them to gather international experience. Only when employees are able to broaden their horizons do they also succeed in developing innovative and creative solutions for globally operating customer and thus to maintain the company's competitive ability. Supported by a system that is characterized by a flat hierarchy the employees assume responsibility at an early stage and are able to prove themselves in challenging international projects. When filling vacancies it is solely the qualification of the applicant or employee that counts, irrespective of origin, age or gender. It is thus ensured that the variety within the Kontron teams may be ideally exploited as an opportunity for the further development of the company.

Eight professions requiring vocational training as a starting opportunity

Company training of young people is an important cornerstone in Kontron's personnel strategy, in order to be able to meet its requirements for highly qualified, well-motivated employees from its own ranks to the greatest extent possible. In all, during the year covered by this report Kontron trained 50 young women and men (2012: 48) at its German locations in eight professions requiring vocational training. The main focuses of attention were thereby placed on the professions communications electronics technician, industrial clerk and Euro-business clerk. One trainee is also currently pursuing a dual course of studies in electronics technology. Kontron's trainee ratio is approximately 8.2%. This reflects the ratio of the number of trainees to the number of employees in Germany.

Corporate responsibility

Social commitment, entrepreneurial responsibility and promotion of the sciences are important components of Kontron AG's conception of itself. The due consideration of ecological aspects occupies a particularly prominent position herein.

As a globally operating technological company Kontron recognized at an early stage the significance of innovative products that are simultaneously characterized by low energy consumption. For this reason its portfolio was broadened step by step by energy-saving ECT-solutions – a development which continues unabated and is being further strengthened by a constantly increasing demand on the part of the customers. The decision to take ecological aspects increasingly into account also means that responsible handling of natural resources, avoidance of refuse and efficient recycling solutions are given equal weight alongside economic considerations at Kontron.

The internal guideline pursuant to corporate social responsibility is oriented to the SA 8000 Standard and defines group-wide codes of conduct intended to contribute to both a healthy and stimulating working environment as well as to sustained company development.

Kontron promotes scientific activities by way of cooperation with a number of polytechnics and universities. These include in particular its long-standing cooperation with the Deggendorf Institute of Technology and the Russian universities Moscow State Technical University, Moscow State Aviation University, Moscow Power Energy University and the Ural State Technical University in the city of Yekaterinburg. Within the framework of selected technical research projects the company provides both financial and human resources.

Environmental protection

The company management of Kontron feels an obligation to environmental protection and therefore promotes the awareness of its employees for environmental concerns in the context of their daily work. The aims of using natural resources in a responsible manner and of protecting both the environment and all employees and users when handling Kontron products are integral components of its corporate philosophy.

Environmental Management

Kontron has developed an environmental management system for all of its important branches in Europe in order to evaluate their ecological performance and improve it continuously. An important component of this system is the company's environmental policy from which its superordinated environmental and individual targets are derived. Its most important production locations in Europe have been certified according to the International environmental management-standard ISO 14001. The certification measures are being continuously further developed on the basis of market and customer requirements for larger-sized business enterprises.

Within the framework of its environmental management system Kontron has introduced a procedure for the evaluation of all relevant environment aspects of the locations concerned. Taking into account the criteria imposed by statutory requirements, possible economic damages, affected circles for possible complaints and potential exertion of influence each environmental aspect is evaluated individually and subsequently classified. On the basis of this classification Kontron is in the position of being able to focus its attention upon relevant and significant environmental aspects. The evaluation is regularly reviewed for its actuality but takes place at least once a year.

This structured environmental management system assists the company in the controlling and identification of all relevant changes with respect to environmental and statutory requirements of the respective company or location and guarantees legal conformity at all times. With the aid of internal audits the system is furthermore reviewed for its functioning and weaknesses at the respective locations. The neutrality of the auditor is an important precondition for this.

The review of environmental compatibility is also a mandatory criterion for the evaluation and selection of suppliers and takes place in the context of suppliers' audits carried out by quality management.

Environmental program

In order to continuously improve environmental performance corresponding targets are derived from environmental policy and individual annual environmental targets defined for the locations affected. These individual targets are evaluated by the management at the end of each year in order to determine their effectiveness or the extent to which the targets have been achieved, introduce improvement measures where necessary and to be able to set new targets. In order to improve the measurability of its specifications Kontron endeavors to also furnish each individual environmental target with its very own key performance indicator. This key performance indicator will then, for improved comparability, be set in relation to a reference value such as the electricity consumption to the number of employees or the heating requirement to the number of square meters.

CDP – Carbon Disclosure Program

As a globally operating business enterprise Kontron is also aware of its responsibility towards society with regard to climate change and CO_2 emissions and has introduced improvement measures.

In 2010 Kontron joined the Carbon Disclosure Project (CDP) Public Reporting system and has oriented itself since then to the corresponding demands and reporting requirements. Customers, investors and other interested parties may view the full report under www.cdproject.net.

Declaration of Material

Kontron registers the material composition of its own products, also in the context of the environmentally conscious designing of products and provides customers upon request with information pursuant to the specific data. In this connection information about the composition of products and components is collected which Kontron purchases from suppliers in order to reuse them in its products. The specific customer requirements are usually located within the framework of statutory stipulations such as the Electrical and Electronic Devices Act (ElektroG), or the Restriction of Hazardous Substances (RoHs).

Procurement

In the year under review the prices for the necessary electronic parts and components remained stable in comparison to the previous years. The slackening economic momentum led to an easing of tension within the global supply chains so that sufficient and timely supplies were increasingly achieved.

Kontron had already begun in 2012 to access to global organizational structures in the fields of purchasing and procurement. These measures were continuously advanced in the year under review by the program "New Kontron". By the concentration of activities of local teams for supply chain under a central management and extensive procedural optimizations it is intended that the efficiency of the purchasing organization within the group will be increased. The transfer of the Malaysian production plant to the Plexus Corporation in 2012 helped speeding up the further development of the already existing partnership with this subcontractor. Both companies have extended their close cooperation, which involves, inter alia, an in-depth exchange of information and the coordination of quality demands, pricing models and logistics. The strategic strengthening of the activities in the Asian Region has led to an expansion of the purchasing organization in this region.

The progress made in the bundling of global purchasing activities is reflected in the development of the procurement volume at Kontron's largest suppliers. The purchasing volume of electronic parts and components obtained from the top-10 suppliers of 73 % remained at the previous year's level (2012: 74 %). The same is true for the top-50 suppliers (2013: 84 %; 2012: 88 %). In total, expenditure for materials and purchased services declined in the year of this report to € 281.0 million (2012: € 304.0 million). The cost of materials ratio went down by approx. 2 percentage points to – 63.1 % (2012: – 65.1 %).

The high quality standards set by Kontron on its own processes and technological solutions must also be met by its suppliers. Only thus it can be guaranteed that customers receive the best possible quality at all times whilst simultaneously the ability to supply goods in accordance with requirements is also guaranteed. In addition to this, economic sustainability aspects and adherence to safety regulations also play a major role in assessing whether or not a supplier is suitable with regard to the high standards set by Kontron. For this reason an audit planning is compiled each year for suppliers who cooperate with Kontron. In the closed fiscal year all EMS (Electronic Manufacturing Services) that are globally active on Kontron's behalf, all strategically significant distributors as well as a number of subcontractors active locally on Kontron's behalf were subject to a corresponding review.

Branding

Within the ECT-market and the strategically addressed target markets the group exclusively uses its registered leading brand Kontron for the entire Original Equipment Manufacturer (OEM)-sector as well as for the sale of standard products via indirect distribution channels. The applications of the OEM-customers incorporate standard, modified and customer specific products developed by Kontron. These are integrated by the customers in their own products and solutions and sold in the target markets under the brand name of the OEM-customer so that the brand name Kontron is not visible to the end customer. Outside the ECT-market Kontron still used in the year under report the brand names of the discontinued operations of the project business division energy of the companies ubitronix system solutions gmbh and RTSoft.

Report on events subsequent to the balance sheet date

- By contract of purchase dated February 10, 2014 Kontron AG sold all of its shares (40%) in ubitronix system solutions gmbh to the management of ubitronix system solutions gmbh.

- As of February 19, 2014 a Letter of Intent was concluded with the management and shareholders of RTSoft ZAO that provides for the sale of the group shareholdings of Kontron AG in Russia by June 30, 2014.

Risk report

Opportunities and risk management

Opportunities
For Kontron, the principals of responsible corporate governance include a permanent evaluation of all risks and opportunities which arise from all business activities as well as the business environment. Through this opportunities may be identified and used at an early stage and the risks associated with this may be analyzed, evaluated and controlled. This enables the management board to develop a strategy and establish targets which create the optimum balance between growth and yield targets on the one hand and the risks associated with this on the other and also ensures an effective and efficient use of resources. The opportunities outlined reflect Kontron's current assessment and therefore offer a reference point for the current significance of these opportunities for the company. The described opportunities are not necessarily the only ones offered to the company. Furthermore, the assessment of the opportunities is also subject to regular changes as Kontron AG, the ECT market and the technologies are continuously developing further. This may result in new opportunities arising, existing ones may lose relevance or the significance of a current opportunity may change. It is, of course, also possible that opportunities which Kontron identifies today may never be realized. Basically opportunities are evaluated to the best of our knowledge and are hereby amongst other things subject to certain assumptions, which concern the market development, the potential of technologies or solutions as well as the expected development of customer demand and prices.

Kontron AG is in a process of continual development and implementation of initiatives for cost reduction, process optimization as well as for reassessment of its portfolio.

In a highly competitive market environment, an equally competitive cost structure should complement the competitive edge offered by the innovative strength. The current measures for cost reduction and efficiency increase will further optimize the global position and also assure the market position against competitors. In this way the company expects sustainable value added from these measures in association with the cost reduction and efficiency improvement program “New Kontron”.

Kontron AG identifies the potential of offering more innovative and comprehensive solutions based on an extensive cooperation along the broad portfolio and a global presence.

The technological know-how and market knowledge of the different business divisions and regional clusters enables Kontron to fulfill specific customer requirements based on the utilization of cross divisional innovations and cross regional solutions. Especially the grouping of the research and development departments on the planned technology campus in Augsburg will support this cooperation further. This will in the future also enable an improved utilization and management of the ability to develop ability of the engineers of Kontron which is recognized throughout the industry.

Kontron AG identifies clear potential in the use of indirect channels.

The new corporate strategy also provides for a reorganization of sales as well as the strengthening of relevant distribution channels for the company. Hereby the indirect channels, in particular, shall be used more intensively. Kontron's already existing business relationships as well as special customer knowledge may hereby lead to rewarding for development of revenues.

Kontron AG continually strives to develop new technologies, products and solutions and optimize existing ones.

Kontron invests in new technologies which, according to the company's expectations, will cover the demand which is based on relevant industrial and social trends. With its extensive customer knowledge and the pooling of the competencies of the research and development teams in Augsburg, Kontron intends to develop more innovative as well as individual concepts in the future. At the same time, the competitiveness of the so-called standard products shall be steadily optimized. Focus will also be on the further development of Kontron's existing APIs. With this the company enables customers remote access for the parameterization of embedded systems up to remote monitoring which will lead to reduced maintenance and a more efficient utilization of the products.

Kontron AG sees further opportunities in Asia which shall be made use of with the right business model.

It is expected that the emerging markets – particularly Asia – will continue to grow considerably faster than the industrial nations in the next few years. Measures shall be taken in the coming years to continually expand the share of sales in Asia. The company estimates that the development of skills for the development, production and sale of so-called standard products will offer opportunities which will help to gain market shares and strengthen local presence in this strategic growth market. Kontron's expansion of the product portfolio in this area and the development of efficient distribution channels will make it possible to serve large and rapidly growing regional markets. Furthermore, this will also offer the opportunity to provide globally operating customers with an improved on-site service.

By selective acquisitions, holdings and partnerships, Kontron AG continually strives to improve its leading position in technology, to open up additional market potential and to further develop the product portfolio.

Kontron continually monitors the current and future markets in terms of opportunities for strategic acquisitions, holdings or commercial partnerships by which the company can grow beyond organic growth. Such activities could help strengthen the position in the current markets, open new markets or increase the technology portfolio in select areas.

Kontron operates in very different markets and has a wide base of customers. The environment is defined by highly technological progress and further increasing competition. It is the goal of the management to optimize evaluation of the risks and opportunities of business activities as part of the group's internal risk management.

The systematic ascertainment and analysis of opportunities and risks which arise particularly from the company's strong technological and international orientation are important elements of sustainable corporate management. In this way Kontron will identify and take opportunities already in an early stage and, at the same time, recognize and assess the diverse risks and minimize these by appropriate action.

With the assessment of the risks as well as the opportunities as part of the group-wide risk management system, Kontron ensures that the influencing factors which can positively or negatively influence the company's performance are identified by management at an early stage. This enables the management to take the necessary steps. This means using opportunities for the benefit of the company on the one hand and preventing identified risks which could lead to a disadvantage for the company on the other hand. Hereby the risk management system serves as an aid in achieving the company goals. It strengthens risk awareness and improves stakeholder confidence as well as provides the basis for planning and decision taking. Risk management contributes to an increase in confidence in an organization's performance and reliability.

In its ongoing business activities, Kontron is confronted with risks and opportunities which can have a positive or negative impact on its profitability, and its financial and assets position as well as its corporate image. In principle Business risks are only taken if they are controllable and if they can contribute to a corresponding increase in the company value. A prerequisite of effective risk management is the prompt and comprehensive ascertainment of opportunities and risks as well as their continual analysis and evaluation. It is for this reason that the risk management system is firmly implemented in all main areas of the Kontron group.

The existing opportunity and risk management system was continued in the reporting year and – if necessary – adjusted to the extent and level of detail of the current risk situation without any major changes being made to the existing system.

In accordance with the corresponding legal regulations, the internal risk management organization envisages that the management board of Kontron AG, in agreement with the supervisory board, establishes guidelines for handling corporate risks and that the company is managed according to certain risk principles. It is the task of the global risk manager, in close cooperation with the management board as well as the internal person in power (business unit managers, cross and support function managers as well as the managing directors) and the local risk managers, to manage the risk management organization within the group and monitor compliance and adherence of the implemented processes and reporting routines.

Opportunities and risk management process

The opportunities and risk management process installed within the group is based on five closely interlinked sub-processes: identification, analysis, assessment, control and monitoring as well as reporting. This enables an overview of the current risk situation at all times.

Opportunities and risks are defined as positive or negative deviations from the planned corporate development. The first subprocess **identification** aims to ascertain all opportunities and risks within the relevant company or operative unit. Risk assessment occurs monthly. The companies and operative organizational units are responsible for this. For each identified risk there is also at least one responsible person (risk owner) who controls, monitors and continuously reports on this risk.

In the **analysis** of opportunities and risks Kontron uses the quantitative approach where possible to determine potential impact and probability of occurrence of opportunities and risks and establishes their positive or negative effects on achiving the company's goal in respect of its profitability, its fiancial and assets position. This is especially the case with specific existing risks. If larger risk areas are considered as a whole, individual quantification is usually not possible in most cases which means that the risk is solely described on higher level.

The findings of the analysis serve as the basis for the **assessment** of the individual risk or opportunity. Hereby individual statements are made concerning the necessity and priority of the risk control. By means of the risk assessment it is also possible to classify the individual risks in regard to their risk potential.

In **risk control and monitoring**, appropriate action for the targeted minimization of risks is defined and implemented over time. In addition to such optimization measures the group also uses further risk management instruments for example the acceptance of certain risks or outsourcing risks to insurance companies. The key task of risk control and monitoring is to positively influence the company's risk profile. In the adoption of proper means or instruments, benefits and costs are carefully considered and the relevant legal and regulatory requirements are taken into account. With continual risk monitoring which includes the regular control and assessment of chosen risk control measures, Kontron's risk management represents an aid for management in achieving, by means of set measures, the forecast results in a more likely and plannable manner.

In the final step of risk monitoring, efficient and continual reporting on the individual opportunities and risks serves as realtime information within the group which ensures an overview of the current opportunity and risk situation at all times.

Accounting-related control and risk management system (information pursuant to Sections 289 para. 5, 315 para. 2 item 5 of the German Civil Code (HGB)) and explanatory report

Kontron AG ensures correct financial reporting with the aid of an internal controll system (ICS) which guarantees adherence to legal regulations and the validity of internal as well as external financial reporting with regard to the numerical representation of business processes. For this purpose there is an analysis of new legislation, financial reporting standards and other regulatory changes with regard to their relevance for the preparation of the consolidated financial statements. This approach is intended to ensure that accouting errors are generally avoided and significant inaccurate assessments corrected in time.

The individual elements of the ICS incorporate organizational as well as controlling and monitoring measures which include all the companies of the Kontron group. They are conceived so as to enable the timely, consistent and correct accounting of all business transactions. Accounting guidelines which are defined for the whole group, regulate the uniform application of the centralized principles, the homogenous application of the IFRS accounting standards and the accounting framework which is obligatory for all group companies. A group-wide valid and centralized financial statement schedule ensures the complete, on time and efficient execution of the accounting process. The local companies are responsible for adherence of the relevant regulations and receive support from group accounting if necessary. The IFRS financial statements of the individual group companies are recorded and centrally consolidated in a uniform EDP system based on standard software. Furthermore, the ICS also includes regular plausibility checks and system validation of the accounting data as well as regular manual controls which are conducted on a decentralized and centralized basis by those responsible and/or by the employees of group accounting.

The risk management system and the ICS are complemented by group controlling and group audit. Group audit controls the accounting related processes within the frame of risk oriented audit procedures and reports the findings in detailed reports to the management board. Hereby group audit draws especially on upstream and downstream controls and analyzes of the reported data. If necessary, the group sources additional expertise externally, for instance in the valuation of pension provisions.

Significant areas of risk

The presentation of the following risk areas incorporates the individual risks, seen from today's viewpoint, which could significantly influence an achievement of the company goals as well as the group's profit, financial and asset situation. The paramount main risk for Kontron is represented by the cost reduction and efficiency improvement program "New Kontron", introduced in the reporting year, which, with its three pillars: strategy, organization and business infrastructure, influences each of the subsequently named risk areas if it fails. Further risks not yet known to the company or which are not yet perceived as being significant, may also influence the company's business activities. The observation period of the risk positions refers to the business year 2013. The risk categories are presented according to their assessed risk potential in descending order.

Sales risks

The biggest business risk remains, similar to 2012, a lack of orders or the loss of customers. The economic development as well as the progress in the budget consolidation of the European countries and the USA effects the investment behavior of customer groups from the public sector and industrial companies which are important for Kontron. The market situation in the reporting year was defined by a slight recovery in the North American market in the second half-year and a stabilization in Europe. In contrast, the growth rates continued to decline in Asia.

The market development so far in 2014 indicates that we can expect stable market opportunities in the segments served by Kontron namely industry, medicine, communication, military, aviation and transport which in turn increase the chances of further company growth.

In the short term the development of the order balance is an indicator for future turnover. On the reference date December 31, 2013, there was an order balance of € 280 million (2012: € 284 million).

An additional risk factor may be the lasting shift in the composition of the customer structure. The increased competitive situation in the ECT market is also set to continue and it is, therefore, important to counteract the general margin pressure.

Kontron meets this development with a more efficiently organized international supply chain and development activities on the one hand and a clear focus on new customer acquisition and an increase in project volume and solution orientation on the other. This occurs through the utilization of all available distribution channels for the optimization of market coverage.

Furthermore there is also the risk that Kontron may not fully exploit its global sales potential and does not optimally use its production and development capacity. Kontron intends to minimize this risk with an increasingly centralized control of production and R&D activities as well as a more global consideration of the important target markets as part of the cost reduction and efficiency increase program "New Kontron".

Technology risks

Major technology risks may arise from the introduction of new, cost intensive technologies and the acceptance of too many customized development orders in relation to current orders. Furthermore there is also the risk that Kontron may not recognize technological developments early enough and, for example, launch standard products on the market too late or later than important competitors.

Lags in the development phases lead to a delayed market introduction and, in turn, to a competitive disadvantage. For this reason the internal product development process is intensively monitored to actively meet such time losses. "Time to market" is an important factor in customer satisfaction and new customer acquisition as this ensures not only the technological lead against the competition but also enables an early amortization of investments.

The introduction of new technologies and the development of customized orders lead to large investments and tie up the extensive capacity of the development team without this generally leading to a timely realization of revenue. The return on investment (ROI) often only occurs two or three years after the maturity of the development expenditure. Particularly with the introduction of new technologies there is also the risk that the acceptance amongst the customers is over-estimated or that other reasons lead to a delayed successful marketing. This may lead to a devaluation of capitalized development services or stocks associated with the individual project. Each development project is evaluated individually according to economic and technical parameters before a decision is made regarding its continuation. The further development of the projects is hereby subject to a standardized monitoring routine (development gates) to meet delays with foresight. Technology trends, market developments and competition activities are regularly analyzed by the areas responsible for this and internally discussed in order to be present in the market with new or adapted solutions as early on as possible.

Procurement risks

Kontron procures the electronic devices and components needed for its ECT solutions from independent suppliers which manufacture in different regions particularly in Malaysia, China and Germany. One risk may be that suppliers fail to supply, do not deliver on time or that the supplied parts do not fulfill quality standards and, as a result, Kontron is unable to fulfill its contracts. The group has a well established network of renowned suppliers which has grown over time and several of these suppliers have worked closely together with Kontron for already many years. The company ensures adherence to its own quality standards through the systematic planning and implementation of audits with the supplier companies. In addition to supply bottlenecks, price increases may also occur with some components during a phase of dynamic economic upturn and these cannot always be passed on to the customer. To reduce this risk Kontron flexibly adapts the scope of supply and consistently controls stock accordingly with view to possible short term major changes.

In addition, fluctuations in demand, the dynamically developing technological environment, changes in customer requirements or further reasons may lead to a devaluation of existing stock in electronic devices. To reduce this risk Kontron continually analyzes and evaluates stock with view to its utilization and takes suitable measures to keep value loss as minimal as possible. Despite this it cannot be ruled out that write-downs of a considerable volume may be necessary.

Debitor risks

Cause of the debtor risk is a possible default by one or more clients. Kontron counters this default risk with a strategic approach that relies on a broad portfolio of clients as well as various operational measures. In total, several thousand companies and institutions rank among the customers with whom there are generally long-term, trusting relationships. Kontron achieved some 36.3% of sales in the reporting period with the top ten customers. The operational measures include customer analysis and allocation of an internal rating. Besides regularly scheduled reviews of the payment behavior, as far as available - additional ratings are sought in order to obtain a comprehensive picture. The volume of the respective credit limit and any necessary provision of guarantees are assessed based on the result of this process. The review and monitoring of important credit limits is the responsibility of the local units. If despite the implemented monitoring of that there are payment defaults due to an unexpected deterioration of the financial situation of a debtor, Kontron makes sufficient provisions by forming appropriate valuation allowances.

Regional risks
The global presence of Kontron may contain various risks that could arise due to the different country-specific particularities. These include in particular specific customer requirements such as other payment terms, political and regulatory changes, general cultural differences, but also opportunities through an exceptionally dynamic market growth in individual countries. Kontron intends to exploit the potential of the emerging markets and in the key markets – particularly Russia, Malaysia, China and India - is present to varying degrees. The target markets such as Russia and China are affected by political and economic uncertainties (e. g. in Russia and China, many markets are subject to state control). Kontron limits the risk in these countries for instance by selecting the local projects and clients while taking into account a potentially increased risk for the potential revenues. This selective selection and evaluation of potential risks and use of the integrated opportunities is the basis for the corporate success.

The business success of the Russian subsidiary RTSoft which continued to the end of the reporting period, depended not insignificantly on the satisfaction of a major customer in the energy sector. There were more than one-hundred contractually agreed individual projects in which the Russian subsidiary has been active both as a supplier and as a general contractor. These agreements resulted in project-specific risks, which can also still have effects on the current fiscal year.

Personnel risks
The expertise and commitment of our employees are essential factors for sustainable business success. Loss of key personnel could adversely affect further development. In addition, there is a risk that Kontron will not be able to identify, hire and retain talented and motivated employees to a sufficient degree. To minimize this risk, the company relies on an attractive work environment, remuneration that promotes performance, and individual development and training opportunities. Nevertheless, risks may arise from the loss of key personnel.

Employees will have to relocate to other locations – in the context of the current cost reduction program – particularly in Kontron Europe GmbH. This can lead to temporary uncertainties and also lead to long commutes for the affected employees. In addition, employees who are not willing to or cannot support a relocation of their jobs will leave. To counter the human resource risks, a social compensation plan was concluded with the joint works council of the German sites of Kontron Europe GmbH, which places special emphasis on the promotion of mobility. In addition, a comprehensive program was introduced for employee retention. In order to compensate for the short-term loss of expertise due to employee departure, Kontron has also built up resources for recruitment and to expand the recruitment infrastructure.

Reorganization risks
There is a risk that the planned sale of the RTSoft Group in Russia cannot be performed in a timely manner or not at the underlying value in the assessment. There is also the risk that a sale due to possible short-term political changes will not be concluded.

Currency risks
Because of its international activities, Kontron is exposed to exchange rate risks (transaction risks) in various foreign currencies. Therefore, the currency hedging strategy aims to hedge foreign currency amounts. The focus is on transactions that are hedged in foreign currency at the time of the development of a demand expressed in foreign currency or an obligation due to balancing opposing payment flows.

Kontron generates revenues, purchases materials and has other expenses in US dollars (USD) or US dollar-linked currencies and Euros. Any resulting exchange rate effects generally counterbalance each other for the most part (natural hedge), as expenses in USD are offset by corresponding US dollar revenue. The central treasury of Kontron AG regularly analyzes the booked assets and liabilities of certain affiliates that are subject to significant currency risks and hedges the residual peaks that result after the netting of assets and liabilities by using appropriate hedging transactions. If, due to the allocation of funding from Kontron AG to the subsidiaries and investments of the subsidiaries at Kontron AG in the context of internal "cash management" currency risks result, they are also hedged. In individual cases, Kontron also ensures planned revenues and expenses in foreign currencies, which will most probably occur, by entering into forward currency futures contracts.

Financing and liquidity risks

Financing and liquidity risks as well as higher refinancing costs can always slow the further development of the company. Kontron currently has sufficient financing commitments from the credit institutions to cover the financial requirements of the operative business area such as the "New Kontron" measures. At the time of preparation of the consolidated financial statement, Kontron AG was negotiating with the lending bank consortium on an adaptation of the credit facility, which allows financing all measures in the frame of "New Kontron". In addition, with 55.5 % on the balance-sheet date, Kontron AG continues to have a high balance-sheet equity ratio.

The net cash position at the end of the fiscal year amounted to € –8.4 million. At the same time, the unused line of credit was € 87.3 million. Financing commitments of credit institutions are subject to certain conditions ("covenants"). Important specifications include the development of the EBITDA. A deterioration of its operative business development or earnings leads to a reduction of financing facilities and higher refinancing costs. For that reason, Kontron is always in close contact with the bank consortium. Adherence to the "covenants" is analyzed regularly and bank inquiries about the business development are accordingly answered. The Treasury function regularly analyzes the development of the net cash balance.

Legal Risks

Legal risks arise in particular from possible warranty claims due to complaints through penalty payments in the customized development of ECT solutions or through possible contractual penalties associated with individual projects. In addition, there are fundamental risks associated with competition and antitrust law, patent law, customs and tax law and environmental law. Contract management limits these risks. The contract management is based on certain order and business terms and conditions, an internal legal review and legal advice from external specialists if necessary. The liability risk from possible warranty claims will be minimized by following the specified quality and safety standards, the continuous improvement of product quality, on-going review of complaints and, where appropriate, the conclusion of insurance policies. In addition, Kontron formed warranty provisions which, on the balance sheet date of December 31, 2013, amounted to a total of € 3.4 million. It is Kontron's firm resolve to respect the laws, statutes and customs of the various countries in which it operates and to act accordingly. Appropriate codes of behavior are also defined in the Code of Conduct.

Various lawsuits are pending against Kontron. In particular worth mentioning is a replacement program of built-in boards for a customer that is working in the slot machine industry, for which a warranty provision was created in 2013 for a partial amount. According to the current situation, the remaining amount of damage is covered by the insurance. Apart from that, none of the other cases exceed the usual scope or, based on current estimation, have a significant impact on the earnings, financial and asset position of the company.

Overall statement by the Management Board on the risk position

The Executive Board's general statement on the risk situation is the result of a consolidated view of all known risk areas which could be significant for the additional earnings, financial and asset position of the Kontron Group. At the time of the preparation of this report, the Executive Board of Kontron AG deems the identifiable risks to be manageable. From today's perspective, the management does not see a threat to the company as a going concern. The implementation of the cost reduction and efficiency improvement program "New Kontron" is associated with major efforts in all organizational units. With the introduced sharpening the business model and the "New Kontron" measures the Executive Board does believe the company is in a position to confront new strategic challenges, to make the best use of internal success factors, to exploit any opportunities which arise and to develop adequate solutions for future challenges.

Forecast – Overall statement on future development

Comparison of the 2013 fiscal year with the forecast

In view of the significant macroeconomic, industry-related and company-specific challenges following conclusion of the "Shape" optimization program for sustainably increasing its competitiveness, the management of the Kontron Group adopted an extensive cost reduction and efficiency improvement program (CRP), "New Kontron", in July 2013. The "Shape" and CRP / "New Kontron" programs have resulted in additional one-time effects, and have already exhibited the first positive impulses in the improvement of cost structures and the gross profit margin compared to fiscal year 2012.

Sales for the fiscal year 2013 in the amount of € 526 million before adjustment for the sales of the discontinued operations are in the range of the sales forecasts communicated during the year.

Expected financial position

On the basis of the reported revenues of € 445,3 million in 2013, sales growth to € 450 million to € 470 million is planned for the continuing divisions for fiscal year 2014. It should be noted that due to the change of the business model for two customers in North America to a license fee model, sales of € 23.9 million were realized in fiscal year 2013, which must be compensated for through corresponding increases in sales in fiscal year 2014.

In addition, a gross profit margin of more than 25 % should be achieved. With timely implementation of the planned measures of the CR program and the achievement of the expected sales growth, in 2014 a positive operating margin (EBIT margin) will be attained – adjusted for one-off effects from the restructuring. In 2016, the Executive Board aims to achieve a sales level of at least € 550 million for continuing operations at a gross profit margin of more than 25 % and an operating margin (once again adjusted for one-off effects) of more than 6 %.

The basis for the expected organic sales development is Kontron's strong competitive position in the ECT market. It is planned that the high level of innovative strength of the employees, particularly in the area of research and development as well as the outstanding quality of the adjusted product portfolio and the market focus with regard to customer support will make a significant contribution to sales growth.

Investment in the lower double-digit million range for fiscal year 2014 are planned for the launch of a global ERP system. Further investments are scheduled for the development of a new technology campus in Augsburg, where the new building will be funded substantially through a long-term lease with an investor.

To implement the measures of the CR program, in 2014 one-off expenses for restructuring in the low double-digit million range are planned again.

Overall statement on the future development

Against the background of the "Shape" optimization program implemented in 2013 and the extensive cost reduction and efficiency improvement program (CRP) "New Kontron" initiated in fiscal year 2013, 2014 will be another difficult year of transition. Due to the implementation of the measures defined in "New Kontron", the Group is in an intense period of change in the structure and process organization.

The stipulation of the individual measures and effects has been adopted in the past fiscal year by the Executive Board and the Supervisory Board and includes great challenges for 2014. The successive implementation was also made possible by the agreement with the the joint works council at the end of 2013. One central task to be mentioned is the development and expansion of the Technology Center in Augsburg. This site will also be the company headquarters in the future. The merging of the sites within Germany in the branches in Augsburg, Deggendorf and Saarbrücken branches and the development of global efficient processes are main aspects of the "New Kontron" program. Additional investments, particularly for the development of global processes and in the IT infrastructure (global ERP system) are planned. Most of the measures, in particular the site consolidation, are to be implemented by the end of 2014.

Business development in 2014 will largely depend on the successful implementation of measures from the cost-cutting and efficiency enhancement program (CRP) and the effectiveness of customer contact through the global, business divisions focused on the markets.

Based on the market potential and growth plans of the global business units, revenue growth is once again an objective – as early as for 2014. For the coming years, sales growth is planned which is at least equal to the market growth or which outperforms market growth.

The planned cost savings through the consistent implementation of the cost-cutting and efficiency enhancement program (CRP) would lead to correspondingly positive contributions with successful realization of sales growth in the short and medium term.

Nevertheless, the overall economic conditions, with regional variations and the continued strong margin pressure hold risks which the various Kontron divisions must face.

The big change – especially in the current phase of transformation in 2014 – harbors risks that can also lead to negative financial effects even in the short and medium term.

After the transformation it is expected that sales and earnings in the medium term will rise faster again.

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Consolidated statement of financial position (IFRS)
Assets

Table 013

in €k	Notes	**12/31/2013**	12/31/2012 adjusted*
Assets			
Cash or cash equivalents	(9)	26,755	27,534
Inventories	(10)	84,695	100,023
Advanced payments		584	6,144
Receivables from construction contracts		1,004	6,397
Accounts receivable, net	(11)	88,619	109,954
Income tax receivable		3,552	2,905
Other current receivables and assets	(12)	12,148	18,165
Assets held-for-sale	(8)	40,293	0
Total current assets		**256,062**	**258,581**
Investments		564	702
Property, plant and equipment	(14)	19,290	22,426
Other intangible assets	(15)	58,251	68,604
Goodwill	(15)	88,711	93,326
Other non-current receivables and assets	(12)	1,554	1,965
Deferred income tax	(7)	20,202	14,807
Total non-current assets		**188,572**	**201,830**
Total assets		**444,634**	**460,411**

* Some of the figures shown differ from those in the consolidated accounts for the financial year 2012 due to adjustments made (refer to the section "Changes in presentation of figures").

Consolidated statement of financial position (IFRS)
Liabilities

Table 013

in €k	Notes	12/31/2013	12/31/2012 adjusted*
Liabilities and equity			
Accounts payable, trade	(16)	67,209	87,635
Short term borrowings, bank	(19)	197	518
Current portion of finance lease obligation	(19)	104	127
Current provisions	(20)	14,175	7,197
Deferred revenues		698	864
Obligations from construction contracts	(8)	1,268	4,488
Income tax payable		3,615	3,161
Other current liabilities	(17)	22,504	28,859
Liabilities associated with assets held for sale		28,066	0
Total current liabilities		**137,836**	**132,849**
Long-term borrowings, bank	(19)	34,932	13,803
Non-current provisions	(20)	2,194	4,117
Pensions	(20)	1,428	1,307
Finance lease obligation long-term	(19)	190	80
Other non-current liabilities	(17)	3,482	1,484
Deferred income taxes	(7)	17,628	20,093
Total non-current liabilities		**59,854**	**40,884**
Common Stock	(22) – (24)	55,683	55,683
Additional Paid-in Capital	(28)	200,048	233,803
Retained Earnings		26,990	26,667
Other components of equity	(26)	– 32,705	– 30,983
Treasury stock	(25)	– 1,813	– 1,813
Reserves of a disposal group classified as held for sale		– 3,836	0
Equity attributable to Equity Holders of the parent		**244,367**	**283,357**
Non-controlling interests	(27)	2,577	3,321
Total equity		**246,944**	**286,678**
Total liabilities and equity		**444,634**	**460,411**

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Consolidated statement of income (IFRS)

Table 014

in €k	Notes	**01 – 12 / 2013**	01 – 12 / 2012 adjusted*
Continuing operations			
Revenues	(1)	**445,253**	**466,889**
Material		– 280,962	– 304,039
Other production cost		– 31,118	– 31,693
Amortization of capitalized development projects		– 13,312	– 11,574
Order-related development cost		– 6,424	– 7,210
Cost of goods sold		– 331,816	– 354,516
Gross margin		**113,437**	**112,373**
Selling and marketing cost		– 42,529	– 43,387
General and administrative cost		– 33,297	– 37,210
Research and development cost		– 33,204	– 33,360
Subtotal operating costs	(3)	**– 109,030**	**– 113,957**
Restructuring cost	(4)	– 33,543	– 13,249
Goodwill Impairment	(15)	0	– 9,577
Other operating income	(5)	6,822	13,831
Other operating expenses	(5)	– 6,679	– 14,118
Operating income before financial income and income taxes		**– 28,993**	**– 24,697**
Finance income	(6)	347	646
Finance expense	(6)	– 1,931	– 2,496
Income taxes	(7)	6,587	445
Income from continuing operations		**– 23,990**	**– 26,102**
Income after taxes from discontinued operations	(8)	– 7,617	– 7,610
Net income		**– 31,607**	**– 33,712**
Non-controlling interests		– 383	– 831
Thereof account for shareholders of Kontron AG		– 31,224	– 32,881
Earnings per share (basic) in €	(33)	– 0.56	– 0.59
Earnings per share (diluted) in €	(33)	– 0.56	– 0.59
Earnings per share (basic) from continuing operations in €	(33)	– 0.43	– 0.46
Earnings per share (diluted) from continuing operations in €	(33)	– 0.43	– 0.46

* Some of the figures shown differ from those in the consolidated accounts for the financial year 2012 due to adjustments made (refer to the section “Changes in presentation of figures”).

Consolidated statement of comprehensive income (IFRS)

Table 015

in €k	**01 – 12 / 2013**	01 – 12 / 2012 adjusted*
Net income	**– 31,607**	**– 33,712**
Other comprehensive income:		
Other comprehensive income to be reclassified subsequently to profit or loss:		
Exchange differences on translating of foreign operations	– 5,915	– 324
Income tax effects	– 4	– 4
	– 5,919	**– 328**
Other comprehensive income not to be reclassified subsequently to profit or loss:		
Net actuarial gains and losses on pensions	99	– 400
Income tax effects	– 28	– 229
	71	**– 629**
Other comprehensive income for the year, net of tax	**– 5,848**	**– 957**
Total comprehensive income for the year	**– 37,455**	**– 34,669**
Thereof account for non-controlling interests	– 744	– 713
Thereof account for shareholders of Kontron AG	– 36,711	– 33,956

* Some of the figures shown differ from those in the consolidated accounts for the financial year 2012 due to adjustments made (refer to the section “Changes in presentation of figures”).

Consolidated cash flow statement (IFRS)

Table 016

in €k	Notes	**01 – 12 / 2013**	01 – 12 / 2012 adjusted*
Income from continuing operations		– 23,990	– 26,102
Income after taxes from discontinued operations		– 7,617	– 7,610
Net income		**– 31,607**	**– 33,712**
Depreciation and amortization of fixed assets		29,703	24,541
Depreciation of financial assets		13	0
Goodwill Impairment	(15)	7,948	19,282
Net gain / loss on disposal of fixed assets		132	135
Change in deferred income taxes		– 9,771	– 3,732
Interest income	(6)	– 370	– 680
Interest expense	(6)	2,182	2,738
Other non-cash items		– 411	– 284
Change in assets / liabilities:			
Accounts receivable		– 2,138	11,171
Inventories		– 1,531	23,777
Other receivables		676	– 3,386
Accounts payable and provisions		8,127	12,516
Interest paid		– 1,147	– 3,684
Interest received		192	218
Income taxes paid		– 654	– 3,188
Income taxes received		635	479
Net cash used in / provided by operating activities	(31)	**1,979**	**46,192**
Purchases of property, plant and equipment		– 3,445	– 6,907
Purchases of intangible assets		– 17,325	– 22,861
Purchases of financial assets		– 22	– 27
Proceeds from the sale or disposal of property, plant and equipment		365	4,779
Proceeds from the sale or disposal of intangible assets		0	67
Proceeds from the sale of subsidiaries, net of cash		400	6,060
Acquisition of additional equity in subsidiaries		0	– 15
Net cash used in / provided by investing activities	(31)	**– 20,027**	**– 18,904**
Change of current account / overdrafts	(19)	3,748	– 3,699
Repayment of short-term borrowings	(19)	– 24	– 39,570
Proceeds from short-term borrowings	(19)	44	19,415
Repayment of long-term debt	(19)	– 1,688	– 13,305
Proceeds from long-term debt	(19)	23,106	13,789
Dividends paid		– 2,223	– 12,136
Payment of liabilities from acquisitions		0	– 2,459
Net cash used in / provided by financing activities		**22,963**	**– 37,965**
Effect of exchange rate changes on cash		– 1,708	46
Net change in cash or cash equivalents		**3,207**	**– 10,631**
Cash or cash equivalents at beginning of period		27,534	38,165
Cash or cash equivalents at end of period	(9)	**30,741**	**27,534**

* Some of the figures shown differ from those in the consolidated accounts for the financial year 2012 due to adjustments made (refer to the section "Changes in presentation of figures").

Shareholders' equity (IFRS)

		Equity attributable to Equity Holders of the parent		
*in €k adjusted**	Notes	Common stock	Additional paid in capital	Retained earnings
January 01, 2012		**55,683**	**233,751**	**71,303**
Net income				– 32,881
Other comprehensive income				– 629
Total comprehensive income		**0**	**0**	**– 33,510**
Acquisition of non-controlling interests				– 12
Sale of a subsidiary				
Dividend payment				– 11,114
Stock based compensation	(32.1)		52	
December 31, 2012		**55,683**	**233,803**	**26,667**
January 01, 2013		**55,683**	**233,803**	**26,667**
Net income				– 31,224
Other comprehensive income				71
Total comprehensive income		**0**	**0**	**– 31,153**
Transfer from additional paid in capital	(28)		– 33,700	33,700
Discontinued operations	(8)			
Dividend payment				– 2,223
Stock based compensation	(32.1)		– 55	
December 31, 2013		**55,683**	**200,048**	**26,990**

* Some of the figures shown differ from those in the consolidated accounts for the financial year 2012 due to adjustments (refer to the section "Changes in presentation of figures").

Table 017

Equity attributable to Equity Holders of the parent					
Foreign currency translation reserve	Discontinued operations	Treasury stock		Non-controlling interest	**Equity total**
– 30,537	**0**	**– 1,813**	**328,387**	**5,178**	**333,565**
			– 32,881	– 831	– 33,712
– 446			– 1,075	118	– 957
– 446	**0**	**0**	**– 33,956**	**– 713**	**– 34,669**
			– 12	– 4	– 16
			0	– 118	– 118
			– 11,114	– 1,022	– 12,136
			52		52
– 30,983	**0**	**– 1,813**	**283,357**	**3,321**	**286,678**
– 30,983	**0**	**– 1,813**	**283,357**	**3,321**	**286,678**
			– 31,224	– 383	– 31,607
– 5,558			– 5,487	– 361	– 5,848
– 5,558	**0**	**0**	**– 36,711**	**– 744**	**– 37,455**
			0		0
3,836	– 3,836		0		0
			– 2,223		– 2,223
			– 55		– 55
– 32,705	**– 3,836**	**– 1,813**	**244,367**	**2,577**	**246,944**

Fixed asset schedule 2013 (IFRS)

	Acquisition and manufacturing costs						
in €k	Balance at 01/01/2013	Currency changes	Reclassification	Additions	Disposals	Discontinued operations	Balance at 12/31/2013
I. Intangible assets							
1. Other intangible assets	46,433	– 1,104	20	1,807	216	– 5,704	41,236
2. Internally generated intangible assets	103,013	– 1,810	0	15,256	3,096	– 2,510	110,852
3. Goodwill	166,921	– 954	0	0	0	– 11,410	154,555
	316,367	**– 3,868**	**20**	**17,063**	**3,312**	**– 19,624**	**306,643**
II. Tangible assets							
1. Land and buildings, including buildings on third-party land	21,469	– 113	0	283	94	– 238	21,305
2. Technical equipment and machinery	17,626	– 546	137	1,293	886	– 1,040	16,583
3. Other fixed assets and office equipment	16,646	– 654	– 157	1,801	761	– 2,350	14,525
4. Leased objects	1,329	– 10	0	0	0	0	1,317
	57,069	**– 1,323**	**– 20**	**3,377**	**1,741**	**– 3,628**	**53,730**
	373,436	**– 5,191**	**0**	**20,440**	**5,053**	**– 23,252**	**360,373**

Table 018

Depreciation							Book value	
Balance at 01/01/2013	Currency changes	Additions	Additions unscheduled	Disposals	Dis-continued operations	Balance at 12/31/2013	Balance at 01/01/2013	Balance at 12/31/2013
36,488	– 902	3,817	86	216	– 5,450	33,823	9,945	7,413
44,353	– 1,122	14,829	7,560	3,096	– 2,510	60,014	58,659	50,838
73,593	– 2	0	3,663	0	– 11,410	65,844	93,326	88,711
154,434	**– 2,026**	**18,646**	**11,309**	**3,312**	**– 19,370**	**159,681**	**161,930**	**146,962**
9,397	– 55	874	0	88	– 62	10,066	12,070	11,239
12,891	– 460	1,643	35	662	– 652	12,795	4,734	3,788
11,089	– 422	1,965	105	690	– 1,733	10,314	5,557	4,211
1,262	– 10	13	0	0	0	1,265	65	52
34,639	**– 947**	**4,495**	**140**	**1,440**	**– 2,447**	**34,440**	**22,426**	**19,290**
189,073	**– 2,973**	**23,141**	**11,449**	**4,752**	**– 21,817**	**194,121**	**184,356**	**166,252**

Fixed asset schedule 2012 (IFRS)

	Acquisition and manufacturing costs						
in €k	Balance at 01/01/2012	Currency changes	Changes to consolida-tion scope	Reclassi-fication	Additions	Disposals	Balance at 12/31/2013
I. Intangible assets							
1. Other intangible assets	44,406	– 264	– 42	0	2,444	111	46,433
2. Internally generated intangible assets	85,016	– 444	– 966	0	20,213	807	103,012
3. Goodwill	167,295	– 251	– 125	0	0	0	166,919
	296,717	**– 959**	**– 1,133**	**0**	**22,657**	**918**	**316,364**
II. Tangible assets							
1. Land and buildings, including buildings on third-party land	19,708	– 20	– 632	15	2,466	70	21,467
2. Technical equipment and machinery	18,402	– 47	– 1,507	– 235	1,219	207	17,625
3. Other fixed assets and office equipment	15,389	3	– 462	220	3,163	1,667	16,646
4. Leased objects	1,594	9	– 160	0	0	116	1,327
	55,093	**– 55**	**– 2,761**	**0**	**6,848**	**2,060**	**57,065**
	351,810	**– 1,014**	**– 3,894**	**0**	**29,505**	**2,978**	**373,429**

Table 019

Depreciation								Book value	
Balance at 01/01/2012	Currency changes	Changes to consolida-tion scope	Reclassi-fication	Additions	Additions unscheduled	Disposals	Balance at 12/31/2012	Balance at 01/01/2012	Balance at 12/31/2012
28,145	– 226	– 41	0	5,558	3,163	111	36,488	16,261	9,945
32,521	– 279	– 875	0	10,567	2,485	66	44,353	52,495	58,659
56,268	2	0	0	0	17,323	0	73,593	111,027	93,326
116,934	**– 503**	**– 916**	**0**	**16,125**	**22,971**	**177**	**154,434**	**179,783**	**161,930**
9,124	– 8	– 493	4	825	0	55	9,397	10,584	12,070
12,820	– 13	– 1,493	– 138	1,860	0	145	12,891	5,582	4,734
11,247	25	– 438	134	1,772	0	1,651	11,089	4,142	5,557
1,207	7	– 160	0	98	172	62	1,262	387	65
34,398	**11**	**– 2,584**	**0**	**4,555**	**172**	**1,913**	**34,639**	**20,695**	**22,426**
151,332	**– 492**	**– 3,500**	**0**	**20,680**	**23,143**	**2,090**	**189,073**	**200,478**	**184,356**

Notes to the 2013 Consolidated Financial Statements of Kontron AG

General information

Kontron AG's legal form is that of a public limited company. Its head office is located at Oskar-von-Miller-Strasse 1, 85386 Eching, Germany, and it is listed on the commercial register in Munich under HRB 143901.

The Kontron Group develops and produces embedded computer systems at various locations around the world. Embedded computers (EC) are "electronic brains" based on hardware and software that provide the most varied systems and equipment with intelligence. These devices are used in medical equipment, telecommunications facilities, infotainment, transportation, energy, the aerospace industry, safety / security features and industrial control systems. As a global manufacturer, Kontron is active in the three main markets of North America, Europe and Asia.

Accounting

Kontron AG prepared its consolidated financial statements for the 2013 financial year in accordance with International Financial Reporting Standards (IFRS), applied as required by the European Union. All of the announcements of the International Accounting Standards Board (IASB) whose application is mandatory for the 2013 financial year were taken into account. The significant effects of new or amended standards are described under "New and amended standards and interpretations".

The consolidated financial statements provide a true and fair view of the net assets, financial position, and results of operations of Kontron for the business year in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements were prepared in euros. Unless stated to the contrary, all amounts are reported in thousands of euros (€k). The percentage figures and numbers may show rounding differences.

The consolidated financial statements and Group management report as of December 31, 2013 and 2012 were prepared pursuant to Section 315a (1) of the German Commercial Code (HGB). The consolidated financial statements and Group management report as of December 31, 2012 were published in the Electronic German Federal Gazette (Bundesanzeiger).

Changes in presentation

Due to the significance of the restructuring costs for the Kontron Group in the 2013 financial year, the structure of the consolidated statement of income was extended by the line item, Restructuring cost. The comparative figures for 2012 were adjusted to the new structure. Furthermore, due to separate reporting of discontinued operations and retrospective application of the revised IAS 19 *Employee benefits*, the presentation of the previous years' figures deviates from the presentation shown in the 2012 annual report. The consolidated statement of income can be reconciled as follows:

Income and loss statement

Table 020

in €k	Annual report 2012	Restructuring cost	Revenues with discontinued operations	Discontinued operations	Amendments from IAS 19	2012 adjusted
Revenues	**546,955**	**0**	**5,876**	**– 85,940**	**0**	**466,889**
Materials	– 338,013	4,237	– 4,190	33,927	0	– 304,039
Other production cost	– 30,159	– 1,595	0	60	0	– 31,693
Amortization of capitalized development projects	– 12,998	1,185	0	239	0	– 11,574
Order-related development cost	– 35,309	0	0	28,099	0	– 7,210
Cost of goods sold	**– 416,479**	**3,827**	**– 4,190**	**62,325**	**0**	**– 354,516**
Gross margin	**130,476**	**3,827**	**1,686**	**– 23,615**	**0**	**112,373**
Selling and marketing cost	– 47,928	432	0	4,109	0	– 43,387
General and administrative cost	– 50,845	7,756	– 1,686	7,732	– 167	– 37,210
Research and development cost	– 45,048	1,747	0	9,941	0	– 33,360
Subtotal operating costs	**– 143,821**	**9,935**	**– 1,686**	**21,782**	**– 167**	**– 113,957**
Restructuring cost	0	– 13,249	0	0	0	– 13,249
Goodwill impairment	– 19,282	0	0	9,705	0	– 9,577
Other operating income	15,977	– 1,093	0	– 1,053	0	13,831
Other operating expenses	– 15,812	580	0	1,114	0	– 14,118
Operating income before financial income and income taxes	**– 32,462**	**0**	**0**	**7,933**	**– 167**	**– 24,697**
Finance income	680	0	0	– 34	0	646
Finance expense	– 2,738	0	0	242	0	– 2,496
Income taxes	921	0	0	– 531	55	445
Income from continuing operations	**– 33,599**	**0**	**0**	**7,610**	**– 112**	**– 26,102**
Income after taxes from discontinued operations	0	0	0	– 7,610	0	– 7,610
Net income	**– 33,599**	**0**	**0**	**0**	**– 112**	**– 33,712**

With respect to the cash flow statement, the comparative information has also been adjusted. In this year's financial statements, the payment of liabilities from acquisitions in the amount of € 2,459k is reported as an outflow of funds from financing activities. In the previous year, this was by mistake reported as an outflow of funds from investment activities.

New and amended standards and interpretations

There were no changes to the accounting principles compared with the previous year. The amendments to the standards as listed below that were applied as of January 1, 2013 respresent exceptions to the above:

- *Amendment to IAS 1 – Presentation of items of other comprehensive income:*
- *Amendment to IAS 19 – Employee benefits*
- *Amendment of IAS 36 – Recoverable amount*
- *Amendment to IFRS 7 – Offsetting financial assets and financial liabilities*
- *IFRS 13 – Fair value measurement*
- *Improvements to IFRS (May 2012)*

The application of these standards and interpretations will be described in greater detail below.

Amendment to IAS 1 – *Presentation of items of other comprehensive income*
The changes to IAS 1 give rise to a change in the grouping of items shown under other comprehensive income. Items which are later reclassified under gains for the period (including profit or loss from the hedging of a net investment, foreign currency translation differences for foreign operations, losses and gains from the hedging of cash flows and from available-for-sale financial assets), must be shown separately from items that will be not reclassified (including actuarial gains and losses from defined benefit pension plans and effects from the revaluation of land and buildings). This amendment only refers to the presentation and does not affect the Group's net assets, financial position and results of operations. The amendment must be applied for the first time for financial years which begin on or after July 1, 2012, and is presented in the consolidated statement of comprehensive income.

IAS 19 – *Employee benefits (revised)*
The IASB has comprehensively revised IAS 19. The amendments cover basic changes such as ascertaining the expected return on plan assets and the abolition of the corridor approach up to simple clarifications and rewording. The abolition of the corridor method had no effect on the net assets, financial position, and results of operations of the Group because the Group had previously recognized net actuarial gains and losses in other comprehensive income in the year in which they arose. In the future, the revised standard will have an impact on the pension benefit expenses reduced by income, as the expected income from the plan assets must be calculated using the same interest rate that is used for the discounting of the defined benefit obligation. The amendment must be applied for the first time for financial years that begin on or after January 1, 2013. As a result of the amendment with retrospective effect, as of December 31, 2013, the net pension obligation increased by € 167k at the expense of equity.

Amendment to IFRS 7 – *Offsetting financial assets and financial liabilities*
This amendment stipulates that a company must disclose information about offsetting rights and agreements associated with them (e. g. hedging agreements). In this way, users of financial statements would receive information with whose help the impact of the offsetting agreements on the financial position of companies can be assessed. The new disclosures are required for all financial instruments reported in the balance sheet which were offset within the framework of IAS 32 *Financial instruments: Presentation*. The disclosures apply equally to reported financial instruments which are subject to enforceable master offsetting agreements or similar agreements, irrespective of whether they are set off in accordance with IAS 32. The amendment must be applied for the first time for financial years which begin on or after January 1, 2013. This amendment did not have any impact on the presentation of the Group's net assets, financial position, results of operations or Notes of the Group.

IFRS 13 – *Fair value measurement*
The standard sets out a single framework for measuring fair value. The standard does not deal with the question of when assets and liabilities must or can be measured at fair value, but does provide guidance on how to measure the fair value under IFRS. The standard must be applied for the first time for financial years which begin on or after January 1, 2013 and, in view of the minor significance of measurement at fair value in the consolidated financial statements, does not have any substantial impact on the Group's net assets, financial position and results of operations.

Amendment to IAS 36 – *Impairment of assets – Recoverable amount disclosures for non-financial assets*
This amendment eliminates the unintended consequences of IFRS 13 for the disclosure requirements in accordance with IAS 36. Furthermore, the amendment requires the disclosure of the recoverable amount of the assets or cash-generating units for which impairments or reversals were recorded over the course of the year. The amendment must be applied with retroactive effect for financial years beginning on or after January 1, 2014. Early adoption is permissible if IFRS 13 is also adopted. The Group made use of early adoption. The amendment is taken into account in Note (15) on impairment of goodwill.

Improvements to IFRS (May 2012)
The amendments arising from this statement had no impact on the consolidated financial statements.

- IAS 1 – *Presentation of financial statements*

Clarification of the difference between voluntary additional comparative information and mandatory comparative information, which generally encompasses the previous reporting period.

- IAS 16 – *Property, plant and equipment*

Clarification that crucial replacement parts and maintenance equipment, which qualify as property, plant and equipment are not covered by the requirements for inventories.

- IAS 32 – *Financial instruments: Presentation*

Clarification that income taxes on dividend payouts to holders of equity instruments are covered by the requirements in IAS 12 Income taxes.

- IAS 34 – *Interim financial reporting*

Requirement for aligning disclosures on segment assets with the disclosures on segment liabilities in interim financial reporting and for aligning disclosures in the interim financial reporting with the disclosures made for the annual reporting.

Standards issued but not yet effective
The standards and interpretations which had been issued by the time of the consolidated financial statements' publication but are not yet effective are shown below. The Group intends to apply these standards when they become effective.

IFRS 10 – *Consolidated financial statements*
IFRS 10 replaces the requirements of the former IAS 27 *Consolidated and separate financial statements* on group accounting and includes issues that were previously dealt with SIC–12 *Consolidation – special purpose entities*. IFRS 10 defines a single control model, which applies to all companies, including special purpose entities. The changes introduced in IFRS 10 require management to exercise a substantial degree of judgment compared with the former IFRS requirements in order to determine which entities the group controls and whether these should therefore be fully consolidated in the consolidated financial statements. The results of the provisional analysis indicate that IFRS 10 will have no impact on the categorization of shareholdings currently held by the Group. The standard must be applied for financial years which begin on or after January 1, 2014.

IFRS 12 – *Disclosure of interests in other entities*
The standard uniformly governs the disclosure requirements for the consolidated financial statements and consolidates the disclosures for subsidiaries that were previously governed by IAS 27, the disclosures for joint ventures and associated companies (previously contained in IAS 31 / IAS 28) and for structured entities. The standard also defines a number of new disclosures, none of which will have any impact on the Group's net assets, financial position and results of operations. The standard must be applied for the first time for financial years, which begin on or after January 1, 2014.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Consolidated financial statements, Joint arrangements and Disclosure of interests in other entities: transition guidance*
The amendments will lead to a substantiation and clarification of the transition regulations in IFRS 10 Consolidated financial statements. In addition, the process is made easier in that the adjusted comparative figures to be disclosed are restricted to the directly preceding comparable period as per the first-time application, and the obligation to disclose comparative information on non-consolidated special purpose entities upon the first-time application of IFRS 12 was discarded. The amendments will become effective – in analogy with to IFRS 10, IFRS 11 and IFRS 12 – for reporting periods which begin on or after January 1, 2014 and are unlikely to have any impact on the consolidated financial statements.

Amendment to IAS 32 – *Offsetting financial assets and financial liabilities*
The amendment clarifies the meaning of "currently has a legally enforceable right of set-off". In addition, it gives a more precise definition to the application of the offsetting criteria in IAS 32 to settlement systems (e. g. central clearing houses) which carry out a gross settlement where the individual transactions do not take place at the same time. The revised standard must be applied for the first time for financial years which begin on or after January 1, 2014 and is unlikely to have any impact on the consolidated financial statements.

IFRS 9 – *Financial instruments: Classification and measurement*
IFRS 9 reflects the first phase of the IASB project to replace IAS 39, and deals with the classification and measurement of financial assets and financial liabilities under IAS 39. The standard was initially intended for financial years beginning on or after January 1, 2013. With the amendment to IFRS 9 published in November 2013, the date of mandatory first-time application was postponed for an undefined period; it shall be set when the project to replace IAS 39 has been finally concluded. This is expected to be in 2014. The application of the changes arising from the first phase of IFRS 9 will affect the classification and measurement of the Group's financial assets, but probably not affect the classification and measurement of its financial liabilities. When the final standard, including all of its phases, has been published, the Group will quantify the impact in conjunction with the other phases.

IFRS 9 – *Financial instruments: hedge accounting*

With the publication of the requirements on hedge accounting in November 2013, the IASB is continuing its project to develop the new IFRS 9 *Financial instruments*. The standard, which is conceived as a supplement or amendment to the current published version of IFRS 9, contains by way of contrast to the current legal situation in particular new requirements on the designation of hedging instruments and risks, requirements for effectiveness, , rebalancing and discontinuation of hedging relationships and, in part, accounting of hedging relationships in the balance sheet. The standard must be applied at the time of its publication. However, it requires the application of IFRS 9 in its entirety and contains comprehensive transitional provisions. As previously stated, the Group will quantify the impact in conjunction with other phases of IFRS 9.

Amendment to IAS 19 – *Employee contributions*

The amendment to IAS 19 was published in November 2013 and must be applied for the first time for the financial year that begins on or after July 1, 2014. The amendment governs the recognition of employee contributions or third parties to the pension plan to reduce the service cost, where the same reflect the performance rendered in the reporting period. The amendment is to be applied with retrospective effect. The amendment is unlikely to have any impact on the consolidated financial statements.

The amended IFRS listed below are not applicable to the Group and, therefore, will not have any impact on the Group's net assets, financial position and results of operations:

- IFRS 11 – *Joint arrangements*
- Amendment to IFRS 10, IFRS 12 and IAS 27 – *Investment entities,*
- IAS 27 – *Separate Financial Statements* (revised 2011),
- IAS 28 – *Investments in associates and joint ventures* (revised 2011)
- Amendment to IAS 39 – *Novation of derivatives and continuation of hedge accounting,*
- *Improvements to IFRS* (2010-2012),
- *Improvements to IFRS* (2011-2013),
- IFRIC 21 *Levies*

Scope of consolidation

The scope of consolidation did not change in the 2013 financial year; as in the previous year, 22 companies are included.

All of the material domestic and international subsidiaries over which Kontron AG directly or indirectly gains control are included in the consolidated financial statements in line with the principles of full consolidation. Their inclusion commences at the time when control comes into being; it ends when such control no longer exists. Shares in the equity of subsidiaries which are not held by Group companies are reported separately under equity as shares with no controlling influence.

In addition to Kontron AG, the following subsidiaries are included in the consolidated financial statements for the period to December 31, 2013 in accordance with the rules on full consolidation:

Consolidated companies

Table 021

in %

Name and location of the company	Attributable interest
EMEA	
Kontron UK Ltd., Chichester / UK	100
Kontron ECT design s.r.o., Pilsen / Czech Republic	100
Kontron Europe GmbH, Kaufbeuren / Germany	100
Kontron Modular Computers S.A.S., Toulon / France	100
Kontron East Europe Sp.zo.o., Warsaw / Poland	97.5
Kontron Modular Computers AG, Cham / Switzerland	100
Kontron Technology A/S, Hørsholm / Denmark	100
Kontron Verwaltungs-GmbH, Kaufbeuren / Germany	100
Kontron Compact Computers AG, Luterbach / Solothurn / Switzerland	96.59
ubitronix system solutions gmbh, Hagenberg / Austria	51
North America	
Kontron America Inc., San Diego / USA	100
Kontron Canada Inc., Boisbriand / Canada	100
Emerging Markets	
RTSoft Project, Moscow / Russia	100
Affair 000, Moscow / Russia	100
RTSoft ZAO, Moscow / Russia	74.5
Training Center RTSoft, Moscow / Russia	74.5
Kontron Ukraine Ltd., Kiev / Ukraine	74.5
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 Australia Pty. Ltd., Sydney / Australia	90
Kontron Technology India Pvt. Ltd., Mumbai / India	55

No joint ventures or associated companies are currently included in the group financial statements of Kontron AG.

There were no acquisitions or divestments during 2013.

Kontron Technology India Pvt. Ltd.
On December 3, 2012 Kontron AG acquired a further 4% of shares in Indian subsidiary Kontron Technology India Pvt. Ltd., thereby increasing its holding to 55%. The purchase price amounted to € 15k. The difference between the acquisition costs and the book value accruing on the purchased shares in the amount of € 12k was reported in equity under retained earnings.

Divestments

AP Parpro Inc.
With effect from July 31, 2012, Kontron America Inc. sold all of its shares to AP Parpro Inc. as part of a management buy-out to the management of AP Parpro Inc. The sale price of the shares was € 6,190k. The profit generated by the sale amounted to € 72k (including transaction costs in the amount of € 46k) and is reported under other operating income.

Merz s.r.o.
On December 31, 2012, Kontron Modular Computers AG sold all of its shares (70%) to Merz s.r.o. as part of a share deal to the minority shareholder of Merz s.r.o. The sale price of the shares was € 400k. The sale generated a loss in the amount of € 469k (including transaction costs in the amount of € 7k) and is reported under other operating expenses.

Accounting principles

The financial statements of Kontron AG and its domestic and foreign subsidiaries are prepared in accordance with IAS 27 *Consolidated and Separate Financial Statements according to IFRS* in accordance with uniform accounting principles.

Consolidation principles
The assets and liabilities of domestic and foreign companies included in the consolidated financial statements are shown in accordance with the accounting methods applied uniformly in the Kontron Group. Subsidiaries are fully consolidated from their acquisition date, in other words, from the date on which the Group achieves control. A controlling influence generally arises on the date when a voting right majority is obtained. Consolidation ends as soon as the parent company no longer exercises control.

When subsidiaries are consolidated for the first time, assets, liabilities and contingent liabilities are valued at their fair value at the acquisition date. These identifiable assets, liabilities and contingent liabilities are amortized, written down or released as part of subsequent consolidation. The cost of acquiring a company is measured as the sum of the consideration transferred taken at fair value at the time of acquisition and the non-controlling interests in the acquired company. In the event of a business combination, the Group decides whether it will value the non-controlling interest in the acquired company either at the fair value or the corresponding portion of the identifiable net assets of the acquired company. Any costs arising from the business combination are recorded as expenses and shown under administrative costs. The agreed contingent consideration is recorded at the fair value at the time of acquisition. Subsequent changes to the fair value of a contingent consideration representing an asset or a debt are recorded in accordance with IAS 39 either in profit and loss under other operating income / expenses or under other comprehensive income.

Goodwill is initially recognized at cost measured by the surplus of the total consideration transferred and the amount of the non-controlling interest through the identifiable assets acquired and liabilities assumed by the Group. If this consideration is below the fair value of the gross profit of the subsidiary company acquired, the difference is shown in profit and loss.

Goodwill resulting from consolidation is tested regularly for impairment as of the balance sheet date and, if required, an impairment charge is applied. All impairment losses are recognized immediately through the income statement. Impairment reversals are not applied. From January 1, 2010, a change in the level of interest held in a subsidiary (without loss of control) is recognized as an equity transaction.

The purchase of additional "non-controlling interests" was accounted for using the so-called parent entity extension method before January 1, 2010. This entails reporting the difference between the purchase price and the carrying amount of the proportional acquired net assets as goodwill.

Group-internal balances, income, expenses, and unrealized gains and losses arising from internal Group transactions are fully eliminated.

Group inventories and assets are adjusted to reflect intra-Group transactions.

In the process of consolidation, income tax effects are taken into account, and deferred tax is recognized.

Currency conversion

These consolidated financial statements are prepared in euros, the parent company's functional currency. Each company within the Group determines its own functional currency. The items contained in the financial statements of the relevant company are measured using this functional currency. Foreign currency transactions are converted initially into the functional currency using the cash rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency on each balance sheet date using the rate prevailing on the balance sheet date. All currency differences are booked through the income statement.

The net assets, financial position and results of operations of foreign companies are translated into euros as follows: The assets and liabilities of the foreign companies are translated into euros at their closing-date rate within the framework of the consolidation. Income and expenses are translated at the average exchange rate for the year. The resultant conversion differences are reported as a separate component of equity.

The currency difference resulting from the translation of equity is also reported as a separate component of equity.

The exchange rates of the currencies most important to the Kontron Group changed as follows compared with the previous year:

Exchange rate overview *Table 022*

	Reporting date rate (base € 1)		Average rate (base € 1)	
	12/31/2013	12/31/2012	**2013**	2012
US Dollar	1.38	1.32	1.33	1.29
British Pound	0.83	0.82	0.85	0.81
Taiwan Dollar	41.29	38.30	39.47	38.04
Russian Rouble	45.32	40.33	42.33	39.93
Danish Crown	7.46	7.46	7.46	7.44
Swiss Franc	1.23	1.21	1.23	1.21
Australian Dollar	1.54	1.27	1.38	1.24
Chinese Yuan	8.34	8.22	8.16	8.11
Malaysian Ringgit	4.52	4.03	4.19	3.97

Income and expense recognition

Income is recognized if it is likely that economic benefit will accrue to the Group, and the extent of the income can be determined reliably. Income is measured using the fair value of the consideration received. Discounts, rebates, as well as value added tax or other charges are not taken into account.

If a purchaser is required to issue a certificate of acceptance, the related sales are recognized only if such a certificate has been issued. If sales of products and services comprise several delivery and service components, e. g. varying payment arrangements such as prepayments, milestone and similar payments, a review is carried out to assess whether a number of separate realization dates for separate parts of the sales should be applied. Contractually agreed prepayments and other one-off payments are deferred and released through the income statement over the period in which the contractually agreed service is delivered.

Above and beyond this, the realization of revenue requires the satisfaction of the following listed recognition criteria.

Sale of products and goods

- Income is recognized if the key opportunities and risks connected with the ownership of the goods and products that have been sold have passed to the purchaser. As a rule, this occurs at the time of the dispatch of goods and products, since the company regards the value-creation as concluded as of this time. Revenue is shown after deducting discounts, rebates, and returns.

- In some cases, Kontron acts as an agent and procures raw materials and supplies for third-party companies. The income for this agency service is not reported until the material has been supplied.

Rendering of services

Revenues arising from services and technology consulting are realized at the time the service is rendered. Income from maintenance agreements is deferred on a straight-line basis over the duration of maintenance agreements. Particularly for software development, the revenues are calculated using the percentage of completion method. The basis for the realization of the revenues is the project milestones agreed with the customer as output-oriented factors to determine the degree of completion. If a project milestone was created and recorded by the customer, the corresponding portion of the revenues is realized.

Long-term construction contracts

Customer contracts satisfying the criteria of IAS 11 *Construction Contracts* are entered in the balance sheet using the percentage of completion method (PoC). The realization of revenue and earnings from these contracts is according to the degree of completion of the relevant order. The degree of completion is calculated for each order on the basis of the ratio between the costs already incurred and expected total costs (cost-to-cost method). If required, corresponding adjustments are made, or provisions formed, for losses on orders.

Interest income
Interest income is reported using the effective interest method.

Operating expenses
Operating expenses are booked to net income at the time when the services are utilized or when they are triggered commercially.

Public grants and subsidies
Public-sector grants and subsidies are recognized if there is sufficient certainty that the grants and subsidies are to be disbursed, and that the company has satisfied related conditions. Expense-based grants are reported as income on a scheduled basis over the timeframe that is required to offset them with the respective expenses that they are to compensate. Public grants and subsidies in connection with property, plant and equipment are deducted from the carrying amount of the assets in accordance with the option in IAS 20.

Borrowing costs
The costs of borrowed capital that can be directly allocated to the acquisition, construction or production of an asset that require a considerable amount of time in order to put it into a condition for its intended usage or sale (called qualified assets) are capitalized at the cost of the corresponding asset. All other costs of borrowed capital are treated as expenses in the period in which they are incurred. The cost of borrowed capital is formed by the interest and other costs, which a company incurs in connection with the acquisition of borrowed capital.

Accounts receivable
Trade receivables are recognized at nominal value in the balance sheet. Specific identifiable risks are reflected in appropriate allowances, which are reported in a separate valuation adjustment account. A receivable is written off directly if it proves irrecoverable.

Inventories
Inventories are reported at acquisition or production cost or the lower net realizable values, with the average method generally being used for calculation. Production costs include not only directly attributable costs, but also materials and production overheads including depreciation. Fixed overheads are included on the basis of normal capacity production facility utilization. Valuation allowances for inventories are performed insofar as the acquisition or production costs exceed expected net sale proceeds.

Financial instruments

Financial instruments are contracts that give rise at one company to a financial asset and at another company to a financial liability, or to an equity instrument. These include primary financial instruments, such as trade receivables and payables, financial receivables and liabilities, and derivative financial instruments used to hedge interest-rate and currency risks. In the case of normal purchases and sales, primary financial instruments are entered in the balance sheet on the delivery date, in other words on the date when the asset is delivered; in contrast, derivative financial instruments are entered in the balance sheet on the trade date.

IAS 39 differentiates between financial assets as follows:
- Financial assets at fair value through profit or loss,
- Held-to-maturity financial assets,
- Loans and receivables, and
- Financial assets available for sale.

Financial liabilities are classified in the following categories:
- Financial liabilities at fair value through profit or loss, and
- Financial liabilities measured at amortized cost.

Kontron AG enters financial instruments in the balance sheet at either amortized cost or fair value.
The amortized cost of a financial asset or a financial liability is the amount:
- with which a financial asset or a financial liability was measured when being reported for the first time,
- minus possible repayments,
- plus or minus cumulative amortization of any difference between the original amount and the amount repayable at maturity, applying the effective interest rate method, and
- any unscheduled write-downs for impairment or non-recoverability.

The amortized cost of current receivables and liabilities corresponds to either the nominal amount or the repayment amount. Fair value generally corresponds to the market or stock market value. If no active market exists, fair value is calculated using finance-mathematical models, for example the discounting of future cash flows using the market interest rate.

Derivative financial instruments are measured at fair value through profit and loss. The forward exchange contracts entered into by the Kontron Group are for the purpose of economic hedging of transactions in foreign currencies; they are, however, not reported in the balance sheet as hedges within the meaning of IAS 39 Financial instruments: *recognition and measurement*. The fair values of option transactions (call and put options for the acquisition of stocks in companies) concluded within the framework of acquisitions are ascertained using a binomial model and / or the standard Black-Scholes-Merton model. The results from the valuation of these options are reported in the financial result.

Shares in equity holdings are treated as financial assets held for sale. After the first time valuation, available-for-sale financial assets are valued at the fair value in the following periods. Unrealized profits or losses are recorded as other income in the reserve for available for sale financial assets. If such an asset is derecognized, the cumulative profit or loss is re-classified as other operating income. If an asset is impaired, the cumulative loss is reclassified in financial expenses in profit and loss and derecognized in the reserve for available for sale financial assets.

Derecognition of financial instruments

Financial assets
A financial asset is derecognized if one of the following conditions is fulfilled:

- The contractual rights to the cash flows from a financial asset have expired.

- The Group retains the contractual rights to receive the cash flows from financial assets but has assumed a contractual obligation to make immediate payment of the cash flows to a third party as part of an agreement that satisfies the conditions of IAS 39.19 (“transfer contract”).

- The Group has transferred its contractual rights to receive the cash flows from a financial asset to third parties and has (a) essentially transferred all opportunities and risks connected with ownership of the financial assets, or (b) essentially neither transfers nor retains all opportunities and risks connected with ownership of the financial asset, but nevertheless transfers the right of disposal to the asset.

Financial liabilities

A financial liability is derecognized if the obligation on which this liability is based is canceled or lapses.

If an existing financial liability is exchanged for another financial liability from the same creditor with substantially different contractual terms, or if the terms of an existing liability are modified significantly, such an exchange or modification is treated as a derecognition of the original liability, and as a recognition of a new liability. The difference between the relevant carrying amounts is booked through the profit and loss.

Tangible assets

Property, plant and equipment are valued at cost less scheduled depreciation. The Kontron Group generally uses the straight-line method of depreciation. Purchase costs include the acquisition price, ancillary expenses, as well as cost reductions. Where the costs of particular components of a tangible fixed asset are material when measured in terms of the overall cost, these components are recognized and depreciated separately.

Scheduled depreciation is mainly based on the following useful lives:

Useful life of tangible assets *Table 023*

Years	
Buildings and leasehold improvements	5 – 60
Technical equipment and machinery	2 – 25
Office and operating equipment	2 – 18

Assets that have been fully written down are reported at cost less cumulative depreciation items until the assets are no longer operational. When assets are sold, the cost and cumulative depreciation items are derecognized, and results from asset disposals (disposal proceeds less residual carrying amounts) are booked through the income statement under operating income or other operating expenses. Scheduled depreciation of property, plant and equipment is allocated to the functional areas that use them. Residual values, useful lives and depreciation methods are reviewed at the end of each financial year, and adjusted if required.

Non-current assets held for sale and disposal groups

Non-current assets or groups of assets held for sale are classified by the Group as held for sale if the related carrying amount is realized primarily from a sale transaction rather than through continuing use. Non-current assets and disposal groups of assets held for sale are measured at the lower of the carrying amount and the fair value less costs to sell. The criteria for classification as held for sale are only fulfilled if the sale is highly probable and the asset or the group of assets can be immediately sold in their present condition. Management must have decided to make the sale and this must be probable within one year of classification as held for sale in order to be treated as a completed sale.

Discontinued operations are not included in the income from continuing operations and are reported separately in the income statement as income after tax from discontinued operations. This is presented retrospectively in the profit and loss account; notes concerning different items of the income statement have been adjusted and now only explain the development in continuing operations. In view of the consideration of business activities between continuing and discontinued operations, when determining the income after tax from discontinued operations a distinction was made as to whether the current services and supplies between continuing operations and discontinued operations will in future be continued. If services and supplies between continuing operations and discontinued operations are continued, expenses and income prior to consolidation are used as a basis to determine incomeafter tax from discontinued operations. For those services and supplies between continuing operations and discontinued operations, which in future will no longer be provided, expenses and income were consolidated however.

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

Intangible assets

Intangible assets that are acquired from third parties against payment are shown at the cost of acquisition, taking into account ancillary costs and cost reductions, and amortized on a straight-line basis over their useful economic lives.

Concessions, rights, and licenses relate to acquired IT software. Scheduled amortization is allocated to the functional areas using the assets.

Research costs are expensed in the period in which they occur. Project development costs are capitalized as intangible assets only if the Group can demonstrate both that it is technically feasible to produce the intangible asset which enables it to be either used within the company or sold, and that it has the intention to manufacture the intangible asset for either use or sale. Furthermore, the Group must provide evidence of a future generation of economic benefit by the asset, the availability of resources for the purpose of producing the asset, and the ability to reliably determine costs attributable to the intangible asset during development. Following initial recognition, development costs are entered in the balance sheet using the cost method, i. e. at cost less cumulative amortization and cumulative impairment charges. Amortization starts from the time from which the asset can be used. Amortization is performed over the asset's expected useful life. Residual values, useful lives and depreciation methods are reviewed at the end of each financial year, and adjusted if required. An impairment test is conducted annually during the development phase. Capitalized development costs include all direct costs and overheads directly attributable to the development process.

Scheduled depreciation is mainly based on the following useful lives:

Useful life of intangible assets *Table 024*

Years	
Other intangible assets	2 – 10
Capitalized development costs	3 – 7

Impairment of non-financial assets
At each balance sheet date, the Group assesses whether there are indications that non-financial assets may be impaired. In the event of such indications, or wherever an asset requires an annual impairment test, the Group estimates the relevant asset's recoverable amount. The recoverable amount of assets is the higher of either the fair value of an asset or a cash-generating unit (CGU) less costs to sell, or value in use. The recoverable amount must be determined for each individual asset. If the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is impaired, and written down to its recoverable amount. Value in use is calculated by discounting expected future cash flows using a pre-tax discount rate that reflects current market expectations relating to the interest effect and the asset's specific risks. An appropriate valuation model is used to determine fair value less costs to sell. This is based on valuation multiples, or other indicators of fair value that might be available.

With the exception of goodwill, assets are reviewed on each balance sheet date to assess whether there are indications that the reasons for a previously reported impairment no longer exist, or have diminished. If such indications exist, the Group estimates the recoverable amount of either the asset or the cash-generating unit. A previously reported impairment loss is reversed only if a change has occurred to the assumptions used for determining the recoverable amount since the last impairment loss was reported. The reversal is limited to the extent that the carrying amount of asset may exceed neither its recoverable amount nor the carrying amount that would have resulted after the deduction of scheduled depreciation / amortization if no impairment loss had been reported for the asset in previous years.

The following criteria must also be taken into account for particular assets:

Goodwill
Goodwill is tested annually for impairment. A review is also performed if circumstances indicate that its value may be impaired. The impairment is calculated using the recoverable amount of the cash-generating unit to which the goodwill was allocated. An impairment loss is reported if the cash-generating unit's recoverable amount is less than its carrying amount. An impairment loss applied to goodwill may not be reversed in subsequent reporting periods.

Intangible assets
An impairment test is conducted annually as of December 31 for intangible assets of indefinite useful life and of development projects which are still at the development stage. The review is performed either for the individual asset or at the level of the cash-generating unit, depending on the specific circumstance. A review is also performed if circumstances indicate that its value may be impaired.

Impairment losses to property, plant and equipment are reported among other operating expenses and impairment losses to internally generated intangible assets are reported among cost of goods sold. Impairment of goodwill is reported in a separate line within earnings before the financial result and income taxes.

Taxes

Actual tax reimbursement claims and tax liabilities

Actual tax reimbursement claims and tax liabilities for both the current and earlier periods are measured using the amounts expected to be received from the tax authority, or to be paid to the tax authority. The calculation is based on tax rates and tax law applicable or published as of the balance sheet date.

Deferred taxes

Deferred tax is determined, in accordance with IAS 12, using the balance-sheet-oriented liability method. This requires the formation of deferred tax for most of the temporary differences between carrying amounts in the tax balance sheet and the consolidated balance sheet (temporary concept). It also requires the reporting of deferred tax arising from tax loss carried forward.

Deferred tax is determined on the basis of the tax rates that are valid or expected as of the realization date, according to the current legal position in individual countries.

Deferred tax assets contain future tax relief arising from temporary differences between the carrying amount stated in the consolidated balance sheet and the carrying amount in the tax balance sheet. Deferred tax assets arising from tax loss carried forward realizable in the future, and from tax benefits, are also reported. The decisive factor for the assessment of the value retention of deferred tax assets is the assessment of the likelihood that the valuation differences that have led to the recognition of deferred tax assets will be reversed, and of the extent to which the tax loss carried forward or tax benefits can be utilized. This depends on whether tax-liable earnings will arise in the future during the periods in which tax loss carried forward can be utilized.

Deferred tax assets can be offset against deferred tax liabilities if the tax creditors are identical and offsetting is possible.

Deferred tax is in principle shown as a non-current item.

Trade accounts payable

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

Leases

In accordance with IAS 17, property, plant and equipment utilized on the basis of finance leases is capitalized if the prerequisites of a finance lease are satisfied, in other words, if the material risks and opportunities arising from the use are transferred to the lessee. The assets are capitalized at cost as of the date of the agreement, or at the present value of the minimum lease payments, whichever is lower. Straight-line depreciation is based on the economic useful life or the term of the lease agreement, whichever is shorter. The payment obligations arising from the future lease installments are reported as liabilities at the present value of the lease installments.

If the economic ownership of lease contracts lies with the lessor (operating leases), the lease objects are shown in the lessor's balance sheet. The lease expenses incurred for these items are expensed in their entirety.

Determining whether an agreement contains a lease arrangement is made on the basis of the economic content of the agreement at the time when the agreement was entered into, and requires an assessment as to whether the satisfaction of the contract depends on the use of a particular asset or particular assets, and whether the agreement establishes a right to the use of the asset.

A sale-and-leaseback transaction comprises the sale to the lessor of an asset already owned by the future lessee, and its subsequent further use by the lessee by way of a lease agreement. There are two economically interconnected agreements: the purchase agreement and the lease agreement. The lessor reports the lease as a single transaction. It is recognized as an operating lease or as a financing lease depending on the structure of the leaseback agreement.

Other provisions

Provisions are formed if there is an obligation to a third party arising from a past event that is likely to lead to an outflow of economic resources, and whose amount can be reliably estimated.

Provisions for costs in connection with warranties are created at the time of the sale of the underlying product or the provision of the services. The first measurement is based on past empirical values. The original estimate of the costs in connection with warranties is examined on an annual basis.

A restructuring provision is only created if the general recognition criteria for provisions are met. Furthermore, the Group follows a formal restructuring plan containing detailed guidelines about the business segment affected or part thereof, the location and the number of employees affected as well as a detailed estimate of the costs associated with this and the reasonable timescales. The employees affected must have a legitimate expectation that the restructuring will be implemented or the implementation must have already commenced.

Provisions for severance payments are recorded when the Group can no longer retract an offer to pay severance, or if the group has previously recorded the associated costs of restructuring.

Other provisions, in accordance with IAS 37, are recognized according to their likelihood of occurrence, and are not offset against recourse claims. Provisions falling due in over one year must be stated at their settlement amounts discounted to the balance sheet date.

Pension liabilities

In the case of defined benefit pension plans, Kontron measures benefit claims arising from defined benefit plans using the actuarially calculated present value of the accrued entitlement. The present value of the accrued entitlement from the defined benefit obligation takes into account anticipated future increases in salaries and pensions, since the benefit claim achievable by normal pensionable age depends on these factors.

Revaluations, including net actuarial gains and losses, changes arising from application of the asset ceiling, and the income from plan assets (not including net interest) are reported as income and expenses under shareholders' equity in the year in which they were incurred. These are reported entirely to equity as retained earnings on a post-tax basis. There will be no re-classification later on in the income statement.

Past service cost is recognized immediately through the income statement. Net interest results from applying the discounting rate to the balance (asset or liability) for the defined benefit plan. The Group records service cost in the income statement, depending on function, either as cost of sales, administrative costs or selling and marketing costs. The net interest is recorded in the financial income.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the commercial content of the underlying contract. Equity instrument is the designation given to a contract that constitutes a residual claim on the Group's assets after deduction of all liabilities. Equity instruments are reported in the amount of the proceeds received, less issuing expenses already paid.

When equity instruments are converted at maturity, the debt component is derecognized, and reported in equity. The original equity component continues to be carried as equity. Where conversion fails to occur, the debt component is derecognized at maturity, and the original equity component continues to be reported in equity.

Treasury stock
When Kontron purchases treasury stock, it is reported at cost, and deducted from equity. The purchase, sale, issuance and withdrawal of treasury stock are not reported through profit or loss. Any differential amounts between the carrying value and the consideration are booked to the additional paid-in capital.

Obligation from stock based payments
(Stock options plans and employee stock programs)
The Kontron Group makes payments to certain employees which are settled using equity instruments. Payment settled using equity instruments is measured at fair value on the date when the commitment is entered into. The reporting of expenses resulting from the granting of equity instruments, and the corresponding increase in equity, is performed over the period in which the exercise or performance terms must be satisfied (the so-called vesting period). This period ends on the date on which exercise is first possible, in other words, the date on which the relevant employee becomes irrevocably entitled to subscription. The cumulative expenses arising from the granting of equity instruments reported on each balance sheet date up to the date of the first possible exercise reflect the portion of the vesting period that has already elapsed, as well as the number of equity instruments that can actually be exercised at the end of the vesting period according to the Group's best estimate. Income expense reported in net income for the period corresponds to the change in cumulative expenses reported at the start and end of the reporting period.

Fair value is calculated using the Black-Scholes model. Stock option plans measured at fair value are reported among personnel expenses and in equity. All stock option plans are described below in Note (32.1) "Employee stock option plans – Stock Options".

The Kontron Group also issues cash-settled stock based remuneration to specific employees. The costs of cash-settled transactions are initially measured using the binomial options pricing model with the fair value at the grant date. The fair value is distributed over the period until the date of the first exercise option to profit and loss recording a corresponding debt. The liability is measured on each year-end date and on the delivery date. Changes to the fair value are recognized as expenses for services to employees (see Note (32.2)).

When the Group calculates earnings per share, it performs an additional calculation to reflect the dilutive effects of outstanding stock options. This gave rise to no dilutive effect in 2013 (for further details, please refer to Note (33) "Earnings per share").

Judgement and estimates used when applying accounting policies

When it applies the Group's accounting methods, the management has made the following judgements which significantly influence the amounts in the consolidated financial statements:

The company's management must make estimates and assumptions when preparing the consolidated financial statements. These affect the level of the amounts stated for assets, liabilities and contingent liabilities as of the balance sheet date, as well as the reported level of income and expenses during the reporting period. The actual amounts may differ from these estimates. Estimates are required in the following cases in particular:

- when determining the fair value of acquired assets and useful lives of capitalized development projects (see item (15));
- when assessing the requirement and measurement of an impairment of intangible assets (see item (15));
- when recognizing and assessing tax, warranty, and litigation risks (see item (7) and (20));
- when assessing the requirement for write-downs of to inventories (see item (10));
- when assessing whether deferred tax assets can be realized (see item (7));
- classification in the category "Non-current assets held for sale and disposal groups" (see item (8)).

The impairment test for goodwill is performed annually on the basis of the four-year operating plan, and entails the assumption of annual growth rates. In the financial year 2013, this process did not reveal any need for impairment at three cash-generating units. Further details can be found in Note (15) to the financial statements.

Write-downs to inventories are measured using scope and / or expected net disposal proceeds (expected proceeds less estimated costs to completion and estimated costs to sell). Future consumption, actual proceeds, and costs incurred may vary from the expected amounts.

Deferred tax assets are reported only insofar as their realization appears adequately secure, in other words, if a positive tax result can be expected in future periods. The actual tax result in future periods may differ from the estimates made at the time when the deferred tax assets were capitalized.

Due to the management's planned sale of the Energy project business, consisting of the companies RTSoft ZAO, RTSoft Project, Affair OOO and ubitronix system solutions gmbh, the assets and liabilities of the business were reported as "held for sale". The companies were therefore classified as "discontinued operations". Management was of the opinion that the subsidiary at this time satisfied the criteria for classification as held for sale for the following reasons:

- The companies can be disposed of with immediate effect and can be sold immediately in their current state to a potential buyer.

- The company's management plans to dispose of the companies and has entered into negotiations with potential buyers.

The company's management assumes that the negotiations and the disposal of the interests in the Russian subsidiaries will be completed by mid of 2014. The interests in ubitronix system solutions gmbh were sold in February 2014.

Refer to Note (8) for more detailed information on the discontinued operation.

Notes to the consolidated income statement

The items marked with * on the consolidated profit and loss account for 2012 were adjusted based on the amended profit and loss account (Section “Changes to presentation”).

1. Revenue

The reported revenue is divided up as follows:

Table 025

in €k	**2013**	2012*
Revenue from the sale of goods	425,930	451,419
Revenue from the sale of services	13,266	11,484
Revenue from construction contracts	6,057	3,986
Total revenues	**445,253**	**466,889**

The classification in line with regions can be seen in the segment reporting under Note (35).

2. Personnel expenses

Table 026

in €k	**2013**	2012*
Wages and salaries	83,537	91,917
Severance payments	3,211	4,284
Social security expenses	17,328	16,698
Personnel expenses	**104,076**	**112,899**

The expenses for social security contributions include € 218k expenses (previous year: income of € 2,141k) for company pensions. In the financial year 2013, income was generated as a result of plan reduction (planned ending of a pension plan in financial year 2013) and a reduction in the number of employees with pension entitlements. Further details can be found in the information contained under Note (20).

The company issues share-based payments in the form of share option plans and so-called performance share unit plans (as long-term remuneration) (see Note (30)).

The contributions to the statutory pension scheme amount to € 2,763k (previous year: € 3,274k).

Average number of employees

Table 027

	2013	2012*
EMEA	865	957
North America	465	593
Emerging Markets	155	165
Annual average	**1,485**	**1,715**

3. Operating costs

Table 028

in €k	2013	2012*
Personnel costs	67,342	65,437
Third party services	9,877	11,829
Rent, building and facility maintenance	5,830	7,269
Depreciation / amortization	5,519	5,406
Travel expenses	3,590	3,527
Office material and internal material requirements	3,365	4,147
Advertising	3,143	4,264
Legal, consulting and auditing costs	1,653	5,194
Car fleet	1,601	1,726
Insurance policies and bank charges	1,103	1,212
Telephone and communications	914	977
Others	5,093	2,970
	109,030	**113,957**

The costs stated include expenses for the sales and marketing, research and development and general administration sectors.

The personnel costs include salaries / wages (including commission), social expenses and training costs.

Of the total research and development costs incurred in 2013, € 15,234k (previous year: € 20,018k) fulfilled the capitalization criteria under IFRS.

The research and development costs included in the operating expenses, which do not fulfil the pre-requisites for capitalization, are treated as expenses for the current financial year. In the 2013 financial year, this expenditure amounted to € 33,204k (previous year: € 33,360k*).

The depreciation and amortization included in the operating expenses solely represents the regular depreciation of the asset value of long-term assets, with the exception of the capitalized development costs. The amortization made on capitalized development costs in the year under review (of which € 7,560k; previous year € 2,485k were not planned) is included in the cost of goods sold in the amount of € 6,335k (previous year: € 2,485k) and in the income after tax from discontinued operations in the amount of € 1,225k.

The allocation of the depreciation to the individual asset items of the non-current assets can be taken from the fixed asset schedule.

4. Restructuring costs

In July 2013, the executive board at Kontron AG approved a comprehensive cost reduction and efficiency program (CRP) “New Kontron” for implementation. “New Kontron” bases on the Program “Shape”, launched in 2011, which was completed with the change of the management structure in April 2013. The aim of the new cost reduction program is to simplify the product portfolio, to make savings in terms of direct and indirect material costs, to remove overhead functions and to consolidate locations by relocating a total of nine branch offices. The business activities at the Augsburg location are to be focused and further developed as part of this program. In addition, there are plans for a technology center with a focus on innovation to be built in Augsburg in order to achieve synergies in the field of research and development as well as production and sales. The implementation of these measures led to non-recurring costs to the value of € 33,543k to the end of the current financial year.

Overview of restructuring costs *Table 029*

in €k	**2013**	2012
One-off cost for personnel restructuring	12,731	4,284
One-off cost for reorganisation / restructuring, IT	6,785	5,333
Valuation effects R&D / operations	10,487	3,632
Valuation effects sales / customers	3,540	0
	33,543	**13,249**

5. Other operating income and expenses

Table 030

in €k	**2013**	2012*
Exchange rate gains	6,365	13,492
Income from disposal of assets	141	80
Income from release of provisions	99	245
Rental income	42	1
Refunds / compensation	17	8
Subsidies	8	0
Other income	150	5
Other operating income	**6,822**	**13,831**
Exchange rate losses	6,499	13,607
Other taxes	124	0
Losses from the disposal of fixed assets	21	10
Reimbursements / compensation	16	6
Formation of provisions	0	399
Other expenses	19	96
Other operating expenses	**6,679**	**14,118**

The income and expenses from exchange rate fluctuations contained mainly profit or loss from exchange rate fluctuations between the date of origin and date of payment for foreign currency receivables and accounts payable.

6. Financial result

Table 031

in €k	**2013**	2012*
Interest income	209	369
Income from derivative financial instruments	109	208
Income from the disposal of financial assets	0	29
Other income similar to interest income	29	40
Financial income	**347**	**646**
Commission for guarantee and provision of credit facility	699	514
Credit facility transaction costs	435	276
Losses from derivative financial instruments	92	134
Losses from the disposal of financial assets	1	0
Losses on bills of exchange transactions	0	373
Interest and similar expenses	704	1,199
Financial expenses	**1,931**	**2,496**
Financial result	**– 1,584**	**– 1,850**

7. Income taxes

Income tax expenses are broken down as follows:

Table 032

in €k	**2013**	2012*
Actual income tax	1,241	2,764
Origination and reversal of temporary differences	– 7,828	– 3,209
Income tax reported in consolidated income statement	**– 6,587**	**– 445**

The tax expenses include corporation tax and trade tax for the domestic companies as well as comparable taxes on income facing foreign companies. The miscellaneous taxes are contained in the miscellaneous operational expenses.

The domestic income tax rate for Kontron AG is calculated at 28.4 % (previous year: 28.4 %)

The foreign tax rates range from 15 % to 35.46 %.

Changes in consolidated equity

Table 033

in €k	**2013**	2012
Actuarial gains / losses from pensions	– 28	– 229
Losses from net investments	– 4	– 4
Income taxes recognized in other comprehensive income	**– 32**	**– 233**

The following table shows the expected income tax expenses, which would result in the actual declared income tax expenses under the application of the current domestic tax rate of 28.4 % (previous year: 28.4 %) to the corporate level.

Income tax reconciliation

Table 034

in €k	**2013**	2012*
Income from continuing operations before tax	– 30,577	– 26,547
Group income tax rate	28.4 %	28.4 %
Expected tax effect	8,684	7,539
Effect of other tax rates applied to companies operating abroad	– 11	– 1,047
Share of tax for differences and losses for which no deferred tax has been reported	– 994	– 2,375
Tax-free public-sector grants and subsidies	98	93
Tax-free income	211	106
Non-deductable expenses	– 348	– 338
Prior year's tax reimbursement	0	33
Prior year's tax expense	– 427	– 674
Adjustment of prior year's deferred tax	– 192	530
Tax effect from goodwill amortization	0	– 2,733
Change in deferred tax relating to loss carryforwards and tax credits	– 508	– 558
Other	74	– 131
Reported taxes on income	**6,587**	**445**
Income tax rate	21.5 %	1.7 %

In 2013, income tax expenses of € 6,587k were recognized (previous year: € 445k). The tax-free contributions from the public authorities resulted from research and development by Kontron Modular Computers S.A.S. Company.

Deferred tax assets and liabilities as of 31st December 2013 and 31st December 2012 are allocated to the following items:

Deferred tax assets and liabilities

Table 035

	Deferred tax assets		Deferred tax liabilities	
in €k	**2013**	2012*	**2013**	2012
Property, plant and equipment	42	411	741	1,155
Intangible assets	538	530	14,630	17,297
Inventories	1,245	1,763	191	233
Receivables / other receivables	695	1,891	1,058	2,223
Provisions and deferred liabilities	2,061	2,764	1,239	1,191
Liabilities / other liabilities	60	831	529	2,174
Losses carried forward	11,966	6,461	0	0
Tax credit for research and development	4,395	4,139	0	0
Other	315	241	355	44
	21,317	**19,031**	**18,743**	**24,317**
Net deferred tax liabilities			**– 2,574**	**5,286**

Net deferred tax liabilities

Table 036

in €	**2013**	2012
Status January 1	**5,286**	**8,728**
Tax charge / income posted to expenses in the reporting period	– 7,828	– 3,209
Tax charge / income recorded in other comprehensive income in the reporting period	– 32	– 233
Status December 31	**– 2,574**	**5,286**

The companies Kontron AG, Kontron Europe GmbH, Kontron America Inc. and Kontron Australia Pty. Ltd. have accumulated deferred tax assets for tax losses carried forward in the amount of the expected earnings on the basis of current four-year corporate budgets.

In Canada and America, it is possible to offset certain research and development expenses against tax. The capitalized tax credits for research and development reduce future tax payments for Kontron Canada Inc. and Kontron America Inc.. The tax credits can be carried forward in Canada and the USA for 20 years.

Offsetting deferred tax assets against deferred tax liabilities is possible insofar as the tax authority is the same for both sets of taxes and the offsetting is viable. In 2013, deferred tax assets were offset against deferred tax liabilities to a value or € 1,114k. Deferred tax assets to the value of € 20,202k and deferred tax liabilities to the value of € 17,628k are reported on the consolidated balance sheet.

The unutilized loss carried forward is as follows:

Unutilized tax loss carried forward *Table 037*

in €k	**2013**	2012
Can be carried forward up to 1 year	0	0
Can be carried forward up to 10 years	26,003	29,619
Can be carried forward beyond 10 years	0	5,056
Can be carried forward for an unlimited period	69,516	53,017
	95,519	**87,692**
Loss carried forward recognized	– 38,721	– 22,945
Unutilized loss carried forward	**56,798**	**64,747**

The unutilized loss carried forward result from Kontron Modular Computers AG, Kontron Modular Computers S.A.S., Kontron Technology A/S, Kontron Asia Pacific Design Sdn Bhd and Kontron Compact Computers AG.

As a result of the sale of the production of Kontron Asia Pacific Design Sdn Bhd, the company lost its "Pioneer Status" in 2012 and the associated tax exemption; at the same time, the loss of the "Pioneer Status" means that the loss carried forward in previous years, which stand at a value of € 28,508k, can be used in the future and, as such, increase the inventory of the losses carried over that can be brought forward without limitations for the 2013 financial year. As a result of the loss history of the company, it was, however, not possible to include the loss carried forward on the balance sheet for 2013.

Kontron Modular Computers AG is a holding company that will not generate sufficient positive results for utilization of loss carried forward to the value of € 2,388k.

As a result of the planned closing of Kontron Compact Computers AG in 2013, the existing loss carried forward to the value of € 20,357k can no longer be used in future financial years.

The loss carried forward by Kontron Technology A/S to the value of € 4,512k are likely to no longer be available for use in the future as a result of the planned restructuring. Deferred taxes assets accrued in the previous years to the value of € 742k were fully liquidated.

8. Discontinued operations

Kontron is planning the sale of the Energy project business in order to focus fully in future on its core expertise in the Embedded Computer Technology (ECT) market and thereby set the course for the future direction of the company.

As part of this full focus on the ECT business alone, the group is planning the sale of the company ubitronix system solutions gmbh in Hagenberg, Austria and the RTSoft Group in Moscow, Russia. The business intended for sale offers specific and far-reaching project services in the energy/electricity sector for a few, often public or state companies, as a general contractor or as a subcontractor. The core focus of this business is customer-specific infrastructure projects in the energy/electricity sector obtained by tender, which are performed over several years according to milestones either as a general contractor or subcontractor, completed together with other companies and fully guaranteed to the customer as general contractor. The discontinued operations are almost disconnected from the added value, distribution and processing systems of the Kontron ECT business and demand a different method of risk and opportunity management compared to the ECT business due to its long-term nature.

The ECT business included in RTSoft ZAO, with an annual turnover of approx. €5 million is continued by way of a distribution agreement. It is planned that RTSoft ZAO will act as an indirect channel partner for Kontron on the Russian market after the sale.

The shares held in ubitronix system solutions gmbh and in RTSoft Group are to be sold as part of the management buy-out to the respective managers. The sale of ubitronix system solutions gmbh was concluded in a purchase agreement of February 10, 2014; the sale of Affair 000 is to be completed until mid of 2014. In both cases, negotiations regarding the sale of shares were not yet concluded as at the balance sheet date, although as at December 31, 2013 the sales were considered as highly likely, which is why the assets, liabilities and profit/loss for the period are already reported separately in the balance sheet and income statement as at the reporting date.

The operating profit of the project business division energy is represented as follows:

Earnings from discontinued operations *Table 038*

in €k	**2013**	2012
Revenues	86,849	85,941
Expenses	95,238	93,874
of which impairment of goodwill	3,663	7,746
of which impairment of other assets	4,285	1,959
Operating income before financial income and income taxes	**– 8,389**	**– 7,933**
Financial result	– 228	– 207
Impairment from revaluation (fair value less cost to sell)	226	0
Gross profit / loss from discontinued operations	**– 8,843**	**– 8,140**
Income taxes	1,226	530
Net profit / loss from discontinued operations	**– 7,617**	**– 7,610**

Included in the other results for the respective business year:

in €k	**2013**	2012
Exchange differences on translation of foreign operations	– 1,499	517
Income tax effects	0	0
Total	**– 1,499**	**517**

Earnings per share:

in €k	**2013**	2012
Earnings per share (basic) from discontinued operations	– 0.13	– 0.13
Earnings per share (diluted) from discontinued operations	– 0.13	– 0.13

The main groups of assets and liabilities of the discontinued operations areas were made up as follows on 31st December 2013:

Assets and liabilities of discontinued operations

Table 039

in €k	**12 / 31 / 2013**
Assets	
Cash or cash equivalents	3,987
Inventories	6,763
Accounts receivable, net	19,874
Other current receivables and assets	6,338
Property, plant and equipment	1,181
Intangible assets	254
Other non-current receivables and assets	1,896
Assets held for sale	**40,293**
Liabilities	
Trade accounts payable	9,706
Bank borrowings	3,801
Non-current provisions	1,397
Obligations from construction contracts	431
Deferred revenues	8,345
Other current accounts payable	4,334
Other non-current accounts payable	52
Liabilities associated with assets held for sale	**28,066**

The net cash flows of the discontinued operations are made up as follows:

Net cash flow from discontinued operations

Table 040

in €k	**2013**	2012
Net cash used in / provided by operating activities	– 3,365	6,750
Net cash used in / provided by investing activities	– 837	– 1,331
Net cash used in / provided by financing activities	4,071	– 2,799
Net cash flow	**– 131**	**2,620**

Impairment of tangible assets, intangible assets and inventories
As a result of the classification as discontinued operations, the assets and liabilities of ubitronix system solutions gmbh were measured using the expected sales price less cost to sell; resulting in a decrease in value of € 226k. The decrease in value is recognized in the result of discontinued operations.

Income after tax from discontinued operations also includes impairment of goodwill for RTSoft and impairment of its intangible assets and liabilities from construction contracts in the amount of € 7,948k, which occurred directly prior to classification as discontinued operations from an impairment test, carried out on the basis of the intention to sell this company.

To determine the need for impairment, in each case the fair value less cost to sell was compared with the carrying amounts of both units, due to the prospect of selling. The fair values were determined from the anticipated sales prices deemed realistic by Kontron for both units, which are to be sold independently of one another. The sale of ubitronix system solutions gmbh was completed in February 2014, whereas negotiations for the sale of the RTSoft Group were not yet concluded at the time of reporting.

The fair value less cost to sell is assigned in the fair value hierarchy Level 3.

Notes to the consolidated balance sheet

9. Cash and cash equivalents

The cash and cash equivalents to the value of € 26,755k (previous year: € 27,534k) are cash in hand, checks and bank balances with terms of less than three months. These accrue short-term rates of interest.

Cash and cash equivalents *Table 041*

in €k	**2013**	2012
Bank deposits, cash in hand, checks	26,746	22,654
Short-term bank deposits	9	4,880
Total cash and cash equivalents	**26,755**	**27,534**

For the cash flow statement, the cash and cash equivalents comprise as follows on 31st December:

Cash and cash equivalents including discontinued operations *Table 042*

in €k	**2013**	2012
Bank balances, cash in hand, checks	26,746	22,654
Short-term bank deposits	9	4,880
Bank balances, cash in hand, checks and short-term bank deposits from discontinued operations	3,986	0
Total cash and cash equivalents	**30,741**	**27,534**

10. Inventory

The inventory is made up of the following:

Inventories *Table 043*

in €k	**2013**	2012
Raw materials, consumables and supplies	30,484	27,181
Work in progress	15,392	22,644
Finished goods and merchandise	37,231	37,657
Advanced payments received	584	6,144
Receivables from construction contracts	1,004	6,397
	84,695	**100,023**

Inventories are recognized using the cost or net realizable value. The net realizable value represents the estimated sales price minus all estimated costs up to completion, as well as the marketing, sales and distribution costs.

The decrease in value of inventories, which has been recorded as expenses, amounts to € 3,331k (previous year: € 5,239k). This impairment is reported in the cost of sales.

Inventories are assessed by means of end-of-period or permanent stocktaking.

The amounts relating to construction contracts are represented as follows:

Construction contracts *Table 044*

in €k	**2013**	2012*
Order revenue	6,057	3,986
Costs incurred	– 5,092	– 2,407
Profit	**965**	**1,579**

The accounts receivable from construction contracts amount to € 1.004k (previous year: € 6.397k). Accounts payable from construction contracts have a total of € 1.268k (previous year: € 4.488k). Advanced payments for construction contracts to the value of € 0k (previous year: € 11.759k) were received.

11. Accounts receivable

Accounts receivable and other assets are measured at either nominal value or cost. All known risks are taken into account when calculating valuation allowances. The general credit risk is taken into account through value adjustments, which are based on pragmatical values from the past, derivations from the term structure, as well as a commercial assessment of the reported assets.

The trade receivables are made up as follows:

Trade receivables *Table 045*

in €k	**2013**	2012
Trade receivables	121,343	145,341
Value adjustments	– 32,724	– 35,387
Total trade receivables	**88,619**	**109,954**

On 31st December 2013, impairment losses were applied to trade receivables with a nominal value of € 33,428k (previous year: € 35,847k).

The development of the receivables allowances break down as follows:

Value adjustment *Table 046*

in €k	**2013**	2012
Value adjustments January 1	– 35,387	– 34,746
Additions expensed through income statement	– 2,067	– 1,774
Utilization	342	635
Release	713	985
Exchange rate differences	3,675	– 487
Value adjustments December 31	**– 32,724**	**– 35,387**

The amount of € 35,387k carried forward from 2012 contains the value adjustments at the level of Kontron Asia Pacific Design Sdn Bhd, which were formed in the course of the suspicion of fraudulent activity in 2010.

The total additions in 2013 of € 2,067k (previous year: € 1,774k) consist of contributions resulting in specific allowances in value of € 1,839k (previous year: € 368k) and generalized value adjustments in amount of € 228k (previous year: € 1,406k).

The release results from accounts receivables paid by individual customers, which were impaired due to economic difficulties in the previous year, as well as from the reversal of generalized individual value adjustments.

The term structure of the trade receivables is represented as follows:

Term structure trade receivables *Table 047*

			Of which: Not impaired and overdue within the following time ranges					
in €k	Nominal amount	Of which: Neither overdue nor impaired	less 30 days	between 31 and 60 days	between 61 and 150 days	between 151 and 240 days	between 241 and 330 days	more 330 days
12/31/13	121,343	74,251	8,000	2,299	1,716	1,207	210	234
12/31/12	145,341	62,285	34,528	3,301	3,955	2,472	526	2,427

Regarding trade receivables that are neither impaired nor in default, at the balance sheet date there are no indications that the debtors will not fulfil their financial obligations. This also applies to the overdue, not-impaired trade receivables.

12. Other receivables and assets

Other receivables and assets are made up as follows:

Other current receivables and assets

Table 048

in €k	**2013**	2012
VAT receivables	3,049	9,088
Prepayments and accrued income	1,907	2,624
Receivables from price-adjustment clauses	1,761	1,120
Short-term securities	1,213	370
Deposits	1,170	492
Receivables from insurance	1,093	0
Other tax receivables	620	940
Creditor accounts in debit	162	431
Receivables from derivative financial instruments	138	218
Receivables from personnel	92	206
Receivables bonuses from suppliers	0	1,061
Receivables from corporate disposals	0	400
Other	943	1,215
	12,148	**18,165**

Other non-current receivables and assets

Table 049

in €k	**2013**	2012
Prepayments and accrued income	1,175	1,492
Deposits	360	294
Other	19	179
	1,554	**1,965**

The non-current prepayments and accrued income contain accrued transaction costs to the value of € 1,145k (previous year: € 1,492k) as a result of the acquisition of a credit facility of € 170 million in the business year 2012. The total sum of € 1,739k will be allocated to interest expense over the five-year duration of the facility.

13. Deferred tax assets

Note (7) ("Income taxes") contains notes about the deferred tax assets.

14. Fixed assets

Impairment losses are determined in accordance with IAS 36 Impairment of Assets. Exceptional depreciation of € 140k (previous year: € 172k) was applied to the fixed assets in the reporting year.

Also included are production facilities and vehicles totaling € 52k (previous year: € 65k) which qualify as finance leases and which, due to the structure of the lease agreements on which they are based, must be attributed to the Group as their economic owner. The contracts include extension options; however, they generally do not contain any discounted purchase options or earn-out clauses.

The details about minimum leasing payments for the leasing contracts concerned appear as follows:

Minimum leasing payments *Table 050*

in €k	**2013**	2012
Due within one year	114	131
Due between one and five years	200	90
Due after five years	0	0
	314	**221**
Share of interest payments contained in the minimum leasing payments	**20**	**14**
Total future minimum leasing payments	**294**	**207**

The details about the minimum leasing payments of the relevant leasing agreements are as follows:

Minimum leasing payments following valuation *Table 051*

in €k	**2013**	2012
Due within one year	104	127
Due between one and five years	190	80
Due after five years	0	0
	294	**207**

The development of the fixed assets is shown in detail in the fixed asset schedule.

There are no contractual obligations for the acquisition of property, plant and equipment.

15. Intangible assets and goodwill

Internally generated intangible assets

In 2013, a total of € 48,439k (previous year: € 53,378k) was spent for research and development. Of which, € 15,235k (previous year: € 20,018k) fulfilled the IAS 38 capitalization criteria.

In the year under review, unscheduled depreciation to the value of € 7,560k (previous year: € 2,485k) was taken on internally generated intangible assets (capitalized development costs). The recoverable amount of internally generated intangible assets is calculated based on the value in use, using cash flow forecasts. The cash flow forecasts are based on a "Market Requirement Document" which has been approved by management. The product design is approved by the authorization. The "Market Requirement Document" contains a planning timeframe of seven years; growth is stipulated for every product in line with the available market analyses. The discount rates before taxes used for the cash flow forecast are between 8.44 and 10.79 % (previous year: between 7.05 and 15 %).

The unscheduled impairment in total value of € 7,560k mainly results from the amortization of capitalized development costs of € 6,335k, and comes from the following segments: EMEA, with a sum of € 4,613k (previous year: € 1,180k); North America to the value of € 1,694k (previous year: € 1,305k); and the Emerging Markets to the value of € 28k (previous year: € 0k). The remaining unscheduled impairment of € 1,225k accounts for the discontinued operations and is included in the income after taxes from discontinued operations. The reasons for the unscheduled depreciations lie in product cancellations by customers and revised future sales expectations and portfolio adjustments caused by the CRP program.

In the current financial year, the Kontron Group has received government grants in value of € 724k (previous year: € 334k), which have reduced the production costs of the capitalized development projects, and further grants in value of € 432k (previous year: € 1,218k), which have reduced the research and development costs.

Furthermore, € 21k has been capitalized for programming work undertaken on the Kontron internal IT systems.

Rights and licenses, other intangible assets

In 2013, the value of € 1,684k was invested in the further development of the existing IT systems and in the acquisition of software licenses.

Furthermore, the intangible assets include rights and licenses, as well as other intangible assets arising from acquisitions (e. g. customer base, technology, brand names and backlog). € 144k was invested in rights and licenses during the financial year.

The amortization of intangible assets is included in the following items of the income statement:

Amortization of intangible assets *Table 052*

in €k	**2013**	2012*
Other production costs	20,890	12,835
Research and development costs	739	1,113
General administrative costs	978	1,759
Selling and marketing costs	1,883	2,685
Goodwill	0	9,577
Income after tax from discontinued operations	5,466	11,127
	29,956	**39,096**

As a result of the goodwill impairment test, € 1,225k was recorded as unscheduled amortization of internally generated intangible assets of RTSoft ZAO. In the income statement this amount is included in the position "Income after tax from discontinued operations".

Goodwill

The goodwill results from the acquisition of companies and is distributed across cash-generating units as follows:

Goodwill 2013 *Table 053*

in €k	**01/01/2013**	Currency changes	Additions/ disposals	Impairment charges	**12/31/2013**
Europe	46,624	– 154	0	0	46,470
ubitronix	0	0	0	0	0
North America	40,895	– 766	0	0	40,129
RTSoft Group	3,663	0	0	3,663	0
Asia	2,144	– 32	0	0	2,112
	93,326	**– 952**	**0**	**3,663**	**88,711**

Goodwill 2012 *Table 054*

in €k	**01/01/2012**	Currency changes	Additions/ disposals	Impairment charges	**12/31/2012**
Europe	46,715	33	– 124	0	46,624
ubitronix	2,701	0	0	2,701	0
North America	50,872	– 400	0	9,577	40,895
RTSoft Group	8,594	114	0	5,045	3,663
Asia	2,145	– 1	0	0	2,144
	111,027	**– 254**	**– 124**	**17,323**	**93,326**

The goodwill impairment test for 2013 revealed a need for impairment to the value of € 7,948k (previous year: € 19,282k), which was recorded as a goodwill impairment to the value of € 3,663k (previous year: € 17,323k). A sum of € 1,225k (previous year: € 1,959k) was recorded as unscheduled amortization of other intangible assets; furthermore, accounts receivables from construction contracts to the value of € 3,061k (previous year: € 0k) were value-adjusted. The impairment of € 7,948k (previous year: € 13,503k) is included in the consolidated income statement in the position income after tax from discontinued operations.

The structure of the cash-generating units remains unchanged from the previous year.

Impairment tests for the goodwill:
Kontron carries out its annual goodwill impairment test on December 31, 2013. In checking indications of impairment, the Group takes into account the relationship between market capitalization and carrying amount as well as general business development.

The impairment tests for goodwill are based on a going concern assumption and take into account the current circumstances and situation of the Group at the date of the impairment test (as-is-situation). The growth and positive effects, which might be achieved as a result of the cost reduction and efficiency program (CRP) that was introduced in 2013, were accordingly taken into account in the financial planning.

The annual impairment test for the goodwill of the cash-generating unit RTSoft Group resulted in an impairment of € 7,948k. This results from the difference between the expected sales price and the carrying amount of RTSoft Group.

In the cash-generating units Europe, North America and Asia, the value in use is greater than the respective carrying amount, meaning that no impairment has to be recorded in line with IAS 36.

In order to calculate the need for impairment, the recoverable amount of the cash-generating units Europe, North America and Asia is derived by calculating the values in use, using cash flow forecasts. The cash flow forecasts are based on the financial budgets (2014 – 2017) for a period of four years authorized by management. Cash flows occurring after the four-year period are estimated as having achieved a 0.7 to 1.0 % growth over the last, individual planned year (2017). In order to calculate the value in use of the cash-generating units, forecasts were made for cash flows, which are based on the operating income and adherence to forecasts in the recent past, current operating results from the financial year and the best estimate of future developments based on assumptions by management regarding market development, as well as on market assumptions. Essentially, the value in use is determined by the accumulated amount (net present value of the perpetuity), which reacts to changes in the long-term growth rate and the discount rate in a particularly sensitive manner.

The pre-tax discount rate used for the cash flow forecasts is represented in the following table:

Discount rates *Table 055*

in %	**2013**	2012
Europe	9.40	9.38
ubitronix	–	7.45
North America	11.36	11.05
RTSoft Group	–	15.12
Asia	12.90	11.80

The cash-generating-units ubitronix and RTSoft Group have been classified as discontinued operations. The relevant information regarding the goodwill impairment and the calculation of the fair values are included in note (8).

Basic assumptions for the calculation of the value in use
There are estimation uncertainties regarding the following assumptions which form the basis for the calculation of the value in use of the cash-generating units:

- Revenue growth during the budget period,
- Gross profit margins,
- Discount rates,
- Growth rates, which were used as a basis to extrapolate the cash flow forecasts beyond the detailed planning period.

Revenue growth – This was planned using available market surveys and by taking into account empirical values from previous empirical financial years.

Gross profit margins – The estimations for the gross profit margins are based on the average values which were achieved in the previous financial years, as well as on estimations about possible changes to prices, costs and product mixes, as well as increased efficiency during the planning period. Furthermore, expected effects resulting from implementing the measures of the cost reduction and efficiency program (CRP) were also taken into account.

Discount rates – The discount rates reflect the current market assessments in view of the specific risks affecting the cash-generating units. The calculation of the discount rate takes the specific circumstances of Kontron AG and its business segments into account, and is based on the weighted average cost of capital (WACC), that is customary in the sector. The weighted average cost of capital takes both the borrowed capital and equity capital into account. The cost of equity is derived from the expected return on equity, while the cost of borrowed capital is calculated using the expected debt servicing. This interest rate was then adjusted to reflect the market assessment in view of all specific risks concerning the cash-generating unit, in particular exchange rate and country-specific risks, for which the estimate of the future cash flow was not adjusted.

Estimate of the long-term growth rate – The growth rate used to extrapolate the cash flow forecasts for beyond the planning period of four years was taken to be 0.7 to 1.0 %. The growth rate takes external macro-economic data and sector-specific trends into account.

Sensitivity of the assumptions made

The management is of the opinion that no change that could be reasonably expected to one of the main assumptions used to determine the value in use of the cash-generating units Europe, North America and Asia could lead to the carrying amount of these cash-generating units considerably exceeding their recoverable amount.

The effects of the main assumptions on the recoverable amount are described below:

Assumptions regarding the growth rate – The long-term growth rate can be considerably affected by technological changes and possible new competitors. However, based upon the current level of knowledge, Kontron would not expect the possible entry of a new competitor to have a negative impact on the forecasted cash flow. Despite this, it could, however, lead to a reasonably foreseeable different possible growth rate. A fall in the long-term growth rate of 1 % to 0.5 % would not lead to a need for impairment for the cash-generating units Europe, North America and Asia.

Development of the gross profit margin – A gross profit margin that is one percent lower over a specific period of time would not lead to a need for impairment at the cash-generating units Europe, North America and Asia.

Discount rates – If the discount rates were increased by one percentage point, the value in use of the cash-generating units Europe, North America and Asia would continue to be higher than their carrying amount.

Regarding the cash generating units ubitronix and RTSoft Group, the fair value less cost to sell represents the value in use, which is why there is no information provided regarding the sensitivity of the aforementioned basic assumptions. A change to the fair value less cost to sell would lead to an equivalent change to the need for impairment for RTSoft.

16. Trade accounts payable

The trade accounts payable are made up as follows:

Table 056

in €k	**2013**	2012
Trade accounts payables	64,897	73,419
Customer prepayments	2,312	14,216
	67,209	**87,635**

The trade accounts payable have the following residual terms:

Residual terms *Table 057*

in €k	Residual term up to 1 year	Residual term from 1 – 5 years	Residual term more than 5 years	**Total**
12/31/2013	66,427	782	0	**67,209**
12/31/2012	86,813	822	0	**87,635**

17. Other liabilities

The other liabilities break down as follows:

Other current liabilities

Table 058

in €k	**2013**	2012
Amounts owed to personnel	12,559	14,975
Outstanding invoices	2,704	1,108
Other taxes	1,809	6,001
Legal and consultancy costs	1,268	1,586
Accounts payable from purchase commitments	815	0
Debtors accounts in credit	711	207
Re-acceptance obligation arising from sales of materials	328	2,607
Rental obligations	271	350
Interest liabilities	239	92
Accounts payable from social insurance	149	0
Accounts payable from derivative financial instruments	63	72
Accounts payable from acquisitions of companies	0	125
Other	1,588	1,736
	22,504	**28,859**

Other non-current liabilities

Table 059

in €k	**2013**	2012
Accrued income	2,567	236
Onerous contracts	693	981
Put options on ubitronix shares	0	134
Other	222	133
	3,482	**1,484**

A sum to the value of € 2,288k is recorded in the deferred income for advanced payments received from an insurance policy for damages resulting from flooding at a German subsidiary.

18. Deferred tax liabilities

Note (7) of this appendix ("Income tax") contains information about the deferred tax liabilities.

19. Financial liabilities

The position "Financial liabilities" includes all interest-bearing liabilities of the Kontron Group, which exist at the balance sheet date. They consist of the following:

Financial liabilities 2013 *Table 060*

in €k	Residual term of 1 year	Residual term of 1 – 5 years	Residual term of over 5 years	**2013 Total**
Non-Current				
Long-term bank borrowings (bank loans)	0	34,932	0	34,932
Finance lease obligations	0	190	0	190
Non-current financial liabilities	**0**	**35,122**	**0**	**35,122**
Current				
Bank borrowings	197	0	0	197
Finance lease obligations	104	0	0	104
Current financial liabilities	**301**	**0**	**0**	**301**
	301	**35,122**	**0**	**35,423**

Financial liabilities 2012 *Table 061*

in €k	Residual term of 1 year	Residual term of 1 – 5 years	Residual term of over 5 years	**2012 Total**
Non-Current				
Long-term bank borrowings (bank loans)	0	13,803	0	13,803
Finance lease obligations	0	80	0	80
Non-current financial liabilities	**0**	**13,883**	**0**	**13,883**
Current				
Long-term bank borrowings (bank loans)	518	0	0	518
Finance lease obligations	127	0	0	127
Current financial liabilities	**645**	**0**	**0**	**645**
	645	**13,883**	**0**	**14,528**

The following maturities and interest rates apply to the long-term bank liabilities.

Maturities / Interest rates long-term liabilities *Table 062*

in €k	**2013**	2012
Credit facilities with an average interest rate of 1.59 % (previous year: 1.71 %) until 2017	34,923	13,734
Other loans with an interest rate between 6.9 % and 9.79 % until 2014	9	0
Other loans with an interest rate of between 5.0 % and 10.2 % until 2014	0	69
	34,932	**13,803**
Short-term portion of non-current bank loans	**0**	**0**
	34,932	**13,803**

Overdraft facilities and bank loans with a term of less than 1 year

In order to finance the working capital, some foreign subsidiaries have bilateral credit lines with a total volume of € 3,087k. Of this sum, € 2,034k is accounted for by overdrafts and € 1,053k by sureties. These credit lines were set up without assumption of liability by Kontron AG and are valid until revoked. The utilization of the overdraft by a foreign subsidiary stood at € 197k on the balance sheet date. The sureties provided were fully utilized to a value of € 1,053k.

Bank loans with a term of more than 1 year

In April 2012, a credit facility comprising a total of € 170,000k was concluded with a bank consortium consisting of five banks. The term of this credit facility, which, besides the financing of the working capital of the Kontron Group, also allows for the financing of investments and possible acquisitions, is five years.

The credit line is split up into a tranche of € 140,000k for short-term borrowing in the form of cash lines and a guarantee facility of € 30,000k. Furthermore, the cash line makes it possible for Kontron AG and its subsidiaries to arrange bilateral credit lines (ancillary lines and subsidiary lines respectively) with the individual members of the bank consortium. Kontron AG took advantage of this financing option to December 31, 2013, and entered into bilateral credit line agreements (ancillary lines) for a total of € 29,600k with all the consortium banks. In addition to this, a local credit line (cash line) amounting to € 4,102k (converted into Euros using reporting date) was set aside as a subsidiary facility for a subsidiary company outside Germany, which is presented in the financial statements as a discontinued operation. At the date of balance sheet, € 3,801k of this line of credit, for which Kontron AG also assumed joint-liability as part of the credit facility, had been drawn. This borrowing on the credit line is not included in the financial liabilities shown, but in the balance sheet item “Liabilities in connection with the assets held for sale”.

No securities were granted for the credit lines. Some of Kontron AG's subsidiaries have assumed joint liability against the bank consortium. As a result of an agreement within the credit facility, an additional foreign subsidiary was incorporated in this joint liability during the 2013 financial year. The credit facility is subject to compliance with agreed financial covenants as well as non-financial requirements. The financial covenants concern the ratio between the Group's net financial liabilities to EBITDA; the ratio between the net financial result of the Group to EBITDA; and a defined minimum equity ratio. Should these credit conditions not be fulfilled, the outstanding liabilities are immediately payable to the creditor banks. On the balance sheet date, the requirements stipulated in the credit agreement were completely fulfilled.

The interest on the borrowings within the credit facilities is based on the EURIBOR underlying the respective term, plus a credit margin, which is calculated depending on the ratio of the corporation's net financial debt to EBITDA. The interest within the bilateral "ancillary lines" was agreed individually with the respective consortium bank and is calculated based on the current money market interest rate. The average interest rate for financing on the balance sheet date is approx. 1.59 % p. a.

On 31 December 2013 the utilization of the funds within the credit facility amounted to € 34,923k. In addition to this, the sum of € 3,801k was withdrawn from the existing cash lines by drawing on the subsidiary outside Germany shown in the balance sheet as a discontinued operation. As part of the subsidiary line concept agreed with the bank consortium, guaranteed lines of credit amounting to a total of € 13,238k continued to be provided for this subsidiary so that this sum also has to be subtracted from the cash line granted to Kontron AG.

Taking into consideration these credit lines set aside for the subsidiary outside Germany, it means that the Group of companies has therefore cash credit lines amounting to € 126,190k altogether upon which it draw, so that the Group altogether has another calculated finance buffer amounting to € 74,021k available. € 17,039k of this is attributable to the subsidiary company presented as discontinued operation.

The sum of € 4,663k has been drawn on the guarantee lines made available for Kontron AG amounting to € 30,160k within the credit facility so that there is a further buffer amounting to € 25,497k. Up to the date of the balance sheet the sum of € 3,941k had been drawn on from the guarantee line amounting to € 13,238k already mentioned above for the subsidiary outside Germany was set up with as a result of country-related specifications with local branches of consortium banks.

This means that including the company shown as a discontinued operation, at the date of balance sheet the Group of companies had € 87,259 unused credit lines available for loans as well as € 34,794k from additional guarantee lines.

On December 31, 2012, the Group of companies had a total of € 172,698k of credit lines available. This means that the Group of companies had € 111,810k of unused cash lines plus € 26,819k for guarantee claims available.

Fixed-interest-rate-loans

A fixed-interest-rate-loan to the value of € 9k serves to finance the company vehicles of a foreign subsidiary.

The financial liabilities calculated on the balance sheet date do not include defaults within the period regarding the redemption or interest payments, the redemption fund or the redemption conditions for the liabilities.

Lease obligations

The Group has entered into lease agreements for various vehicles, technical plant and software licenses. The average duration is between three and seven years. The leasing contracts do not contain any extension or favorable purchase options. No limitations were imposed on the lessee by the leasing agreements.

The following payments were recorded as expenses from the lease agreements during the reporting period:

Lease agreement payments *Table 063*

in €k	**2013**	2012
Minimum lease payments from operating lease agreements	**7,444**	**7,972**

Within the framework of sale and lease back transactions, in previous financial years, SAP licenses with a total value of € 14,519k were sold to a leasing company and simultaneously lease agreements were concluded with the lessor for these SAP licenses. The contracts, which were revised in 2009, have a duration lasting until the end of 2014, while the contracts concluded in 2010 and 2011 run until May 2015.

20. Provisions

IAS 37 defines provisions as liabilities whose timing and amount are uncertain. It makes a distinction between provisions and accruals.

Accruals are contained in the position “Other current liabilities” or “Other non-current liabilities” and are explained in more detail under Note (15).

The provisions developed as follows:

Short-term provisions 2013

Table 064

in €k	Carried forward 01/01/2013	Currency changes	Reclassi-fication	Additions	Utilization	Release	Interest	Dis-continued operations	**As at 12/31/2013**
Warranty	2,897	– 112	0	949	366	204	0	– 456	2,708
Legal disputes	721	– 113	0	249	747	0	0	0	110
Contingent losses	1,475	– 81	746	711	756	0	14	– 940	1,169
Restructuring	1,598	– 22	928	7,813	2,047	443	0	0	7,827
Other	506	– 99	96	2,835	399	578	0	0	2,361
Total	**7,197**	**– 427**	**1,770**	**12,557**	**4,315**	**1,225**	**14**	**– 1,396**	**14,175**

Long-term provisions 2013

Table 065

in €k	Carried forward 01/01/2013	Currency changes	Reclassification	Additions	Utilization	Release	**As at 12/31/2013**
Warranty	933	– 73	0	284	331	117	696
Contingent losses	1,731	0	– 746	198	413	0	770
Restructuring	1,322	– 23	– 928	698	0	371	698
Other	131	– 4	– 96	0	1	0	30
Total	**4,117**	**– 100**	**– 1,770**	**1,180**	**745**	**488**	**2,194**

Short-term provisions 2012

Table 066

in €k	Carried forward 01/01/2012	Currency changes	Reclassi-fication	Additions	Utilization	Release	Interest	As at 12/31/2012
Warranty	2,347	– 50	0	2,206	1,479	127	0	2,897
Legal disputes	173	– 15	0	825	262	0	0	721
Contingent losses	373	– 3	1,034	759	706	0	18	1,475
Restructuring	446	– 1	– 302	1,582	0	145	18	1,598
Other	1,531	– 11	0	386	954	446	0	506
Total	**4,870**	**– 80**	**732**	**5,758**	**3,401**	**718**	**36**	**7,197**

Long-term provisions 2012

Table 067

in €k	Carried forward 01/01/2012	Currency changes	Reclassi-fication	Additions	Utilization	Release	Interest	As at 12/31/2012
Warranty	1,010	– 5	0	133	0	205	0	933
Contingent losses	2,366	0	– 829	271	103	0	26	1,731
Restructuring	0	– 2	0	1,324	0	0	0	1,322
Other	30	0	97	4	0	0	0	131
Total	**3,406**	**– 7**	**– 732**	**1,732**	**103**	**205**	**26**	**4,117**

Warranties

A provision is classified as a liability for warranty obligations for products sold during the past two years. Warranties from construction contracts are taken into account in the calculation of provisions upon the complete acceptance of the respective project. The evaluation is made on the basis of pragmatical values for repairs and complaints from the past. It is to be expected that the majority of these costs will arise within the next financial year and that the entire sum listed on the balance sheet will be accrued within two years of the cut-off date. The assumptions made to calculate the warranty are based on the current level of sales and the information currently available about complaints for the sold products within the two-year warranty period.

Legal disputes

The expenditure in the short-term provisions for legal disputes with a sum of € 532k is the result of a legal dispute that Kontron Australia Pty. Ltd. had with a customer (more information on this can be found under marginal number (21)).

Contingent losses

The additions in the short-term provisions for contingent losses to the value of € 711k were formed in the RTSoft ZAO in relation to long-term construction contracts. The expenditure in the long-term and short-term provisions for anticipated losses relates to the leasing rates for the SAP systems of Kontron Europe GmbH and Kontron Asia Pacific Design Sdn Bhd.

Restructuring

In fiscal year 2013, an amount of € 7,813k was listed in the short-term provisions for restructuring, as well as an amount of € 698k in the long-term provisions for restructuring. These additions were necessary in relation to the "New Kontron" cost reduction and efficiency program (CRP) and contain effects from several German locations in Augsburg and Deggendorf, as well as from the downsizing of some overseas locations. The provisions mainly contain redundancy liabilities and miscellaneous personnel costs in value of € 7,716k as well as expenses for onerous contracts in value of € 795k. The expenditure for restructuring provisions relates to the provisions recorded in previous year for the Swiss subsidiary Kontron Compact Computers AG, which is in liquidation.

Other

The contributions for the short-term sundry provisions include an amount of € 2,051k for the replacement of faulty products for a customer.

Pensions and other post-employment benefits

Impact of the first application of the new IAS 19 standard (revised 2011)

On June 16, 2011, the IASB prepared a revised version of IAS 19, which was published in the Official Journal of the European Union on June 6, 2012. Kontron AG has applied the new IAS 19 standard (revised 2011) in this financial year for the first time. The effect of this first application of the IAS 19 (revised 2011) is an increase in the net pension debt by € 167k (€ 199k on January 1, 2012) at the expense of the retained earnings.

The pension costs in 2013 turned out to be approximately € 21k (previous year: € 17k) less than that calculated using the previous version of IAS 19, due to the following effects:

- Gain of € 32k (previous year: € 32k) as there is no more amortization of the Unrecognized Past Service Cost in France (the net pension debt was increased by the Unrecognized Past Service Cost)

- Loss of € 11k (previous year: € 15k) due to the new calculation of the interest revenue taking the discounting interest rate into account in Switzerland.

Statutory framework conditions and description of commitments
In Germany, the legal framework for company pensions is stipulated by the Employers' Retirement Benefits Law (Betriebsrentengesetz, BetraAVG), in which the minimum legal requirements for company pensions are stipulated. Furthermore, regulations and rulings from employment law must also be followed. The German pension provision system comprises a pension that is paid as:

- a pension annuity upon retirement or upon reaching the fixed qualifying age of 65 years

- an advance pension by drawing the pension from the statutory superannuation scheme

- disability benefit upon retirement with subsequent incapacity to work.
  The pension level is not affected by salary adjustments. On the cut-off date, ten members of staff were participating in the scheme; the same number as in the previous year.

Due to the statutory and wage stipulations in France, the company is obligated to provide its members of staff with lump-sum payments upon retirement. The payments are regulated by wage and are based on the length of time the employee worked at the company as well as on the final salary prior to retirement. A member of staff who leaves the company prior to retirement age, regardless of whether they do so voluntarily or not, does not receive any payment. On the cut-off date, 98 members of staff were participating in the scheme (previous year: 95 members of staff).

In Switzerland, every employer has to offer their employees a pension plan in line with the BVG (Swiss Federal Law on Occupational Retirement, Surviving Dependents' and Disability Pension). Employers have to insure employees with salaries exceeding the entry threshold, which is regularly adjusted. The BVG stipulates a minimum plan (the "BVG Minimum"), which must be covered. The retirement benefit plan in Switzerland concerns direct pension commitments. In this case, Kontron pays a pension to the members of staff that is dependent on the wage and length of service in the company.

At year-end, the Swiss company was in liquidation. As such, the plan was liquidated. There remain only a few assets in the plan, which will be paid off in 2014.

Existing risks

In Germany, the pension scheme is closed for new entrants. The wages qualifying members of staff to benefit are stipulated. The sum of the final claims of all claimants is limited to less than € 9k each year. The current paid pensions amount to less than € 3k per year and per beneficiary. In this case, the risks are largely restricted to interest rate developments and longevity.

In France, the risks are also largely restricted to interest rate developments and longevity. The plan is not covered by plan assets, as is standard practice for smaller companies.

In Switzerland, the liquidation of the company and the payment of all non-forfeitable entitlements means that no obligations and no significant risks remain.

Provisions for pension commitments and other benefits

The provisions for pension and other post-employment benefits upon termination of the working relationship have evolved as follows:

Pension provisions 2012 *Table 068*

in €k	
Pension provisions as of 01/01/2012	**2,937**
Additions	– 2,140
Utilization	– 196
Interest charges	151
Recognition of measurement in other comprehensive income:	
Gain (–) / losses (+) caused by change in demographic assumptions	– 85
Gain (–) / losses (+) caused by change in financial assumptions	694
Gain (–) / losses (+) caused by change to Defined Benefit Obligation as a result of experience	– 564
Gain (–) / losses (+) from plan assets (not contained in interest earned)	340
Impact from the asset ceiling in accordance with IFRIC 14	153
Translation differences from plans in foreign currency	17
Pension provisions as of 12/31/2012	**1,307**

Pension provisions 2013 *Table 069*

in €k	
Pension provisions as of 01/01/2013	**1,307**
Additions	218
Utilization	– 34
Interest charges	37
Recognition of remeasurement in other comprehensive income	
Gains (–) / losses (+) arising from change in demographic assumptions	– 37
Gains (–) / losses (+) arising from change in financial assumptions	3
Gains (–) / losses (+) arising from change to Defined Benefit Obligation as a result of experience	– 92
Gains (–) / losses (+) from plan assets (not included in interest income)	67
Impact from the asset ceiling In accordance with IFRIC 14	– 42
Translation differences from plans in foreign currency	0
Pension provisions as of 12/31/2013	**1,428**

From the financial year 2009, Kontron recorded the actuarial profit and loss as other income resulting in neither profit nor loss. The new IAS 19 standard (revised 2011) now states that this methodology is obligatory. As this methodology was already being applied, the potentially significant effect of this new IAS 19 standard (revised 2011) concerning the actuarial profit and loss did not have an impact.

The following tables show the components of the expenses recorded in the consolidated income statement as well as the estimated amounts for the respective plans in the consolidated balance sheet.

Expenses contained in the consolidated income statement for post-retirement benefits:

Expenses from post-retirement benefits *Table 070*

in €k	**2013**	2012
Current service costs	105	327
Past service costs	111	– 2,480
Gains / losses arising from settlements	0	0
Net interest charges:		
Interest charges (DBO)	77	272
Interest income (plan assets)	– 40	– 121
Interest income from reimbursements	0	0
Interest expense (+) / interest income (–) from the asset ceiling	0	0
Actuarial gains / losses	0	0
Administration costs	2	12
Expenses / income from post-retirement benefits	**255**	**– 1,989**
Actual income from plan assets	28	219

The expenses are listed in the consolidated income statement under general administration costs. For the 2014 financial year, the corporation expects to be faced with contributions to the benefit-based liabilities in the form of expected direct pension payments to the sum of a total of € 28k.

The changes to the present value of the defined benefit obligation can be shown as follows:

Present value of defined benefit obligation

Table 071

in €k	**2013**	2012
Present value of defined benefit obligation as at 01/01/	**5,493**	**9,809**
Current service costs	105	327
Past service costs	111	– 2,480
Gains / losses from settlements	0	0
Interest charges	77	272
Pension payments from plan assets	0	– 1,497
Pension payments by employer	– 4	– 4
Payments for plan settlements	– 4,177	– 1,241
Employee contributions	28	184
Administration costs (contained in the DBO)	0	0
Taxes (contained in the DBO)	0	0
Insurance premiums for risk services	0	0
Business combinations	0	0
Reclassifications	0	0
Remeasurements:		
Gains (–) / losses (+) caused by change in demographic assumptions	– 37	– 85
Gains (–) / losses (+) caused by change in financial assumptions	3	693
Gains (–) / losses (+) caused by changes as a result of experience	– 92	– 564
Translation differences from plans in foreign currency	– 80	78
Other	0	0
Present value of defined benefit obligations as at 12/31/	**1,428**	**5,493**

The changes to the attributive fair value of the plan assets are shown as follows:

Fair value of plan assets *Table 072*

in €k	**2013**	2012
Fair value of the plan assets at 01/01/	**4,337**	**6,872**
Changes in consolidated entities	0	0
Expected return from plan assets	40	121
Gains / losses from plan assets	– 67	– 340
Contributions by employees	28	184
Contributions by employer	30	192
Pension payments from plan assets	0	– 1,496
Payments for plan settlements	– 4,177	– 1,241
Administration costs	– 2	– 12
Plan settlements / changes	0	0
Translation differences from plan assets in foreign currency	– 83	58
Fair value of the plan assets at 12/31/	**107**	**4,337**

The dismantling of the pension plan in Switzerland saw the assets being transferred to an instant access savings account on an interim basis. They are to be viewed as liquid funds.

These assets do not represent property of the company; rather will be used in certain circumstances to improve the benefits of staff. Their actual usage depends on the authorization of the responsible person in charge.

The main assumptions used to calculate the long term employee obligations are shown below:

Main assumptions *Table 073*

in %	**2013**	2012
Discount rate	3.08	2.11
Rate of compensation increase	2.00	1.96
Rate of pension progression	2.00	0.52

Life expectancy Heubeck 2005G

Table 074

Current age 12/31/2013	Average man/woman aged 65	Previous year's value
65	20.75	20.62
45	23.37	23.24
40	23.98	23.86

The life expectancy is only stated for Germany. In France, a lump sum is paid out with the result that life expectancy does not play a defining role. There were no obligations remaining on December 31, 2013 in Switzerland.

The sensitivity analysis of the core assumptions results in the following sums:

Amounts

Table 075

	12/01/2013 assumption	12/31/2013 liability	+50 base points	– 50 base points
Discount factor	3.08 %	€ 1,428k	€ 1,335k	€ 1,526k
Rate of compensation increase	2.00 %	€ 1,428k	€ 1,510k	€ 1,349k
Rate of pension progression	2.00 %	€ 1,428k	€ 1,439k	€ 1,418k

The benefits last 14 years.

An increase in life expectancy by one year leads to a total liability of € 31k.

21. Information about legal disputes

A range of legal disputes were pending in the reporting period. These legal disputes concern the continuing operations of the Group. With the exception of the proceedings explained below, the board of directors assumes that the outcome of these legal disputes will have no material effect on the financial position and profitability of the company.

The lawsuit presented in the annual report for 2012 by a customer against the Australian subsidiary was concluded by settlement during the reporting period. The settlement saw a payment to the value of € 532k being paid to the claimant; this payment is covered by the precautionary provision recorded in 2012. The conclusion of the settlement saw all of the claimant's claims being satisfied.

It was also not possible to conclude the action for damages (active process) against several defendants in Malaysia, which has been pending since 2010, during the reporting period. The lawsuit claims damages to the value of € 29,348k. Kontron has not recorded any accounts receivables for these damage claims. Two trial dates for the purpose of hearing the witnesses took place during the reporting period. At present, the lawyers in Malaysia acting on behalf of Kontron cannot gauge when a judgment will be reached for the court case in Malaysia.

Some employees have filed actions with the authoritative labor courts in connection with the implementation of the relocation of various sites of Kontron Europe GmbH to the sites in Augsburg and Deggendorf, which was resolved within the framework of the Cost Reduction and Efficiency Improvement Program (CRP). The actions are directed at the dismissals with the option of altered conditions or transfers that were declared by the company. A provision for legal fees has been set up amounting to € 1,463k.

22. Equity and stock subscriptions

The number of nil-par shares issued by Kontron on December 31, 2013 amounted to 55,683,024. Each share represents a share of subscribed capital of € 1. Preference shares or different classes of stock do not exist.

The capital reserve contains the surplus from the issue of shares, the equity components arising from the convertible loan, as well as expenses relating to the stock option plans (see Note 32).

The revenue reserve contains undistributed past earnings from companies included in the consolidated financial statements, as well as actuarial gains and losses from pensions and other benefits following termination of the employment relationship. Since January 1, 2010, the difference between cost and the carrying amounts attributable to acquired shares when acquiring "non-controlling interests" in subsidiaries is also reported in the revenue reserve.

23. Conditional capital

Conditional capital 2003/I conditionally increased the company's share capital by up to € 1,105k through the issue of up to 1,104,850 new shares against conversion rights or stock options. The conditional capital increase will be performed only to the extent that owners of option rights from the 2003 stock option program exercise them. As the result of a resolution by the shareholders' meeting of June 9, 2010, the maturity of the issued and non-exercised stock options was extended to 31 December 2013. From December 31, 2013 there are therefore no stock options outstanding (previous year: 299,500).

Conditional capital 2007 conditionally increased the company's share capital by up to € 1,500k through the issue of up to 1,500,000 ordinary shares against conversion rights (Conditional Capital 2007). The conditional capital increase will be performed only to the extent that owners of option rights from the 2007 stock option program exercise them. As of December 31, 2013, there were 49,000 related stock options (previous year: 943,094).

The 2010 conditional capital was cancelled as the result of a resolution by the shareholders' meeting of June 7, 2011.

Conditional capital 2011 conditionally increased the company's share capital by up to € 16,877k through the issue of up to 16,876,662 ordinary shares against conversion rights (Conditional Capital 2011). The conditional capital increase will be performed only to the extent that owners of convertible and / or option bonds issued by the company by June 6, 2016 on the basis of the authorization of the shareholders' meeting of June 7, 2011 exercise their conversion and option rights. This had given rise to no convertible or option bonds as of December 31, 2013.

24. Approved capital

With the approval of the shareholders' meeting of Kontron AG on June 7, 2011, a resolution was passed to set up an Approved Capital 2011 to replace the Approved Capital 2010.

Approved Capital 2011 entitles the Management Board, with the approval of the Supervisory Board, to issue up to 27,841,512 new bearer shares in one or several tranches against cash contributions or non-cash capital contributions by June 6, 2016 (Approved Capital 2011). The shareholders shall in principle have a right to subscribe to the new shares. Shareholders are granted statutory subscription rights such that the new shares are taken over by one or more credit institutes, with a commitment to offer these to the company's shareholders for subscription.

The Management Board is authorized to exclude shareholder's statutory subscription rights, with the Supervisory Board's consent:

- to the extent required in order to compensate fractions;

- insofar as required, in order to grant to the creditors of Kontron AG or one of its group companies bonds (including equity-related participation rights and bonds carrying entitlement to profits) with conversion or option rights or a conversion obligation to new shares to the extent that would accrue to them after exercising their conversion or option rights or fulfilling a conversion obligation;

- if the new shares are issued for contributions in kind for the purpose of company mergers, buying companies or acquiring holdings in companies or parts thereof, accounts payable by the Company or other economic assets;

- if the new shares are issued at a price that is not significantly lower than the share market price and the shares issued, to the exclusion of the subscription right in accordance with Section 186 no. 4 AktG, do not exceed 10 % of the share capital either on the date on which this authorization takes effect or on the date of exercise of this authorization. The sale of treasury shares shall be counted towards this 10 % limit provided that the sale occurs during the term of this authorization, subject to the exclusion of subscription rights pursuant to Section 186 para. 3 no. 4 AktG. Furthermore, such shares shall count towards this limitation that were or must be issued to service bonds (including equity-related participation rights and bonds carrying entitlement to profits) with conversion or option rights or a conversion obligation provided that the bonds or equity-related participation rights were issued during the term of this authorization subject to exclusion of the subscription pursuant to Section 186 para. 3 no. 4 AktG.

The sum total of shares issued against contribution in cash and in kind in accordance with this authorization may not exceed 25 % of the share capital either on the date on which this authorization takes effect or on the date of exercise of this authorization. The sale of treasury shares shall be counted towards this 25 % limit provided that the sale occurs during the term of this authorization, subject to the exclusion of subscription rights. Furthermore, such shares shall count toward this limitation that were or must be issued to service bonds (including equity-related participation rights and bonds carrying entitlement to profits) with conversion or option rights or a conversion obligation provided that the bonds or participation rights were issued during the term of this authorization subject to exclusion of subscription rights.

The Management Board is also authorized, upon the approval of the Supervisory Board, to define the further content of the rights of the shares and the details of the capital increase and its execution.

25. Treasury shares

The Management Board was authorized by the shareholders' meeting on June 9, 2010 to acquire treasury shares up to a 10 % notional share of the issued share capital. The authorization is valid until June 8, 2015.

In the reporting year, the company did not acquire any treasury shares, nor did it transfer any treasury shares to its employees on the basis of share options.

As of December 31, 2013, Kontron holds 111,976 (previous year: 111,976) treasury shares, which corresponds to a nominal € 112k (previous year: € 112k) of the share capital. The notional proportion of the issued share capital is 0.22 % (previous year: 0.22 %).

26. Other equity components

The value of the other equity components has changed from € – 30,938k to € – 32,705k. This is attributable to currency exchange rates fluctuations and to currency translation differences attributable to discontinued operations reallocated to the relevant reserve (see text number (28)).

27. Non-controlling interests

The minority interest in the equity of € 2,577k is mainly attributable to the subsidiary RTSoft ZAO (€ 2,526k).

In accordance with current IFRS rules, non-controlling interests must be shown within shareholders' equity.

28. Type and purpose of reserves

Capital reserves
Along with equity issue premiums and capital increase costs, capital reserves also include share-based payments. The share-based payment reserve serves to report the value of share-based payment granted in the form of equity instruments to employees (including managers) as a salary component. Please refer to Note (32.1) for further information about these plans.

To compensate a net loss, a withdrawal from the capital reserves was made in FY 2013 against the retained earnings of Kontron AG amounting to € 33,700k.

Reserve for currency differences
The reserve for currency differences reports translation differences arising from the conversion of foreign subsidiaries' financial statements. It is also used to report the effects of hedging a net investment made in a foreign operation.

Reserve for discontinued operations
This reserve reports currency differences arising from discontinued operations.

29. Contingent liabilities

On January 18, 2012, the production assets and a large proportion of the inventories of Kontron Design Manufacturing Services Sdn. Bhd. were sold to Plexus Corp. in an asset deal. In return for the sale of the production plant by Plexus Corp., Kontron has undertaken to acquire at least USD 100 million per year in merchandise for two years. As a result of the accounts payable and receivable in the financial year 2013, on the basis of this liability it is reckoned that a drawing of € 815k will be made for 2013, which is recorded in the other non-current liabilities. In addition to this, Kontron is obliged to repurchase stocks sold to Plexus Corp. Subject to certain conditions and in accordance within set periods of time. In connection with this, a sum amounting to € 328k (previous year: € 2,607k) was entered in the balance sheet under the Other short-term liabilities.

Between September and November 2012, Kontron sold inventories worth € 780k to another supplier, for which there is a repurchase obligation provided that the materials sold cannot be consumed by Kontron within 18 months, as a result of appropriate product orders. In connection with this, Kontron set aside € 100k as a provision in the financal year 2013.

The Group did not give any guarantees in the reporting year or the previous year.

30. Other financial obligations

Besides liabilities, provisions and contingent liabilities, there are other financial obligations consisting, in particular, of rental and lease contracts for machinery, office and other equipment. Other financial obligations are broken down as follows:

Other financial obligations 2013

Table 076

in €k	Residual term up to 1 year	Residual term of 1 – 5 years	Residual term more than 5 years	**2013 total**
Operating lease obligations	6,247	6,356	3,424	16,027
Other rental obligations	1,713	2,312	4	4,029
Other obligations	194	0	0	194
	8,154	**8,668**	**3,428**	**20,250**

Other financial obligations 2012

Table 077

in €k	Residual term up to 1 year	Residual term of 1 – 5 years	Residual term more than 5 years	**2012* total**
Operating lease obligations	6,732	11,834	4,693	23,259
Other rental obligations	1,827	4,794	147	6,768
Other obligations	267	19	0	286
	8,826	**16,647**	**4,840**	**30,313**

Order commitments for the supply of goods lay within normal business bounds.

31. Notes for the Consolidated Cash Flow Statement

The statement of cash flows shows the sources and use of cash flows in 2012 and 2013. In accordance with IAS 7 *Cash Flow Statement,* a distinction is made between cash flows from operating activities and those from investing and financing activities. In contrast to the Profit and Loss account, the cash flows from discontinued operations are not shown separately in the cash flow statement. The amounts shown therefore include not only the cash flows for the continuing operations but also for discontinued operations.

The cash and cash equivalents contained in the cash flow statement comprise all liquid funds shown in the balance sheet, i. e., cash in hand, checks and bank balances, if they are available within three months from the time of deposit.

The cash flows from investing and financing activities are determined in relation to payments and the cash flow from operating activities is derived indirectly, based on the net income for the year. As part of this indirect process of the calculation of cash flows, the changes taken into account in balance sheet items in connection with current operations are adjusted to eliminate effects resulting from currency conversion and changes to the scope of consolidation. The changes in the balance sheet items concerned can therefore not be matched against the corresponding figures contained in the published consolidated balance sheet.

Besides additions to tangible and financial fixed assets, investing activities comprise additions to capitalized development costs.

The cash and cash equivalents contained in the cash flow statement as per December 31, 2013 deviate from the value in the balance sheet due to the liquid funds of the discontinued operations, which are contained in the balance sheet within the position "Assets held for sale". Further details can be found in the Notes on "Discontinued operations" (Note (8) and "Cash and cash equivalents" (Note (9).

Other notes

32. Share-based payments

32.1 Share option plans

Share option plan 2003 *Table 078*

Type of agreement	Share-based compensation for Management Board members, senior staff, and employees			
	(Program 4C)	(Program 4D)	(Program 4E)	(Program 4F)
Grant day	08/22/2005	04/06/2006	11/30/2006	04/30/2007
Options outstanding 01/01/2013	40,000	28,500	100,000	131,000
Options granted 2013	0	0	0	0
Options forfeited 2013	0	0	100,000	22,000
Options exercised 2013	0	0	0	0
Options expired 2013	40,000	28,500	0	109,000
Options outstanding 31/12/2013	0	0	0	0
Options exercisable 31/12/2013	0	0	0	0

Share option plan 2007

Table 079

Type of agreement	Share-based compensation for Management Board members, senior staff, and employees			
	(Program 5A)	(Program 5B)	(Program 5C)	(Program 5D)
Grant day	11/12/2007	08/12/2008	11/12/2008	08/11/2009
Options outstanding 01/01/2013	500,500	307,505	6,000	129,089
Options granted 2013	0	0	0	0
Options forfeited 2013	154,500	82,198	3,000	80,089
Options exercised 2013	0	0	0	0
Options expired 2013	346,000	225,307	3,000	0
Options outstanding 31/12/2013	0	0	0	49,000
Options exercisable 31/12/2013	0	0	0	49,000

The maximum term when the options were issued was five years. By resolution of the shareholders' meeting of June 9, 2010, the maximum duration of programs 4C to 4F as well as 5A to 5C was extended until the end of 2013 (please refer to the notes below). Therefore any outstanding options of this program expire as per December, 2013.

As of the balance sheet date, the share options of the 5D program had a maximum contractual residual duration of seven months.

Based on the underlying option terms (2007 share option plan), the following exercise conditions apply:

(1) 50 % of the share options may not be exercised until the expiry of a two-year-and-one week lock-in period following the issue date, and the remaining 50 % of the options may not be exercised until the expiry of a four-year lock-in period.

(2) The "exercise periods" in each case comprise ten stock exchange trading days on the Frankfurt Stock Exchange and commence in each case at the start of the fifth stock exchange trading day

a) after the date of the annual results press conference

b) after publication of the quarterly report for the first, second and third quarter of the company's financial year.

(3) It is also not permitted to exercise the share options within an exercise period during the following “exercise blocking periods”:

a) from the date on which Kontron AG publishes an offer to its shareholders for the subscription of new shares or convertible bonds or other securities with conversion or option rights in the (electronic) Official Gazette of the German Federal Republic, until the date on which the subscription-entitled company shares are quoted “ex-rights” for the first time on the Frankfurt Stock Exchange.

b) from the date on which Kontron AG publishes the distribution of a special dividend in the (electronic) Official Gazette of the German Federal Republic, until the date on which the special-dividend-entitled company shares are quoted for the first time “ex-rights” on the Frankfurt Stock Exchange.

The exercise period determined in each case by the exclusion of exercise is extended by the corresponding number of stock exchange trading days directly following the expiration of the exercise blocking period. Subscription declarations reaching the company (subscription department) within an exercise period, but during the exercise blocking period, are deemed to have been delivered on the first day following the expiry of the exercise blocking period.

As a rule, the options are settled in equity instruments.

The average price of the Kontron AG share in the 2012 reporting period was € 4.41 (previous year: € 4.72).

The fair values of the outstanding share options of program 5D were calculated using a modified Black-Scholes model. The following model parameters as well as the following imputed staff turnover were used for the calculations:

Model parameters program 2007 *Table 080*

	Program 5D (2-year vesting period)	Program 5D (4-year vesting period)
Share price on valuation date	7.90 €	7.90 €
Maximum duration to issue cut-off date	5 years	5 years
Imputed duration of options	2.24 years	4.25 years
Exercise price at expected exercise date	9.10 €	9.10 €
Expected dividend yield	2.53 %	2.53 %
Risk-free interest-rate for duration	2.13 %	2.73 %
Imputed volatility for the duration	48 %	40 %
Imputed fluctuation for option holders for the duration	—	—
Option value	1.72 €	1.97 €

The following expenses arose for Kontron AG as of the balance sheet date from equity-based payment transactions settled using equity instruments:

Expenses share options *Table 081*

in €k	**2013**	2012
Total expense	7,492	7,547
Expense / income for the period	– 55	52

No share options were exercised in the financial year 2013.

32.2 Performance Share Unit Plans

Within the framework of the 2011 and 2012 Performance Share Unit Plan (PSU Plan 2011 and 2012), so-called performance share units (PSUs) were issued to Management Board members and employees of Kontron AG and its subsidiaries in January 2011 and 2012. These PSUs grant the holder the right to a cash payment in the amount of the average share price over a period of 30 calendar days before the payment date. The PSUs granted do not confer a right to shares of Kontron AG. The PSU Plan allows selected employees and Management Board members to be granted further subscription rights up to and including 2014.

The exercise of the PSUs granted is subject to the fulfillment of specific conditions:

- 20 % of the PSUs granted are earned over a period of four years from the PSUs' issue dates based on the fact that the beneficiaries are in an employment relationship with the company over this period;

- 80 % of the PSUs granted are subject to performance requirements, which comprise the following:

  PSU Plan 2011: The performance requirement is that for the financial year in which the PSUs are granted, revenue growth of at least 13 % and an EBIT margin (adjusted for extraordinary effects) of at least 8.8 % must be achieved in order to earn a claim to 80 % of the PSUs granted. If these performance targets are not achieved, only a correspondingly smaller portion of the PSUs is earned. If sales growth is less than 9 % and the EBIT margin less than 6 %, the claim to 80 % of the PSUs granted is forfeited in full.

  PSU Plan 2012: The performance requirement is that for the financial year in which the PSUs were granted, revenue of at least € 600 million, an EBIT margin (adjusted for extraordinary effects) of at least 8 % and a working capital ratio of no more than 24 % must be achieved in order to earn a claim to 80 % of the PSUs granted. If these performance targets are not achieved, only a correspondingly smaller portion of the PSUs is earned. If the revenue is lower than € 560 million, the EBIT margin is lower than 7 % and the working capital ratio exceeds 27 %, the claim to 80 % of the PSUs granted shall lapse in its entirety.

  PSUs for which a performance condition was issued are also subject to a waiting period of three years.

After the vesting period, the beneficiaries will receive a cash payment on the PSUs earned to an amount of the average price of the Kontron AG share over a period of 30 calendar days before the respective payment date. The amount paid may not exceed two times the grant value per PSU based on the average share price over a period of 30 calendar days prior to the respective issue date of the PSUs.

No new PSUs were granted in financial year 2013 (2012: 226,050 from PSU Plan 2012).

Performance Share Unit-Plan *Table 082*

	Performance Share Unit Plan	
	2011	2012
Grant day	01/03/2011	01/03/2012
PSUs outstanding taking into account performance target attainment 01/01/2013	82,705	74,240
PSUs granted for respective plan in FY 2013	0	0
PSUs exercised for respective plan in FY 2013*	30,940	27,580
PSUs forfeited for respective plan in FY 2013	37,782	28,060
PSUs outstanding 12/31/2013	13,983	18,600

* As part of cancellation agreements entered into the non-lapsable promises under the Performance Share Unit Plans for 2011 and 2012 were paid out in the financial year 2013.

The performance share units granted were classified as a cash-settled, share-based remuneration. The fair value of the liabilities to be booked under the PSU Plan was determined on the basis of the binomial model.

The valuation as of December 31, 2013 was based on the following parameters:

Model parameters PSU *Table 083*

	Performance Share Unit Plan	
	2011	2012
Share price on valuation date	€ 5.20	€ 5.20
Residual term of PSUs	1 year	2 years
Expected dividend yield	0.46 %	0.90 %
Risk-free interest-rate for duration	0.13 %	0.24 %
Imputed volatility for the duration	34 %	38 %
Imputed fluctuation for beneficiaries for the duration	2 %	6 %
Fair value per PSU	€ 5.18	€ 4.93

Estimated future volatilities are based on annualized historic volatilities. This is based on the assumption that conclusions can be made on future trends based on historic volatility over a period similar to the expected duration of the options, whereby the actual volatility may deviate from the assumptions that have been made.

The amounts for the PSU Plans recorded in the consolidated financial statements for the financial year 2013 are as follows:

Recorded amounts PSU *Table 084*

in €k	**2013**	2012
Total expenditure	361	388
Expense / income for the period	– 27	282

The expenses reported in the profit / loss account are assigned to the appropriate functional divisions.

32.3 Performance Options Plan

During financial year 2013, so-called performance options were issued under a Performance Option Plan (POP) to Management Board members and employees of Kontron AG and its subsidiaries. Performance options are issued as "basic performance options" and "premium performance options" which differ in the amount of the exercise price respectively. Performance options entitle the holder to a payment amounting to the difference between the average share price over a period of 20 trading days after the respective exercise date and the agreed exercise price. There is no entitlement to shares of Kontron AG. The POP allows selected employees and Management Board members to be granted further subscription rights up to and including 2016.

The following conditions were defined for the granted performance options for financial year 2013:

- The exercise price for basic performance options corresponds to the unweighted average rate of the Kontron share in the month of December prior to the issue;
- The exercise price of the premium performance options corresponds to 150 % of the exercise price for basic performance options;
- The options can be exercised following a vesting period of one year and an additional waiting of three years during a period of six months under consideration of performance targets and so-called black-out periods;
- Black-put periods are based on the provisions of the Kontron "Insider Trading Policy". The exercise period is extended in line with the respective black-out period, whereby the actual exercise period may be no longer than six months;

- The following performance targets have been defined in terms of sales and EBIT:
  - 70 % of the granted options are earned once the defined sales target of € 547 million has been reached for 2013. If the sales turnover for the financial year is less than € 383 million, the claim to 80 % of the granted options is forfeited in full.
  - 30 % of the granted options are earned once the defined EBIT target (special items such as for example restructuring costs) of € 10 million has been reached for 2013. If the EBIT is less than € 3 million, the claim to 30 % of the granted options is forfeited in full.
  - Structuring the performance targets, it is possible to earn options at an interval of 0 % to max. 125 % of the number of originally granted options;
  - Furthermore, payment per option is limited to 400 % of the basic strike price (cap).

After 4 years following the contractual issue date, the options are non-forfeitable and a portion of the options, which is deemed earned in accordance with the performance target, can be exercised within a period of six months under consideration of the black-out period.

Performance Options Plan 2013 *Table 085*

	Performance Option Plan 2013	
	Basic Performance Options	Premium Performance Options
Grant day	01/02/2013	01/02/2013
Performance options outstanding 01/01/2013	0	0
Performance options granted FY 2013	710,000	200,000
Performance options forfeited FY 2013	100,000	50,000
Performance options outstanding 12/31/2013	610,000	150,000
Performance options outstanding taking into account performance target attainment 12/31/2013	569.842	140.439

The performance options are classified as a cash-settled, share-based remuneration. The fair value of the liabilities to be booked under the Performance Options Plan was determined on the basis of the binomial model.

The valuation as of December 31, 2013 was based on the following parameters:

Model parameter Performance Options *Table 086*

	Performance Option Plan	
	Basic Performance Options	Premium Performance Options
Share price on valuation date	€ 5.20	€ 5.20
Exercise price of performance options	€ 3.86	€ 5.79
Residual term of performance options	4.33 years	4.33 years
Expected dividend yield	0.90%	0.90%
Risk-free interest-rate for duration	0.44%	0.44%
Imputed volatility for the duration	35%	35%
Imputed fluctuation for beneficiaries for the duration	14%	14%
Fair value per performance option	€ 1.93	€ 1.19

Estimated future volatilities are based on annualized historic volatilities. This is based on the assumption that conclusions can be made about future trends based on historic volatility over a timeframe similar to the expected duration of the options, whereby the actual volatility may deviate from the assumptions that have been made.

A total expense of € 178k was recorded for financial year 2013 and recognized as liability. The costs are assigned to the appropriate functional divisions.

33. Earnings per share

In accordance with IAS 33 *Earnings per Share*, undiluted earnings per share are calculated by dividing the net profit for the period attributable to the shareholders of Kontron AG by the weighted average number of shares outstanding during the financial year.

To calculate diluted earnings per share, the net profit for the period is adjusted to reflect all changes in expenses and income that would have resulted from the conversion of the outstanding share options. The number of shares is adjusted to reflect all changes in the number of outstanding shares that would have resulted from a conversion of the share options into ordinary shares.

The outstanding share options in 2013 financial year did not have a diluting effect as their intrinsic value during the reporting period was negative.

Diluted earnings *Table 087*

in €k	2013	2012*
Profit attributable to shareholders		
Continuing operations	– 31,224	– 32,881
Discontinued operations	7,275	7,164
Undiluted earnings attributable to shareholders	**– 23,949**	**– 25,717**
Effect of diluted ordinary shares:		
Share-based payments (after tax effects)	0	0
Diluted earnings	**– 23,949**	**– 25,717**

in thousands		
Weighted average number of shares outstanding		
Undiluted	55,571	55,571
Effect of potentially dilutive ordinary shares (share options)	0	0
Diluted	**55,571**	**55,571**

The above weighted average number of outstanding share as well as the above-mentioned results to be assigned to the shareholders from the respective business units (Note (8)) serves as the basis for the calculation of the diluted and undiluted result per share.

34. Financial instruments and risk management

34.1. Financial instruments

The following table shows the carrying amounts and fair values of all financial instruments reported in the consolidated financial statements:

Financial instruments *Table 088*

	Category	Carrying Amount		Fair value	
in €k	IAS 39**	**2013**	2012	**2013**	2012
Financial assets:					
Cash and cash equivalents	LaR	26,755	27,534	26,755	27,534
Accounts receivable	LaR	88,619	109,954	88,619	109,954
Other financial assets	LaR	8,011	7,610	8,011	7,610
Total loans and receivables		**123,385**	**145,098**	**123,385**	**145,098**
Financial assets available for sale	AfS	146	146	146	146
Financial derivative instruments	HfT	293	218	293	218
Held-to-maturity financial assets	HtM	44	46	44	46
Total financial assets		**123,868**	**145,508**	**123,868**	**145,508**
Financial liabilities:					
Interest-bearing loans	FLAC	35,129	14,321	35,129	14,321
Trade accounts payable	FLAC	64,897	73,418	64,897	73,418
Financial derivative instruments	HfT	20	206	20	206
Other financial liabilities	FLAC	16,915	15,042	16,915	15,042
Total financial liabilities		**116,961**	**102,987**	**116,961**	**102,987**

** LaR: Loans and receivables
AfS: Available-for-sale
HtM: Held-to-maturity
HfT: Held-for-trading
FLAC: Financial liabilities at amortized cost

The fair value hierarchy levels introduced by IFRS 7 are described below:

Level 1: Quoted market prices for identical assets or liabilities on active markets;

Level 2: Information other than quoted market prices that is observable either directly (e. g. prices) or indirectly (e. g. derived from prices) and

Level 3: information for assets and liabilities that is not based on observable market data.

The derivative financial instruments held by the Group consist of two foreign exchange contracts plus foreign exchange swaps and are to be allocated to Stage 2. The market value attributable to these derivatives will be calculated with the forward foreign exchange rate on the date of balance sheet and then shown in the result at the discounted cash value.

Net earnings from financial instruments

Table 089

	from interest	from subsequent measurement			Net result	
in €k		Currency translation	Mark-to-market	Value correction	**2013**	2012
Loans and receivables	530	29	0	– 4,111	– 3,552	– 1,204
Held-to-maturity financial assets	0	0	0	– 1	– 1	3
Financial derivative instruments	0	0	– 85	0	– 85	191
Financial liabilities	– 16	1,550	0	0	1,534	– 716
	514	**1,579**	**– 85**	**– 4,112**	**– 2,104**	**– 1,726**

The interest and interest effects from the valuation of derivative financial instruments are shown in the financial result. The other components of net earnings and the earnings from the valuation of forward exchange transactions contracts are recorded in the operating result.

34.2 Hedging policy and risk management

With the exception of derivative financial instruments, the main sources of financial liabilities used by the Group include bank loans and overdrafts, finance leases, financial guarantees, trade accounts payable and hire purchase agreements. The main purpose of these borrowings is to finance the Group's operations. The Group holds various financial assets such as trade accounts receivable, cash or cash equivalents and short-term deposits that arise directly from operations.

The Group also holds derivative financial instruments whose purpose is to hedge against currency risks arising from the Group's operations and its sources of financing.

No derivative trading was conducted in 2013 and 2012, nor will the Group engage in derivatives trading in the future.

The Group's primary risks are market risks (consisting of foreign exchange, interest-rate and price risks), liquidity risks and default risks.

The company's management makes decisions with regard strategies and processes to manage individual types of risk, which are presented below.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument are exposed to price fluctuations due to changes in exchange rates.

The company's foreign exchange risk derives primarily from its business operations (revenue and / or expenses of an operating unit in a currency other than this unit's functional currency) and from a change in the fair value of foreign currency items through potential changes in respective currency exchange rates.

Due to its international orientation, the Kontron Group is exposed to risks arising from changes to foreign currency exchange rate (transaction risk) for various foreign currencies. The currency hedging strategy therefore targets a general hedging of foreign currency amounts at the time of occurrence of a claim expressed in foreign currency or an obligation by offsetting opposing payment flows in foreign currency. As a global undertaking, Kontron realizes revenues and materials purchases in US dollars or in currencies that are tied to the US dollar. Furthermore the Group incurs operating costs in USD. As a consequence, the resultant currency effects are mainly offset over time. Any remaining fractional amounts from receivables or liabilities entered are hedged using short-term forward contracts. Currency risks arising for Kontron AG as a result of granting Group financing to subsidiaries in their local currencies and / or liabilities to subsidiaries arising from the Group's cash management are hedged using forward exchange transactions.

In the process, receivables and liabilities in the same currency are first offset against each other and then the remaining fractional amounts are hedged.

Future payment flows in foreign currencies for foreign subsidiaries, which are highly likely to occur are hedged individually using appropriate forward contracts. Currency hedging transactions are effected solely by the central treasury department with banks of good credit standing and, if required, forwarded to the subsidiaries by means of internal Group foreign exchange transactions. For liquidity management purposes and in order to optimize the financial result, moreover, the Group carries out foreign exchange swap transactions in which the central treasury either buys a foreign currency against the euro at the spot price and then buys it back at the agreed price as of a later due date, or vice versa. The face value at December 31, 2013, amounted to € 28,007k, the market value amounts to € 5k.

The forward exchange transactions conducted in the financial year 2013 are not classified as hedging relationships to hedge cash flows, the fair value or a net investment and are shown at fair value through profit and loss. The period for which the forward exchange transaction is made is equal to the period during which the foreign currency transaction risk exists, which is normally between one and twelve months. The volume of the forward exchange contracts varies in accordance with the magnitude of the anticipated sales and purchases in foreign currencies, the amounts of the fractional amounts entered from receivables and liabilities in foreign currencies, and fluctuations in the exchange rates.

The fair value of the forward exchange transactions which existed as of the reporting date with a total nominal volume of € 29,244k was € – 3k. The amount of outstanding foreign exchange transactions with a positive market value was € 34k. As the Kontron Group effects forward exchange transactions exclusively with banks of good credit standing and the foreign exchange transactions are effected with different banks for risk diversification purposes, the risk of default from such activities can be classified as extremely low.

The significant transaction risks within the Group result from the change of USD / EUR exchange rate.

The following table shows the sensitivity of Group pre-tax earnings (on the basis of the change of the fair values of monetary assets and liabilities) and the Group's equity, to a potential change of ± 10 % in the US dollar exchange rate to the euro. All other variables remained constant. The Group's transaction risk with respect to exchange rate changes is not significant in the case of all other currencies.

Exchange rate transactional risk

Table 090

	Exchange rate development of USD	Effects on earnings before tax and equity in €k
2013	+ 10 %	– 216
	– 10 %	264
2012*	+ 10 %	– 831
	– 10 %	955

The following table shows the sensitivity of the result from the market valuation of the forward exchange transactions that existed as of December 31, 2013. The evaluation result is depicted with a notional 5 % and 10 % fluctuation of the euro against the foreign currency.

Potential influence of forward exchange contracts

Table 091

Change in €	Effects on earnings before tax and equity in €k	
	2013	2012
+ 5 %	1,107	826
+ 10 %	2,113	1,577
– 5 %	– 1,223	– 913
– 10 %	– 2,583	– 1,927

Interest rate risks

With the exception of a financial liability amounting to € 9k at a foreign subsidiary, all the financial liabilities existing as of the balance sheet date have variable rates of interest. If the financing costs as of the balance sheet date were increased by 0.5 % per year and a constant financing level for the whole of 2013 were assumed, the Group's financial result would be € 178k lower. The risk represented by possible interest rate increases can therefore be classified as low for the Group. The risk of interest movement is analyzed regularly by the central treasury.

Liquidity risk

In order to safeguard the Kontron Group's solvency and its financial flexibility, a liquidity outlook is calculated based on a firm planning horizon. To this end, besides the "indirect" method inferred from the balance sheet, a rolling three-month previous based on the "direct" method is now also utilized. With the establishment of a revolving credit facility totaling € 170 million with a term of five years, the Group has sufficient long-term room for maneuver in terms of liquidity. If necessary, cash and cash equivalents are provided for subsidiaries through their inclusion in the Group's central cash management system. In the process, the central treasury issues internal Group credit lines to subsidiaries. Within the Group there are also smaller, bilateral credit lines which are utilized individually on grounds of margin advantages after consultation with treasury. Further details can be found under Note (19) "Financial liabilities".

The Group's financial liabilities have the following maturities as of December 31, 2013. This information is based on contractual, undiscounted payments.

Maturities of liabilities 12/31/2013 *Table 092*

in €k	Due at call	up to 3 months	3 – 12 months	1 – 5 years	More than 5 years	**Total**
Interest-bearing loans	1	196	9	34,923	0	35,129
Trade payables	30,708	33,388	19	782	0	64,897
Other financial liabilities	3,097	4,231	8,476	917	214	16,935
Interest	0	140	425	1,296	0	1,861
Total	**33,806**	**37,955**	**8,929**	**37,918**	**214**	**118,822**

Maturities of liabilities 12/31/2012 *Table 093*

in €k	Due at call	up to 3 months	3 – 12 months	1 – 5 years	More than 5 years	**Total**
Interest-bearing loans	0	518	0	13,803	0	14,321
Trade payables	25,308	46,801	487	822	0	73,418
Other financial liabilities	2,249	6,644	5,000	1,152	203	15,248
Interest	0	61	184	790	0	1,035
Total	**27,557**	**54,024**	**5,671**	**16,567**	**203**	**104,022**

Default risk

Default or credit risk is the risk that a business partner fails to fulfill its obligations as part of a financial instrument or customer framework agreement, thus resulting in financial loss. As part of its operating activities, the Group is exposed to credit risks, which result, in particular, from default on receivables and services.

Respective business units manage customer receivables default risks on the basis of Group default risk management guidelines, procedures and controlling mechanisms. Individual credit facilities are determined accordingly. Outstanding customer receivables are monitored on a regular basis. Depending on the type and level of the respective business volume, credit information is obtained, or historical data from the business relationship to date are utilized, particularly concerning payment behavior, to avoid payment default and to minimize default risk.

Kontron has a diversified client structure consisting of several thousand customers. The ten largest customers account for around 36 % of total sales, with the largest customer generating less than 10 % of total sales. In this context, close customer relationships have generally existed for several years.

Further risk minimization results from the fact that customers are based in different countries, belong to different industries and operate on largely independent markets. As a result of the financial crisis, default risk for debts in the Eurozone has increased in some cases. Consequentially, Kontron introduced a new global credit limit guideline in October of 2011. During the course of the introduction, existing credit limits were examined and the provisions for default risk were adjusted where necessary.

Valuation adjustment requirements are analyzed for significant customers on an individual basis on each reporting date, and lump-sum valuation adjustments based on receivables term structure are formed for all other customer receivables.

The level of financial assets in the balance sheet reflects maximum default risk, regardless of any existing collateral, in the event that business partners fail to honor their contractual payment obligations. The respective information can be found in Notes (11) and (12).

Capital management

The primary objective of the Group's capital management system is to ensure that Kontron maintains a high credit rating and equity ratio in order to support its business operations. In principle, the higher the equity capital ratio, the better a company's rating and financial stability and the lower the company's dependency on external lenders. For capital management purposes, all elements of equity are included as equity.

Equity ratio *Table 094*

	2013	2012*
Equity	€ 246,944k	€ 286,678k
Total capital	€ 444,634k	€ 460,411k
Equity ratio	**55.5 %**	**62.3 %**

As part of the loan facility entered into in the financial year 2012 a defined minimum equity ratio is to be maintained besides other financial indicators. This was fulfilled in full for the financial year 2013. Further information can be found in Note (19).

The Group manages and adjusts its capital structure while taking into account changes in the economic environment. The Group can adjust its dividend payments to shareholders or issue new shares in order to maintain or adjust its capital structure.

The Group's objectives, guidelines and procedures were not amended as of December 31, 2013 or December 31, 2012.

35. Segment information

Kontron Group's business activities are split into regions for the purposes of performance measurement and management, which gives rise to the following three operating segments in accordance with IFRS 8 *Operating Segments:* Distinctions are made between the markets EMEA, North America (including Canada) and the emerging markets (primarily China and Malaysia), which display highly divergent developments in terms of their economic dynamism. The Group uses these segments for purposes of reporting, decisions relating to resource allocation and planning. The segment information only refers to the continuing operations. The figures for the comparative periods of time were adjusted by the discontinued operations.

No operating segments have been aggregated in order to present the above-mentioned segments.

Kontron AG's Management Board monitors the activities of the operating segments using various key indicators that are identical to published IFRS data in terms of accounting policies.

Kontron AG (Holding) as well as Kontron ECT design s.r.o., are aggregated under "Other segments" since they are not operationally active or do not generate any revenues or are not included in the key indicators communicated to the company's main decision-makers due to the minor scale of their activities.

Internal prices between business segments are calculated using normal market terms applicable to third parties.

Segment information 2013

Table 095

	EMEA	NORTH AMERICA	EMERGING MARKETS	Other segments	Consolidation	Consolidated financial statement
Revenue						
External customers	218,325	204,748	22,180	0	0	445,253
With other segments	41,482	21,870	9,773		–73,125	0
Total revenue	**259,807**	**226,618**	**31,953**	**0**	**–73,125**	445,253
Profit / loss						
Depreciation / amortization	13,013	7,487	388	1,251	0	22,139
Non-scheduled depreciation	4,613	1,694	28	0	0	6,335
EBIT	–16,261	865	–1,030	–14,807	–2,240	–28,993
Financial result	5,415	–1,956	–559	–33,870	29,386	–1,584
Income tax	2,180	409	–215	3,538	675	6,587
Net income	**–8,666**	**–682**	**–1,804**	**–45,139**	**32,301**	–23,990
Working Capital	**63,478**	**42,143**	**5,245**	**–12,891**	**–5,515**	**92,460**
Liabilities						**35,129**

Segment information 2012*

Table 096

	EMEA	North America	Emerging Markets	Other segments	Consolidation	Consolidated financial statement
Revenue						
External customers	224,647	217,492	24,750	0	0	466,889
With other segments	44,878	22,787	12,256	0	– 79,921	0
Total revenue	**269,745**	**240,279**	**37,006**	**0**	**– 79,921**	**466,889**
Profit / loss						
Depreciation / amortization	11,147	6,590	443	591	0	18,771
Non-scheduled depreciation	1,351	1,305	0	1,205	9,577	13,438
EBIT	39	42	81	– 12,682	– 12,177	– 24,697
Financial result	– 2,737	– 5,195	– 1,265	– 56,911	64,258	– 1,850
Income tax	– 1,674	89	47	1,866	117	445
Net income	**– 4,372**	**– 5,064**	**– 1,137**	**– 67,727**	**52,198**	**– 26,102**
Working Capital	**61,857**	**43,056**	**4,628**	**– 2,200**	**– 2,079**	**105,262**
Liabilities						**14,321**

Notes on segment information:
Revenue arising from transactions with other segments is eliminated for the purposes of consolidation.

The working capital segment is calculated on the basis of segment inventories (excluding payments made in advance and receivables from manufacturing contracts) plus segment trade receivables, less segment trade payables (excluding payments received in advance).

Segment liabilities contain short-term and long-term bank borrowings. No segmented presentation has been prepared since 2012 because the bank borrowings have been managed centrally by the treasury department since 2012.

As the segment assets and the investments were no longer reported to management in the reporting year, these disclosures have also not been published.

Intra-group items are eliminated and income and expenses, which are not directly attributable to the segments, are reported under *Consolidation*.

Segment information on products and services:
In the course of the gradual conversion of the internal reporting system over to the new management structure, which has not yet been completed as of the date of balance sheet, the data is no longer available in this format for the financial year 2013.

Geographical segment information:

Segment information on geographic areas 2013

Table 097

	2013	
	Germany	All other countries
External customer revenues	**82,400**	**362,853**
of which: USA	–	141,830
of which: China	–	60,835
Non-current assets	**45,460**	**51,961**
of which: USA	–	32,155
of which: Canada	–	9,594

Segment information on geographic areas 2012

Table 098

	2012	
	Germany	All other countries
External customer revenues	**85,652**	**381,237**
of which: USA	–	174,081
of which: Great Britain	–	35,767
Non-current assets	**50,107**	**58,369**
of which: USA	–	36,577
of which: Canada	–	9,425

The revenues are segmented according to the location of the customer. Non-current assets do not contain any financial instruments or deferred tax claims.

Segment information about customers:

Kontron has a large customer who accounts for about 10 % of the Group's total turnover with its turnover amounting to about € 46,158k. The turnover is included in the North America segment.

36. Related party disclosures (Related Parties in accordance with IAS 24)

Companies and persons are deemed related parties in the sense of IAS 24 that can be influenced by the reporting company, or that can exert influence on the reporting company.

Rentals, sales to and purchases from related companies and individuals occur on the basis of standard market terms. Opening balances as of the year-end are unsecured, non-interest-bearing, and are generally settled by transfers. No guarantees exist with respect to receivables or liabilities relating to related companies and individuals. No receivables from related companies and individuals were subject to value adjustments in 2013 (previous year: € 0k).

Related parties

Table 099

	2013	2012*
Managing director		
Rental expenses	0	2
Supervisory Board		
Consultancy costs	23	62

A former managing director of a subsidiary rented office space for € 2k in the financial year 2012 to this subsidiary.

Details of Management Board and Supervisory Board remuneration are described in more detail in Note (38).

37. Auditors' fees reported as expenditure

The fees for the auditor of the Group financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, totaled € 1,378k and are accounted for by auditing services in the amount of € 434k, other validation services in the amount of € 35k, tax advisory services in the amount of € 71k and other services amounting to € 838k.

38. Information on the Management and Supervisory Boards

The total remuneration of the members of the Management and Supervisory Boards comprises fixed and variable components. The variable salary components are based on achieved profit and the company's financial position.

The remuneration is allocated as follows:

Remuneration of Management and Supervisory Board *Table 100*

	Remuneration 2013			Remuneration 2012	
	fixed *	variable	Severance payments	fixed *	variable
Rolf Schwirz	670	500	0	51	0
Andreas Plikat	265	150	0	80	23
Thomas Sparrvik (until June 28, 2013)	248	86	930	268	82
Dr. Jürgen Kaiser-Gerwens (until June 05, 2013)	156	0	760	271	84
Andrea Bauer (September 16 to December 31, 2013)	181	100	0	0	0
Christopher Burke (until February 28, 2013)	45	46	0	114	–
Supervisory Board	281	0	0	265	0

* Incl. monetary benefit of other emoluments

In addition, the following expenses from share-based payment were incurred in the reporting year in relation to members of the Supervisory and Management Boards:

Share-based payments for Management and Supervisory Board

Table 101

	2013			2012		
	Share option plans	PSU plans	POP plan	Share option plans	PSU plans	POP plan
Rolf Schwirz	0	0	95	0	0	0
Andreas Plikat	0	10	31	0	5	0
Thomas Sparrvik (until June 28, 2013)	– 24	– 45	0	4	22	0
Dr. Jürgen Kaiser-Gerwens (until June 05, 2013)	0	– 30	0	0	15	0
Andrea Bauer (September 16 to December 31, 2013)	0	0	0	0	0	0
Christopher Burke (until February 28, 2013)	0	0	0	0	0	0
Supervisory Board	0	0	0	0	0	0

The provision recorded for Management Board members Thomas Sparrvik and Dr. Jürgen Kaiser-Gerwens in the financial years 2011 and 2012 was reversed in the financial year 2013 because the claims were forfeited when they left the company.

No share-based payment in the form of share options was granted to members of the Supervisory and Management Boards in the reporting year or in the previous year.

The Management Board and Supervisory Board members received the following performance options under the Performance Options Plan (long-term remuneration components):

Performance Options of Management and Supervisory Board

Table 102

	Amount of performance options	
	Basic performance options	Premium performance options
Rolf Schwirz	300,000	100,000
Andreas Plikat	100,000	50,000
Thomas Sparrvik (until June 28, 2013)	0	0
Dr. Jürgen Kaiser-Gerwens (until June 05, 2013)	0	0
Andrea Bauer (September 16 to December 31, 2013)	100,000	50,000
Christopher Burke (until February 28, 2013)	0	0
Supervisory Board	0	0

The performance options granted to the Management Board member Andrea Bauer in the financial year 2013 lapsed with her departure from the company.

Severance payment limitations in accordance with the German Corporate Governance Code were agreed with the Management Board members Rolf Schwirz and Andreas Plikat. Based on the aforementioned code, payments made to the Management Board members may not exceed the equivalent of two whole years' compensation or, as the case may be, the aggregate compensation for the remaining term of the employment contract if the Management Board member terminates their position without good cause.

Persuant to the change-of-control agreement, Management Board member Andreas Plikat is entitled to terminate employment prematurely in the event of takeover. Accordingly, the company is obligated to continue paying the Management Board member's salary until the regular end of the Management Board contracts. In this case, the member of the Management Board will receive a severance payment amounting to a maximum of two whole years' compensation.

Persuant to the change-of-control agreement, Management Board member Rolf Schwirz is entitled to terminate employment prematurely in the event of takeover. In this case the contractual compensation entitlements shall remain valid until the notice period expires, but no later than the end of the regular contract term of 48 months. At the end of the notice period, the Management Board member shall receive a severance payment to the amount of one whole year's compensation.

The Management Board member Rolf Schwirz is entitled to terminate his contract prematurely in the event of his being dismissed within the first 24 months of his employment period. In this case, the Management Board member shall receive a one-off payment amounting to two whole years' compensation plus 50 % of the compensation for the period up until the end of the residual term, which exceeds 24 months.

Ms. Bauer has resigned her position on December 31, 2013. Pursuant to the termination agreement, starting January 1, 2014 up to the termination of her employment contract on June 30, 2016, she will be entitled to remuneration amounting to an annual fixed salary of € 400k. All income shall be deducted from this compensation that Ms. Bauer has generated starting January 1, 2014 when assuming other employment. In the event that Ms. Bauer terminates the contract of employment, she shall receive a one-time severance payment for the premature termination of the employment contract amounting to 50 % of the outstanding remuneration during the period between the date of termination and the termination of the employment contract. Furthermore, Ms. Bauer is entitled to make use of the company car made available to her up to July 31, 2014. If the employment contract exceeds this data, Ms. Bauer shall receive a monthly automobile lump sum starting August 1, 2014 amounting to € 1k.

There were no pension obligations to members of the Management and Supervisory Board, or to former members of these bodies in the reporting year.

Shares and share options owned by the Management Board and Supervisory Board:

Table 103

	Shares	Share options
Supervisory Board		
Rainer Erlat (since June 05, 2013)	0	0
Peter Bauer (since February 22, 2013)	0	0
Lars Singbartl	0	0
Sten Daugaard (since June 05, 2013)	0	0
Martin Bertinchamp (since June 05, 2013)	0	0
Dr. Harald Schrimpf (since June 05, 2013)	2,500	0
Helmut Krings (until June 05, 2013)	40,000	0
Hugh Nevin (until June 05, 2013)	189,366	0
David Malmberg (until June 05, 2013)	12,000	0
Mathias Hlubek (until June 05, 2013)	0	0
Management Board		
Rolf Schwirz	25,000	0
Andreas Plikat	13,000	0
Thomas Sparrvik (until June 28, 2013)	50,000	0
Dr. Jürgen Kaiser-Gerwens (until June 05, 2013)	0	0
Andrea Bauer (September 16 to December 31, 2013)	0	0
Christopher Burke (until February 28, 2013)	0	0

The share options held by the Management Board member Thomas Sparrvik lapsed upon departure from the company.

Memberships of the Management and Supervisory Board members in other controlling bodies

Table 104

Management Board	
Rolf Schwirz	
Chief executive officer	since January 1, 2013
Andreas Plikat	
Head of operations	
Thomas Sparrvik	
Head of Sales and Marketing	until June 28, 2013
Vice chairman	
Member of controlling body:	
Kontron America Inc., San Diego / USA	until June 28, 2013
Kontron Canada Inc., Boisbriand / Canada	until June 28, 2013
Kontron (Beijing) Technology Co. Ltd., Beijing / China	until June 28, 2013
Kontron Australia Pty Ltd., Sydney / Australia	until June 28, 2013
Kontron Technology India Pvt. Ltd., Mumbai / India	until June 28, 2013
Dr. Jürgen Kaiser-Gerwens	
Head of Finance	until June 05, 2013
Christopher Burke	
Head of Strategy	until February 28, 2013
Member of controlling body:	
Buster Burke Advisory Ltd., Henley-on-Thames / UK	
Buster Burke Investment Ltd., Henley-on-Thames / UK	
Dialog Semiconductor GmbH, Kirchheim / Teck-Nabern / Germany	
One Access Inc., Fontenay aux Roses / France	
Tranzeo Wireless Technologies Inc., Pitt Meadows / Canada	
Navmii, London / UK	
Muzicall, London / UK	
Dtex Systems Pty. Ltd., London / UK	
BBL – Thomas & Young, Solihull / UK	
Andrea Bauer	from September 16, 2013
Head of Finance	until December 31, 2013
Member of controlling body:	
Commerzbank AG, Frankfurt / Germany	

The dates specified with memberships in supervisory committees refer to the time of resignation.

Supervisory Board	
Dipl.-Ing. Helmut Krings Chairman of the Supervisory Board Management Consultant	until June 5, 2013
Mathias Hlubek Management Consulting Member of controlling body: Interactive Data Managed Solutions AG, Frankfurt / Germany Arcus Capital AG, Munich / Germany Euroclear SA/NV, Brussel / Belgium Euroclear plc., Baar / Switzerland	until June 5, 2013
David Malmberg Entrepreneur Member of controlling body: DCMI, Inc., Minneapolis / USA Daystar Life Center Inc., Florida / USA	until June 5, 2013
Hugh Nevin Attorney Member of controlling body: The Beaumaris Land Company Ltd., Canada Perry Baromedical Corp., Riviera Beach / USA German-American Business Chamber of Southwest Florida, Naples / USA Overly Manufacturing Company, Greensburg / USA Plastifab Ltd., Montreal / Canada	until June 5, 2013
Lars Singbartl Investment Director	
Peter Bauer Independent business consultant Member of controlling body: OSRAM Licht AG, Munich / Germany OSRAM GmbH, Munich / Germany	since February 22, 2013 since July 5, 2013 since July 5, 2013
Rainer Erlat Chairman of the Supervisory Board Independent business consultant Member of controlling body: EMC International Ltd., Cork / Ireland	since June 5, 2013 since November 1, 2011
Sten Daugaard Chairman of the Pandora A/S Member of controlling body: Thomas Cook AG, Oberursel / Germany	since June 5, 2013 since November 14, 2013
Martin Bertinchamp Chairman of the Managing Board of the COMPO GmbH & Co. KG Member of controlling body: Rothenberger Werkzeuge AG, Frankfurt / Germany Huber Packaging GmbH, Öhringen / Germany	since June 5, 2013
Dr. Harald Schrimpf CEO of the PSI AG	since June 5, 2013

The dates specified with memberships in supervisory committees refer to the time of resignation.

39. Approval of the consolidated financial statements

On March 12, 2014 the Management Board of Kontron AG approved the consolidated financial statements for the submission to the Supervisory Board.

The Supervisory Board has the task of examining the consolidated financial statements and declaring its approval.

Once the consolidated financial statements have been examined and approved by the Supervisory Board, changes are no longer possible.

40. Associated and related companies of the Kontron Group as of December 31, 2013

Table 105

	Interest held (in %)	Local currency (LC)	Equity *** (LC in '000)	Net profit / loss for the year*** (LC in '000)
KONTRON Europe GmbH, Kaufbeuren / Germany	**100**	**EUR**	**84,422***	**– 12,384***
Indirectly via KONTRON Europe GmbH				
KONTRON ECT design s.r.o., Pilsen / Czech Republic	100	CZK	633	460
KONTRON UK Ltd., Chichester / UK	100	GBP	2,026	– 763
KONTRON Modular Computers S.A.S., Toulon / France	100	EUR	12,705	– 1,365
KONTRON Technology A/S, Hørsholm / Denmark	100	DKK	6,441	– 26,597
KONTRON EAST Europe Sp.zo.o., Warsaw / Poland	97.5	PLN	20,389	1,269
KONTRON Modular Computers AG, Cham / Switzerland	100	CHF	3,528	77
KONTRON Verwaltungs GmbH, Kaufbeuren / Germany	**100**	**EUR**	**21**	**– 2**
KONTRON Compact Computers AG, Luterbach / Switzerland	**96.6**	**CHF**	**– 18,793**	**– 883**
ubitronix system solutions gmbh, Hagenberg / Austria	**40****	**EUR**	**591**	**84**
KONTRON America Inc., San Diego / USA	**100**	**USD**	**60,539**	**– 1,895**
KONTRON Canada Inc., Boisbriand / Canada	**100**	**USD**	**39,817**	**1,470**
Affair 000, Moscow / Russia	**100**	**RUB**	**319,275**	**26**
Indirectly via Affair 000				
RTSoft Project, Moscow / Russia	100	RUB	480,056	– 1,005
Indirectly via RTSoft Project				
RTSoft ZAO , Moscow / Russia	74.5	RUB	492,444	– 63,543
Training Center RTSoft, Moscow / Russia	74.5	RUB	6,956	71
KONTRON Ukraine Ltd., Kiev / Ukraine	74.5	RUB	– 565	– 2,468
KONTRON Asia Pacific Design Sdn Bhd, Penang / Malaysia	**100**	**MYR**	**– 71,780**	**– 7,213**
KONTRON (Beijing) Technology Co. Ltd., Beijing / China	**100**	**CNY**	**73,313**	**826**
Indirectly via Kontron (Beijing) Technology Co. Ltd.				
Kontron Hongkong Technology Co. Ltd., Hong Kong / China	100	CNY	117	6
KONTRON Australia Pty Ltd., Sydney / Australia	**90**	**AUD**	**206**	**44**
KONTRON Technology India Pvt. Ltd., Mumbai / India	**55**	**INR**	**2,055**	**– 4,522**

* before loss assumption
** 51 % of voting rights
*** Data as per December 31, 2013

Information relating to the equity and annual results of subsidiaries is taken from annual financial statements prepared for consolidation purposes (Commercial Balance Sheet II figures [Handelsbilanz II]).

In the financial year 2012, the Group's subsidiary Kontron Europe GmbH made use of the exemption rules in Section 264 para. 3, German Commercial Code (HGB).

Closing rates 12/31/2013 *Table 106*

Closing rates	12/31/2013	Closing rates	12/31/2013
AUD	1.54	INR	85.37
CHF	1.23	MYR	4.52
CNY	8.35	PLN	4.15
CZK	27.43	RUB	45.32
DKK	7.46	USD	1.38
GBP	0.83		

41. Significant events after the balance sheet date

As part of a management buy out Kontron AG sold all the shares (40 %) it held in ubitronix system solutions gmbh to the managers of ubitronix system solutions gmbh in a contract dated February 10, 2014.

On February 19, 2014, Kontron AG signed a letter of intent to the management of RTSoft Group for the sale of all the shares it held in RTSoft Group.

42. Declaration on the German Corporate Governance Code

The Management Board and Supervisory Board of Kontron AG issued their statement of compliance with the German Corporate Governance Code in accordance with Section 161, German Stock Corporation Act (AktG) on February 17, 2014. It was made available to shareholders by publication on the company's website on February 21, 2013.

Eching, March 12, 2014

Kontron AG
The Management Board

Rolf Schwirz Andreas Plikat

Audit Opinion

We have audited the consolidated financial statements prepared by Kontron AG, Eching, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 January 2013 to 31 December 2013. 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"] are the responsibility of the parent 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, 20 March 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Christ	Hold
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Responsibility Statement

"To the best of our knowledge, and in accordance with the applicable reporting principals for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the management report of the group includes a fair view 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 for the future."

Eching, March 12, 2014

Kontron AG
The Management Board

Rolf Schwirz   Andreas Plikat

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Glossary

API API (Application Interface) – user interface, provided by a software system or operating system, enabling users to develop their own programs or enhancements. Often applications or interfaces are classified by interface type in function-, file-, object-, or protocol-oriented programming interfaces.

Application Software solutions / application programs to fulfil certain functionalities.

ARM Advanced RISC machine is a micro-processor architecture which is primarily distinguished by its high degree of energy efficiency. ARM processors are therefore particularly well suited to mobile usage, for example in smartphones, tablets, mobile medical technology, industrial computers, games consoles, data communications equipment or in digital signal processing. In short, ARM architecture is one of the most common processor technologies in these embedded systems.

ATCA / AdvancedTCA Advanced Telecom Computing Architecture defines an architecture, which was defined by PICMG in conjunction with Kontron. It describes a board / system standard, applicable to telecommunication systems and -infrastructure.

Box-PC Compact industrial PCs optimized for certain applications like industrial automation, transport and infotainment.

Bussystem A system (e.g. PCI; PCI-Express) to carry information between components of a computer system.

COM Express® Computer-on-Module (COM) standard defined by PICMG for use in various segments. They always need a custom-specific carrier board based on the mechanical and peripheral requirements of the individual embedded system.

Computer-on-Modules Generic term for several CPU module standards.

COTS COTS (commercial-off-the-shelf / components-off-the-shelf) describes high volume electronic, computer and software (standard software / middleware) products, as an alternative to in-house developments.

CPCI This board standard with the European card form factor and PCI / PCI Express bus system was defined by PICMG in cooperation with Kontron. Primarily used for applications in the communication industry, and in the transport and security sectors.

CPU Central Processing Unit: Core element of a computer.

ECT Embedded Computer Technology means hardware and software which are integrated in a more extensive technical context. ECT takes over for example monitoring, steering or regulating functions or is responsible for special forms of data processing or transmission. ECT systems encompass a combination of hardware and software which is perfected, coordinated and which is mostly developed for targeted application-specific tasks.

EMS Electronic Manufacturing Services.

ETX Leading standard for CPU modules, as defined by Kontron.

FPGA Field programmable gate array: Flexible configuration of I/O functionality and algorithms via IP cores.

HMI The Human Machine Interface (HMI) is a hardware and software-based user interface enabling human interaction with machinery. HMI solutions offer, for example, comfortable usage of the equipment and the monitoring of machine conditions through a touchscreen.

Intel® AtomTM Processor Energy-efficient and cost-effective CPU, as implemented in netbooks and mobile devices, for example.

Intel® CoreTM Processor Family New generation of processor technology that provides a minimum of two autonomous processor cores within a chip delivering much higher computing performance at similar space and power consumption compared with single-core processors.

IoT IoT (Internet of Things) M2M IoT refers to operational technologies of a plant or factory, whereas IT (Information Technologies) refers to the administrative part of such a plant. IoT describes the convergence between IT and OT, as well as "hardware" and "software" based solutions which enable new services. Incremental value is created through the life-cycle optimization of products, systems and assets. Examples are tracking and localization of assets, optimization of logistic processes or also critical process notifications e.g. "security analytics".

M2M M2M (Machine-to-Machine) describes "hardware" and "software" based key technologies for intelligent, distributed and networked systems, typically build upon joint communication infrastructures and resources. The exchange of information applies to the operational part of factories, fleets, energy production and distribution or oil and gas production, etc. Typical use cases are the remote maintenance of machines and systems for reducing operational costs or improving productivity. The term OT (Operational Technologies) is often associated with M2M.

MicroTCA Micro telecom computing architecture: Standard defined by PICMG in collaboration with Kontron, which defines systems based on AdvancedMC modules used for high availability applications in communication markets as well as in other segments like industrial, medical and aerospace.

Mobile Computing Mobile computing applies to the mobile usage of a wireless computer in combination with other stationary or mobile terminals. The data may be routed, for example, over the mobile phone network or a wireless network.

Multi-Core Technology New generation of processor technology that provides a minimum of two autonomous processor-cores within a chip providing much higher computing performance at similar space and power consumption compared to single core processors.

OEM Original Equipment Manufacturer: Typically an integrator of hardware and software components provided by suppliers or hardware manufacturers. The OEM integrates these hardware and software components into its product and markets these solutions under its own brand.

POS A POS (Point of Sale) is a place where goods are sold (mostly shops or online sites) and where the customer makes direct contact with the supplier and can therefore be encouraged to make a purchase. Apart from local shops and cash desk systems, the POS is increasingly often to be found in vending machines which frequently also have digital signage systems.

POI POI (Point of Interest) means a place where people can obtain information about the products of one or more suppliers. This also includes, for example, (tourist) information terminals in public squares or at trade fairs as well as digital signage systems in railroad stations or airports. The information is often supplied through a multimedia system. Due to the increasing combination of this form of information presentation with an immediate opportunity to place an order, the POI is becoming increasingly synonymous with a POS (point of sale).

Rackmount PC an industrial PC, modularly enhanceable through plug-in cards and mainly deployed in the industrial automation, defense and transport markets.

RAID Redundant Array of Independent Disk, describes redundant high speed mass storage technology.

SBC Single Board Computer: Compact computer with on-board I/O functionality.

SMARC SMARC™ (Smart Mobility ARChitecture for ARM/SoC) is the brand name of the first SGET form factor. The SMARC™ specification describes extremely flat ARM/SoC-based ultra low-power computer-on-modules in a mini format.

SSD Mass storage devices (Solid-State-Disk) ruggedized mass storage technology without rotating media such as hard disks.

ThinkIO-Duo Very compact size Embedded PC with the latest high-performance Multicore Technology. It can be used for control and visualization tasks in industrial and harsh environments and doesn't require any maintenance, due to its restrictions to fan-less operations, limitations to solid state storage and use of low maintenance batteries.

VME / VPX Open board level standard defined by VITA used for ruggedized systems, exposed to high environmental requirements.

XSCALE Single core Processor architecture with extreme low power consumption.

Wikipedia, ITWissen Online, and Gablers Wirtschaftslexikon Online

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Kontron group in a multi-year overview

Table 107

		Previous group structure					New group structure	
		2009	2010	2011	2012	**2013**	2012	**2013**
Results of operations								
Revenue	€ million	468.9	509.5	589.6	547.0	526.5	466.9	445.3
EBITDA [1]	€ million	42.3	14.0	55.7	11.2	– 3.0	7.5	– 0.5
EBIT [2]	€ million	30.1	– 5.8	34.1	– 32.6	– 37.6	– 24.7	– 29.0
EBT [3]	€ million	29.6	– 8.2	32.6	– 34.7	– 39.4	– 26.5	– 30.6
Net income	€ million	21.9	– 13.4	22.9	– 33.7	– 31.6	– 26.1	– 24.0
Earnings per share	€	0.41	– 0.24	0.39	– 0.59	– 0.56	– 0.46	– 0.43
Profitability								
EBIT margin [4]	%	6.4	– 1.1	5.8	– 6.0	– 7.1	– 5.3	– 6.5
EBT margin [4]	%	6.3	– 1.6	5.5	– 6.3	– 7.5	– 5.7	– 6.9
Return on equity [5]	%	6.6	– 4.2	6.9	– 11.8	– 12.8	– 9.1	– 9.7
Return on Investment (ROI) [6]	%	6.4	– 1.6	6.2	– 7.5	– 8.9	– 5.8	– 6.9
Balance sheet								
Balance sheet total	€ million	461.3	515.6	523.5	460.4	444.6	460.4	444.6
Equity	€ million	332.9	320.8	333.6	286.7	246.9	286.7	246.9
Financial debt	€ million	24.6	46.3	37.3	14.5	39.2	14.5	35.4
Equity ratio [7]	%	72.2	62.2	63.7	62.3	55.5	62.3	55.5
Cashflow [8]								
Cashflow from operating activities	€ million	23.9	16.2	31.6	46.2	2.0	46.2	2.0
Cashflow from investment activities	€ million	– 28.9	– 48.5	– 29.3	– 18.9	– 20.0	– 18.9	– 20.0
Cashflow from financing activities	€ million	32.4	6.4	– 22.4	– 38.0	23.0	– 38.0	23.0
Employees								
Number of employees		2,487	2,892	3,057	2,208	2,110	1,574	1,479
Revenue per employee	€k	188.5	176.2	192.9	247.7	249.5	296.6	301.1

1 EBITDA = EBIT before depreciation and amortization
2 EBIT = earnings before interest and other financial expenses or income as well as taxes
3 EBT = earnings before taxes
4 The margins respectively refer to the revenue.
5 Return on equity = net income / equity
6 Return on Investment (ROI) = EBT / total capital
7 Equity ratio = Equity / total capital
8 No division into continuing and discontinued operations will be carried out in the cashflow statement.

Financial calendar

March 25, 2014	Publication of the 2013 Annual Report
March 25, 2014	Annual results press conference
May 6, 2014	Publication of Q1/2014 Quarterly Report
June 5, 2014	Annual General Meeting of Shareholders
July 30, 2014	Publication of Q2/2014 Quarterly Report
November 5, 2014	Publication of Q3/2014 Quarterly Report

We shall announce any updates made to the dates in good time on www.kontron.com/investor/new-events. You will also find our annual report and our quarterly reports at www.kontron.com/investor/financial-reports from the publication date onwards.

This annual report has been published on March 25, 2014. It is available in German and English.
The German version is always authoritative.

This annual report contains statements relating to the future which are based upon the executive board's current assumptions and estimates. Even if we are of the opinion that the assumptions and estimates contained therein are realistic and correct, they shall be subject to certain risks and uncertainties which may result in the actual future results differing considerably from the assumptions and estimates. The factors which may result in a discrepancy include, inter alia, changes in the macro-economic situation the business and economic environment and competition environment , exchange rate and interest rate fluctuations as well as changes in the business strategy . We will not furnish any guarantee that the future development and actual future results will be the same as the assumptions and estimates expressed in this annual report. The assumptions and estimates made in this report will not be updated.

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