DELIVERING FUTURE

KONTRON GROUP | ANNUAL REPORT 2014

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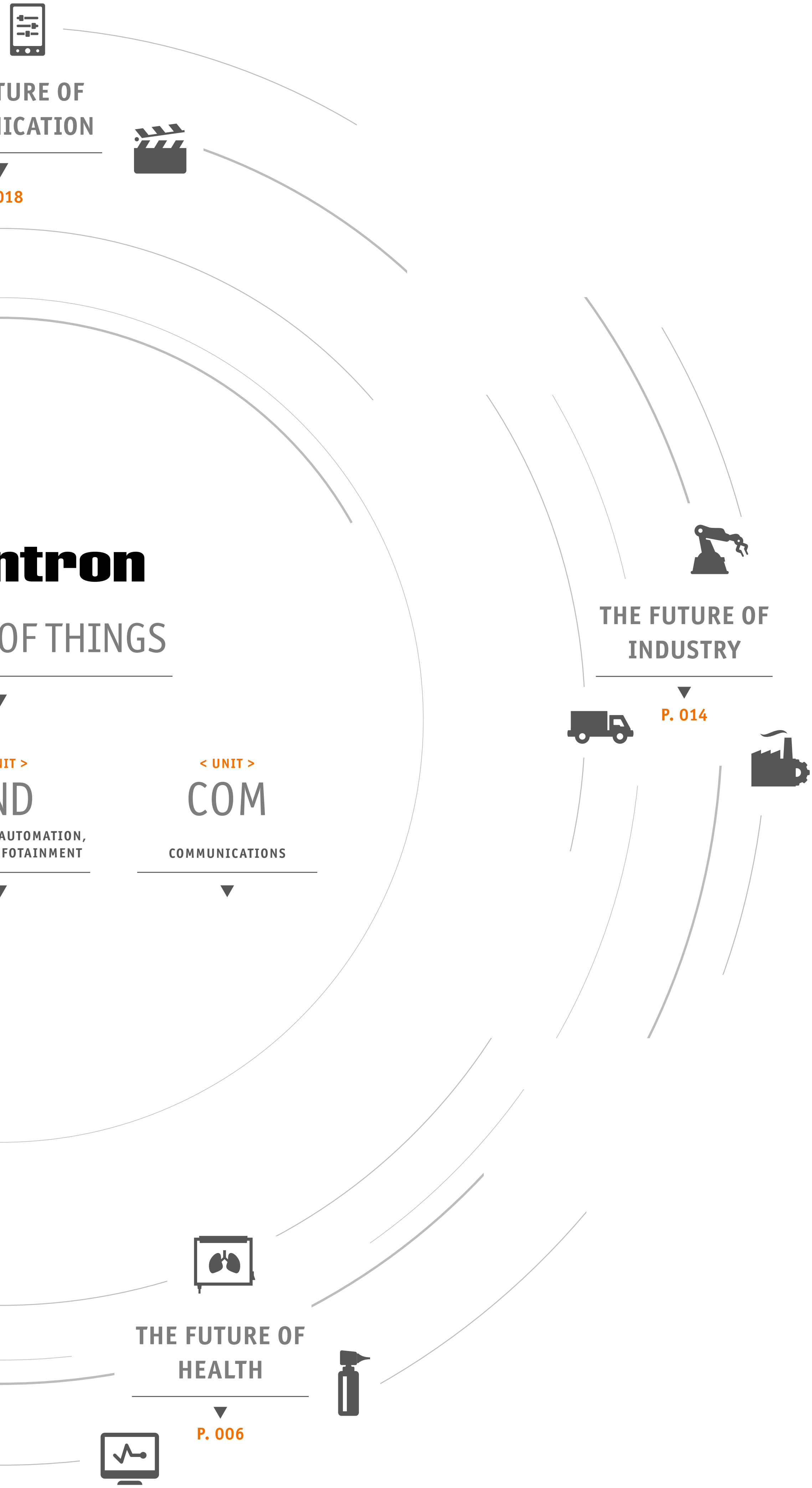

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KONTRON IN FIGURES

Table 001

		2014	2013
RESULTS OF OPERATIONS AND PROFITABILITY			
Revenues	€ million	456.8	445.3
EBITDA [1]	€ million	19.2	– 0.5
EBITDA margin [2]	%	4.2	– 0.1
EBIT [3]	€ million	– 5.1	– 29.0
EBIT [4] (adjusted for restructuring cost)	€ million	8.8	4.6
EBIT margin [2] (adjusted for restructuring cost)	%	1.9	1.0
EBT	€ million	– 6.9	– 30.6
Income/loss from continuing operations	€ million	– 6.4	– 24.0
Earnings per share (continuing operations)	€	– 0.11	– 0.43
STATEMENT OF FINANCIAL POSITION			
Total assets	€ million	421.8	444.6
Equity	€ million	252.7	246.9
Equity ratio	%	59.9	55.5
Financial debt	€ million	36.1	35.4
CASH FLOW [5]			
Cash flow from operating activities	€ million	1.7	2.0
EMPLOYEES			
Number of employees (as of 12/31)		1,342	1,479
Revenues per employees	€ k	340.4	301.1

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

INTERNET OF THINGS

DELIVERING FUTURE

In the future, the Internet of Things (IoT) will connect billions of people and intelligent devices in groundbreaking applications: from smart cities to interconnected industry to devices that will revolutionize healthcare.
As a trendsetting, leading global provider of embedded computer technology (ECT), Kontron is working on innovative and secure solutions that drive IoT forward. We don't just develop pioneering technologies. We also produce high-quality products that enable our customers to develop new business models tailored to IoT today.
We deliver the future.

TO OUR SHAREHOLDERS

LETTER TO THE SHAREHOLDERS

Having nearly completed "New Kontron," we are seeking new growth opportunities

*Ladies and gentlemen,
dear shareholders,*

At the beginning of 2014, having just signed an agreement with our works council, we set out to implement our "New Kontron" program. By the end of 2014, we had completed nearly all of it – with less than 20 % remaining. At the same time, we sold our energy-related project business in Russia and Austria, opened a sales office in Tokyo to kick-start our Asia-Pacific business, moved into our new Technology Campus in Augsburg, and found a bridge solution for our IT backbone as we move to SAP. We also developed and sold new products, retaining existing customers and winning new ones. 2014 has been an intense year at Kontron and one that fills us with confidence and motivates us to meet our ambitious targets for 2015.

Our performance numbers for 2014 clearly show that again we delivered what we promised: Our revenue guidance for the reporting period was for € 450 – 470 million and we generated € 456.8 million. Our gross margin guidance was for at least 25 % and we delivered 26.0 %; our margin guidance for earnings before interest and tax (EBIT), and before restructuring cost, was for low single digits and we delivered 1.9 %. Even more encouraging is the fact that we once again succeeded in generating sizable new business: our book-to-bill ratio for the year came in at above 1, it was 1.05 to be precise, which means that the monetary value of new orders, to be delivered at some point in the near future, was a 5 % higher than the revenues we generated during the same year.

This is good news, especially given that a large majority of these orders has a due date in 2015. Our guidance for 2015 is a direct result of that: we are confident we can deliver revenues of € 490 – 510 million, a gross margin of at least 25 % as before, and an EBIT margin corridor before restructuring cost of 3 – 5 %. The mid-term guidance for 2016, which we gave as far back as mid-2013, is therefore intact: we aim to achieve revenues above € 550 million and an EBIT margin before restructuring cost of at least 6 %.

But let me review our operational highlights for 2014 more closely.

Certainly one of the most demanding tasks was to streamline our business activities, and to focus on what we are best at: being a globally leading provider of ECT systems solutions offering customers high-quality products which guarantee reliability, safety, resilience and longevity.

So we did three things:

First of all, we sold our energy project business, which included ubitronix systems solutions gmbh in Hagenberg / Austria, and RTSoft Group headquartered in Moscow / Russia. The latter transaction was closed in August, despite the extremely difficult economic and political backdrop in Russia and Ukraine.

Second, in response to strong customer demand, we opened a sales office in Tokyo. Our team there will focus on Japan - a strong growth area for us.

And third, we established a dedicated competence center for our Medical business at our new Technology Campus in Augsburg, which aims to strengthen our position in this market segment further, and enable us to meet demand for unique customer solutions. These are only a few examples of our efforts to direct our attention back to our core strengths.

Internally, we have also been very busy: the move to our Technology Campus in Augsburg is complete, our Eching, Kaufbeuren, Roding and Ulm sites closed and are in the process of being, or are already, sold. The implementation of a unifying SAP system is well under way and in the meantime we have set up an interim Data-Warehouse solution that gives us visibility on business performance and outlook.

A fully fledged SAP system will be operational by the end of 2015.

Most of the products that we declared end-of-life in the course of the year have now been terminated. Consequently, our product portfolio has shrunk by one-third. This has also reduced the number of suppliers we collaborate with worldwide to 1,145, from almost 2,000 only a year ago. The number of sales partners went down to fewer than 40 earlier in the year, and is back up again to around 60 today. But now we have the right partners.

Meanwhile, our customers have been very supportive – our revenue and order intake numbers would not have been possible without their continued backing. On behalf of my management team and all Kontron colleagues, I would like to express my sincere gratitude to all of them for their loyalty. Of course, they also back us because we develop and supply great ECT products and solutions, even through a period of change and uncertainty - and my management team and colleagues have every right to be proud of their achievements.

It has been an eventful year, ladies and gentlemen, and I hope you will agree with me that it has been a productive one. Kontron is now emphatically ready to take the next step, and we are going to go for growth. The Internet of Things is a game-changer: it will shake the way we all live and work to its foundations. And Kontron is right at center of this profound shift: we develop the systems that help these “Things” communicate – and, crucially, in a secure way. It is impossible to overstate the scale of this opportunity, and we will take it with all the energy, innovative drive and commitment we can muster. The next few years will be incredibly exciting for our industry and I invite our shareholders, partners and employees to take the journey with us.

Yours,

Rolf Schwirz
Chairman of the Management Board of the Kontron Group

THE FUTURE OF HEALTH

MAKING LIFE BETTER:
HOW KONTRON IS DEVELOPING HEALTHCARE SOLUTIONS
FOR TOMORROW'S SOCIETY.


Around
50 %
of the world's population live in rural areas – but only 25 % of physicians serve there.
MEDICAL MOTHERBOARD
Embedded Motherboard optimized for Medical Devices & Applications.
MEDICAL KISS – SERVER
High End Medical Graphical Platform enabling more precise and conservative surgery.

FROM FEATURES TO BUSINESS MODELS

MICHAEL VÄTH, HEAD OF GLOBAL SALES & MARKETING, ON NEW PERSPECTIVES IN KONTRON'S CUSTOMER INTERACTION.

"We had to adapt our commercial skillset. Kontron embraces a value-selling concept."

"WE'RE HEADING TOWARDS THE NEXT INDUSTRIAL REVOLUTION – BIGGER, MORE PROMISING AND MORE DISRUPTIVE THAN ALL OTHERS BEFORE IT."

The Internet of Things means capturing data generated by things, analysing it and creating new business opportunities based on this. It is seen as the next transformational wave, expected to change whole industries by creating new business models and opportunities. Exploring the possibilities should therefore be a topic on every level in a company. The Internet of Things is not only changing the technological aspects of embedded computers, but also the way we interact with customers.

Traditionally, embedded technology suppliers like Kontron primarily interacted with engineers to discuss technical functionality and solve technical issues. In most cases, this contact focused on the device itself. The top management had limited to no involvement. But as a result of recent developments, the discussion changed from features and roadmaps to business models and enabling these with embedded technology. The scope of the discussions broadened from the device itself towards an integrated end-to-end solution – from the edge to the cloud – utilising data to generate value and efficiency.

In the last twelve months, our commercial teams have had more interaction with business leaders and product managers than ever before. Our customers are looking for advice and best practices on how to realise IoT solutions, in order to capitalise on arising opportunities.

This also meant that we had to adapt our commercial strategy. Kontron embraced a value-selling concept and trained the majority of the commercial teams. The goal was to enable the team to translate their strong technology and product knowledge into real business value: Understand the use case and position the building blocks required to realise the customer's vision. In order to build connected solutions for the Internet of Things, our teams have been working with global Fortune 500 customers, as well as with small business start-ups.

Interestingly, IoT initiatives are not only happening in Europe or North America; it seems that some countries in the Asia-Pacific region see the Internet of Things as a strategic opportunity to bridge the gap to the developed countries faster. Not surprisingly, one of our most interesting applications is working with the Malaysian government on a healthcare initiative.

CREATING BETTER HEALTHCARE SOLUTIONS

MARCEL VAN HELTEN, HEAD OF THE BUSINESS UNIT IND, ABOUT CHALLENGES AND OPPORTUNITIES IN THE HEALTH SECTOR.

Healthcare is one of the markets that will change according to the possibilities arising from the Internet of Things (IoT). It is a high-tech industry where time to market and innovation are delayed due to extensive regulations. At Kontron, we see a variety of major trends enabled through IoT: The first is affordable rural healthcare. Millions of people are living in areas where the quality of healthcare facilities is far below our modern standards. One reason for this is the cost factor; the other is a limited availability of skilled personnel to operate advanced diagnostic equipment. Kontron is helping major medical equipment OEMs to develop equipment that is simpler to operate, costs less and enables connected healthcare using IoT: Scans can be sent directly to a main facility for analysis and local doctors can get online help with push-to-connect technology. The equipment is going to be smaller so it can be transported by either truck or plane to provide capabilities directly in remote areas.

"Through Big Data, doctors can provide better diagnostics and information on treatments."

The second major trend is digital healthcare. To date, the healthcare system has been one of the least connected parts of our society. Concerns about security and data privacy in addition to the stringent regulations have slowed down development in this area, but positive signs of change can be noted, for example from the Food and Drug Administration in the United States. A major trend at the moment is the digitisation of patient diagnostic data, for example from an X-ray scan. With today's technology, a scan can be transmitted to the Cloud, shared and analysed by multiple people. Doctors can also use advanced screen manipulations on a mobile device to support patient discussions, for instance. Kontron is working closely with equipment suppliers in order to develop secure communication solutions that ensure trusted treatment of this sensitive data.

The other future trend is the integration of wearables, and using that information to optimise diagnosis and treatment. This is an opportunity for in-clinic treatment as well as home health. Kontron's strategy is not to design and build wearable technology but to deliver solutions that, for example, allow for the easy integration of these wearable sensors in patient monitoring solutions.

Through Big Data, large volumes of diagnostics information shared in the Cloud, doctors can provide better diagnostics and treatment information. A good example is the detection of skin cancer: Millions of samples are visually analysed every year, and the decision on whether further research is required is currently based on the experience of one individual doctor. What if, besides the doctor analysis, the visual sample can be uploaded to the cloud and automatically analysed against millions of samples and the information is provided back as a second opinion?

Kontron is working closely with the majority of medical healthcare equipment suppliers in both diagnostics and patient care – ultimately, we believe that advanced embedded computer technology can help to create better healthcare solutions.

THE FUTURE OF TRANSPORTATION

ADVANCING SOCIETY:
HOW KONTRON HELPS MAKE TRANSPORTATION
SAFE AND COMFORTABLE.

VCS-N
Interlocking wayside equipment: Multi-redundant rugged computer in natural convection cooling.

75 %

of cars will be driverless by 2040.

MODERN TRANSPORT
Bombardier and Kontron work on bringing new services to the rail sector.

The world is on the move: By 2050, seven out of ten people will be living in cities. This will affect the way people around the globe will live in the future, as cities turn into metropolises and metropolises become megacities. But the higher the population density in urban areas becomes, the more society will be relying on innovative solutions to make life enjoyable – especially regarding logistics and transportation. Therefore, in addition to advancing sustainable technologies, the transportation industry will focus increasingly on enabling smarter traffic management.

Connected and comfortable: With Kontron, Bombardier is developing solutions for innovative public transportation.

As individual traffic subsides within the city centres, public and especially railway transportation will become increasingly important. Accordingly, the sector is undergoing rapid change that will fundamentally influence the way public transportation works by enabling entirely new ways of traffic engineering and passenger comfort. A main driver of these developments is the Internet of Things (IoT): In the near future, intelligent control systems will allow for automated management of traffic, enhancing efficiency and safety as well as comfort. For example, sensors within the restaurant carriage will notify catering services as soon as the train runs out of certain goods, allowing for replenishment in the next station.

Innovative technologies will enable operators to offer new and better services to passengers, including reliable live updates on arrival and departure times, in-train entertainment and ubiquitous connectivity. Enhanced security measures such as interconnected video surveillance will ensure the safety of passengers at all times, while maintenance will become preventive rather than reactive: Sensors will detect bumps on the tracks and automatically notify operators.

The challenge this poses for the industry is to enable historically separated control systems to communicate with each other. This requires retrofitting of trains, stations and control centres. As a global leader in embedded computer technologies, Kontron supports its customers through integrated BoxPCs with Ethernet gateways allowing for the efficient integration of these systems. The transportation sector poses a special challenge for the hardware Kontron is delivering, since it is providing safety-critical functionality within an extremely harsh environment: Solutions need to be rugged in order to withstand vibrations caused by high speed, as well as guarantee stability through a high level of power efficiency, performance and redundancy. Additionally, systems are required to meet highly individual requirements, while maintaining short time to market and catering to rising cost pressure.

70 % OF THE WORLD'S POPULATION WILL BE LIVING IN CITIES BY 2050.

Kontron's cooperation with the multinational aerospace and transportation company Bombardier is an example of how partnerships evolve according to these developments. Since 2009, Kontron's application-ready platforms have been laying the foundations for Bombardier's innovative interlocking rail control systems. "Bombardier upholds a global leadership position in rail technology through best-in-class innovative solutions that leverage efficient and sustainable mobility worldwide. Kontron is a reliable partner able to meet the stringent requirements and high standards of life-critical applications and a valuable contributor to our success in meeting the key market challenges", says Michael Konis, Head of Supply Chain, Quality and Operations (Vice President) at Bombardier. With the Internet of Things changing the industry's focus, the co-operation is evolving in order to provide new services and solutions: "We are confident that Kontron will continue to successfully provide advanced technologies for our wayside train control equipment projects and look forward to further strengthening our excellent relationship."

“IT‘S LIKE CHANGING FROM HORSE TO CAR”

Eric Sivertson, Head of Kontron‘s Business Unit ATD, on new opportunities in Transportation

Mr. Sivertson, one part of the Transportation industry that is changing due to IoT is the rail sector. What are the main developments within other sectors, such as automotive, farming or construction vehicles?

IoT will impact the whole transportation market. It will enable sensors and devices on vehicles to communicate more collaboratively, and thus allow greater autonomous controls, proactive servicing, enhanced user experience as well as significant new levels of safety and security. IoT will also enable innovative vehicle-to-vehicle interfacing. The idea of driverless cars and a „virtual“ train of cars optimised for best speed to avoid congestion will be ultimately enabled by IoT.

“WE DELIVER COMPLETE SOLUTIONS TO MAKE THE TRANSPORTATION SECTOR READY FOR IOT.”

Furthermore, „Big Data“ will play a greater role within the segment: In-depth analysis of effective freeway routes, highway maintenance tied to vehicle use classification, effective farming patterns, plug-n-play of farm implements or construction tools, optimised maintenance cycles, passenger preferences and so many more intelligent databased information systems will be brought to life – tied to products made by Kontron. IoT will change transportation in ways that the automobile changed life from the horse and carriage. It will be that impactful.

How is Kontron contributing to these developments?

Kontron is developing integrated transportation platforms, like our TRACe platform. TRACe delivers proven, rugged and feature-rich building blocks that allow design flexibility in a rugged design that ensures stable operation in harsh environments. It is an EN50155-certified fanless Operational Computer offering easy customization via MiniPCIe slots to meet application-specific requirements that include passenger information systems, video streaming and storage servers, security surveillance and vehicle management systems.

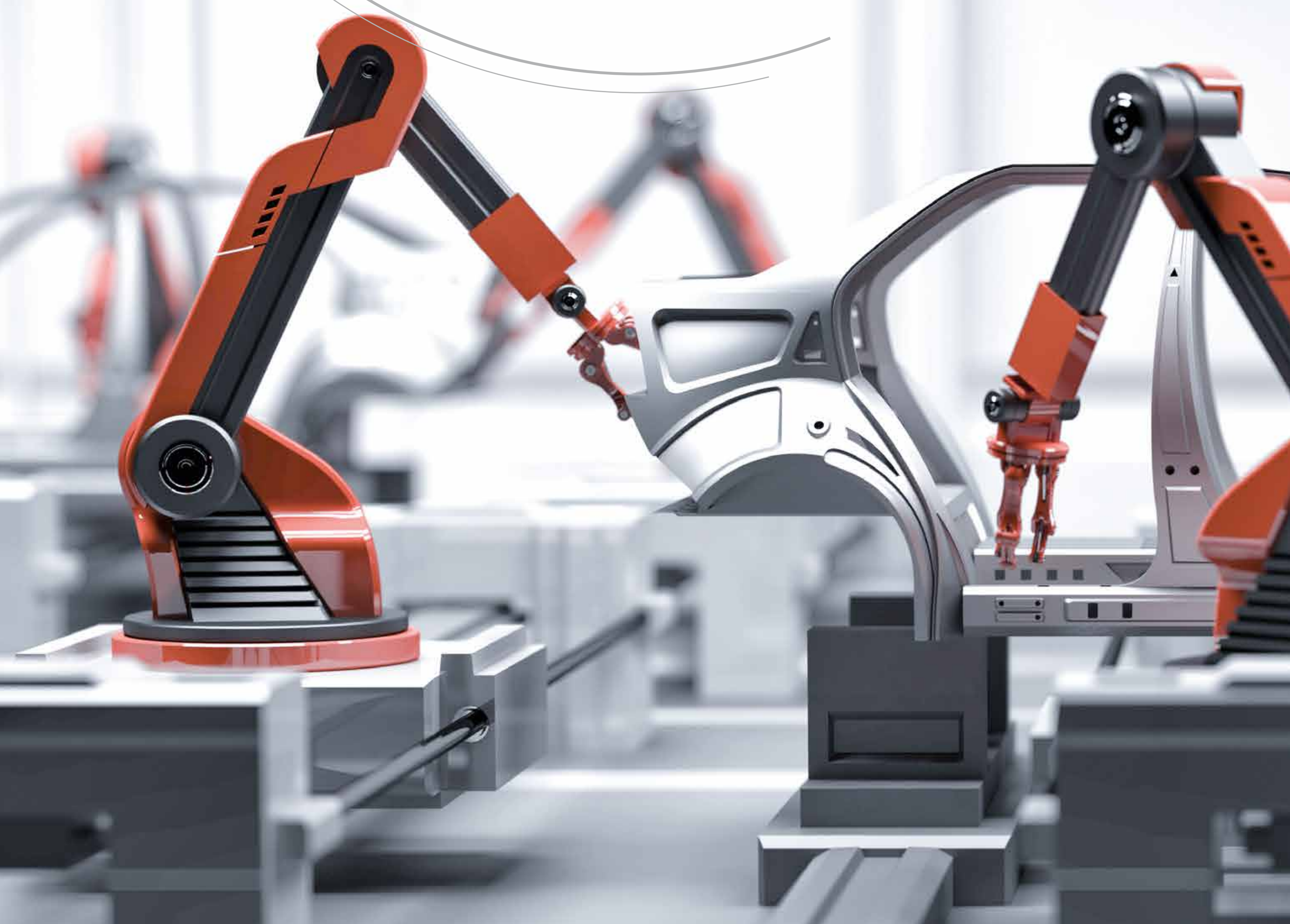
We are also active in developing, either internally or through key partnerships, complete solutions built on these application-ready platforms that include critical software components for connectivity, health monitoring, security and redundant safety-critical functionality. Kontron has received its IRIS certification for the design, development and manufacturing of embedded computer boards and systems for real-time applications. The scope of certification includes propulsion and on-board vehicle control as well as passenger information systems, communication systems and single railway components. Customers who integrate these IoT-enabling Kontron products thus have confidence that they are partnered with a high quality and reliable supplier to help them build their IoT story in the transportation market.

What challenges will IoT bring to the Transportation sector in the future?

The key challenges that IoT brings revolve around connectivity, security and trust. The I in IoT stands for Internet, which we take for granted when we use our smartphones. High-speed, ubiquitous connectivity is expected. This is not fully extended into the Transportation segment. Few trains today have satellite connectivity to bridge the gap in rural expanses where effective mobile coverage does not exist. Farm or construction vehicles have similar problems. Getting effective connectivity at price points that fit the market to enable the collaboration of devices presents interesting challenges for the market. Furthering the „Internet“ part brings us to security. Imagine the risks hacking could present for autonomous systems controlling transportation. We are looking carefully at these challenges and have products and technologies to help address them and truly enable IoT for the transportation market.

THE FUTURE OF INDUSTRY

REDFINING EFFICIENCY:
HOW KONTRON IS ENABLING
TOMORROW'S INDUSTRIAL PRODUCTION.



More than

80 %

of all industrial devices will be connected in 2020.

K-BOX A103

High-performance embedded BoxPC, fanless and offering "maintenance-free" operation.

INNOVATIVE CONTROL

Kontron and Zeiss IMT are developing control systems for coordinate measuring machines.

The production industry laid the foundations for the "Internet of Things" (IoT) a long time ago, with the use of robots and computer-controlled management of industrial facilities having become the standard over the past few decades. And yet the advanced networking of individual devices and the exponential rise in data volumes transferred that this involves is bringing about new possibilities – and challenges – on the path towards Industry 4.0.

K-Box is a modular industrial computer platform with „maintenance-free" design

Networking individual locations can optimise production worldwide – but turning the mammoth project of "automated production" into a reality inevitably requires the entire supply chain to be digitised. In this way, it will be possible in the future to satisfy individual customer requirements in the short term – including for major projects such as car manufacturing. Kontron is helping its customers to update their automation technology. This involves replacing their processors to enable them to share, process and analyse large amounts of data.

The future of industry is being shaped by enhanced efficiency above all. As such, backward-looking trend analyses in production are transforming into forward-looking diagnostics. For example, analysing vibration characteristics and fuel consumption can indicate whether a turbine in a power plant will soon require maintenance. This reduces downtimes, allows for considerably more efficient maintenance operations and can prevent consequential damage. This aspect is gaining social significance with the energy transition. After all, an energy supply from renewable sources can only work in practice if it is secured at all times.

As a manufacturer of industrial measuring technology, ZEISS is using the IoT and big data to support the service organisation and advance remote maintenance, monitoring and diagnostics. With its platforms, Kontron enables flexible use with varying connectivity levels and is able to scale all systems. Kontron and ZEISS' business unit Industrial Metrology are jointly developing innovative systems to control coordinate measuring machines, for example. ECT allows for data collected by ZEISS to be processed in real time. "Kontron is not only supplying us with products that have connectivity as a technology partner, but we also consider the company a vital partner when it comes to trends and developments", says Peter Müller, Head of Electronics Development at ZEISS' business unit Industrial Metrology. The particular challenge in the process was to keep the current generation in operation while gradually updating the technology.

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54 % OF INDUSTRIAL COMPANIES SEE STANDARDISATION AS THE BIGGEST CHALLENGE TOWARDSSTAT INDUSTRY 4.0.

Alongside automated production and the associated resource efficiency, the "user experience" is also gaining importance in industry. Manufacturer of injection moulding machines and automation systems, Engel Austria, is working with Kontron to jointly develop intuitive user interfaces, which have helped to significantly increase user acceptance.

However, the IoT poses challenges not only for the industry but also for its partners, with demand for high-performance, IoT-ready platforms on the rise and manufacturers faced with increasing cost pressure. Another challenge that technology providers such as Kontron have to contend with is that the hardware is becoming increasingly standardised. Consequently, Kontron is continuously bolstering its network of partners. Another important step is the company's close-knit partnership with Intel and its software provider Wind River. This will enable Kontron to supply platforms that allow customers to implement standards easily without complex proprietary tie-ins.

"THE THIRD AUTOMATION WAVE"

Mr van Helten, to take advantage of the possibilities offered by the "Internet of Things", production technologies need to be updated. What impact will this have on Kontron's business?

Compared with information technology (IT), operational technology (OT) has a significantly longer life cycle. For example, three-quarters of production systems in the United States are more than 20 years old. The "Internet of Things" is currently driving the third automation wave, bringing about new services such as predictive maintenance. A critical component of the IoT is connectivity, which is enabled by embedded computer technology. Major OEMs are evaluating today how they can profit from this trend and are consequently looking for technology partners who can contribute expertise and thus reduce time to market. Our embedded expertise, close relationships with the silicon providers and our experience with the customers' use cases provides the optimum basis for helping OEMs.

"CONNECTIVITY IS A CRITICAL COMPONENT OF THE INTERNET OF THINGS."

What is Kontron doing to remain one step ahead of its competitors?

The answer can be broken down into three aspects: Firstly, we work closely with our customers to understand their requirements and translate them into innovative and cost-effective solutions, while also naturally leveraging our experience with different use cases.

Secondly, we have established R&D centres in Germany, Malaysia and the San Francisco Bay Area. These regional centres mutually enrich each other: While the teams based in the US embody the entrepreneurial spirit of the Bay Area and constantly deliver ideas for new business models, the German teams are really strong in creating reliable solutions for further developing key IoT factors such as machine handling or security in order to gradually optimise existing product lines. This includes the continuous development of our COMExpress products, which use the latest processor and system-on-chip (SoC) generations. The Malaysian team is deeply involved in IoT initiatives from the government, which wants to drive forward "smart cities". The expertise and experience from all these teams is brought together in a single global R&D organisation.

Our third competitive advantage is the close cooperation with silicon manufacturers. We share ideas, trends and even work together in development. Thus, we ensure that we can use the innovations in the industry for our solutions.

Marcel van Helten, Head of Kontron's global Business Unit IND, on innovative production and competitive advantage in a difficult market.

Would you venture a forecast on how the industry will have changed in ten years' time? And what significance will Kontron have in this changed industry?

After networking our social lives, we are now connecting the industry, too. There will be closer integration of the digital and the real world. The amount of data will increase exponentially, but the information users receive will have to be structured more effectively to prevent a data overload. This requires significant improvement in analytical tools and methods. The use of embedded technology will be increasingly uniform while we as suppliers will have to offer more basic functionality, especially software. Security will remain a point of attention but global standards will be available.

Kontron has set itself the clear goal of being a thought and innovation leader in these areas. Our team is helping its customers to transform the industry into a connected industry.

THE FUTURE OF COMMUNICATION

ENABLING INNOVATION:
HOW KONTRON IS FACILITATING NEW TYPES OF SERVICES IN THE COMMUNICATIONS SECTOR.

40 BN

devices will be interconnected by 2020.

SYMKLOUD MS2910 SERIES
Rackmount-Server with scalable CPU and hard-drive capacity, ideal for processing large amounts of data in the communications sector.

ACTIVE VIDEO
uses Kontron hardware for their GuideCast and StreamCast solutions – enabling new services for cable providers.

Forecasts are full of superlatives: Modest predictions state that by 2020, over 40 billion devices will be interconnected through the "Internet of Things". This means that within a few years, there will be more communication between things than between people. At the same time, network users are already pushing the network to its limits through new ways of consuming media such as streaming services and Smart TV. These two trends lead to an exponential growth in traffic over the communications networks. Therefore, the deployment of faster networks is crucial for enabling the Internet of Things – a task network carriers around the world are struggling to fulfil while finding ways of monetising this increasing traffic. One part of the solution is the virtualisation of networks: Software Defined Networking (SDN) enables operators to flexibly deploy bandwidth where it is needed, and Network Function Virtualization (NFV) allows communication services to be created and expanded without custom hardware appliances being required.

With Active Video's software, cable operators can offer individual services without need to change hardware in customers' homes.

In order to cater to these developments, network equipment providers as well as operators need to change their strategy, creating new business models within the industry: Previously hardware-focused equipment providers increasingly turn towards a software-only approach, while network operators need to design entirely new types of services. This entails a rapid movement of communication infrastructure towards private and public clouds – and ultimately leads to the replacement of communication-specific platforms by IT standards.

In return, this paradigm shift within the communications sector also changes Kontron's role within the business. Delivering embedded computer technology for platforms that are able to run communication applications on a high performance level remains a key aspect, but the gradual harmonisation of hardware affects Kontron in two ways: First, we need to drive innovation regarding performance, power efficiency and security, which will remain decisive criteria for hardware in the future. Second, we need to capitalise on our own abilities in software and middleware design and integration.

While this development certainly is a challenge for Kontron, it also leads to new possibilities by opening up new groups of partners and customers. One of them is the Californian software company Active Video Networks (AVN), which uses cloud-based technology to bring advanced user interfaces to cable and IPTV set-top boxes. Kontron's SYMKLOUD series of application-ready cloud platform solutions forms the basis for AVN's StreamCast and GuideCast solutions, enabling cable providers to offer new services without changing the hardware in customers' homes. "We are a technology pioneer doing things that people say can't be done", says Murali Nemani, Chief Marketing Officer of Active Video Networks. "We see Kontron sharing the same spirit of innovation and fast time to market. Breakthrough innovation requires partners that are willing to invest with commitment towards the unknown."

20 % GROWTH IN CONNECTION SPEEDS FOR MOBILE NETWORKS IN 2014

The partnership with AVN demonstrates how Kontron is bridging the expanding gap between pure software solutions providers and the network operators – a capability that will become increasingly important as networks rapidly evolve to meet new demands. By providing platforms and solutions to enable high-performance networks, Kontron is supporting the communications industry and ultimately facilitating the interconnectivity of devices around the world.

"THE ROAD WILL BE TOUGH"

Robert Courteau, Head of Kontron's global Business Unit Communications, speaks about the challenges the sector is facing due to IoT.

Mr. Courteau, what are important recent trends in the network?

Virtualisation will reshape the network for years to come. The deployment of applications in the network will change from a hardware-intensive model towards something like installing an app in a mobile device. However, between the end objective described by carriers and the reality of evolving networks carrying a lot of legacy equipment, the road will be tough. There is also a continuing struggle for monetisation between carriers and content providers; the former, who carry the costs of deploying faster networks, and the latter, who pocket the bulk of content-related revenues, will continue to struggle on costs versus revenue sharing.

How does the Internet of Things affect the communications sector?

IoT brings something that carriers really need: more subscribers. As mobile device usage reaches saturation, carriers are faced with a stagnant subscriber base pulling more bandwidth per user – not a good scenario from an economic point of view. IoT brings a new set of potential subscribers: objects. But carriers also have to develop new business models to serve these "customers" and ensure that they can support yet-to-be-developed services.

How does this affect Kontron?

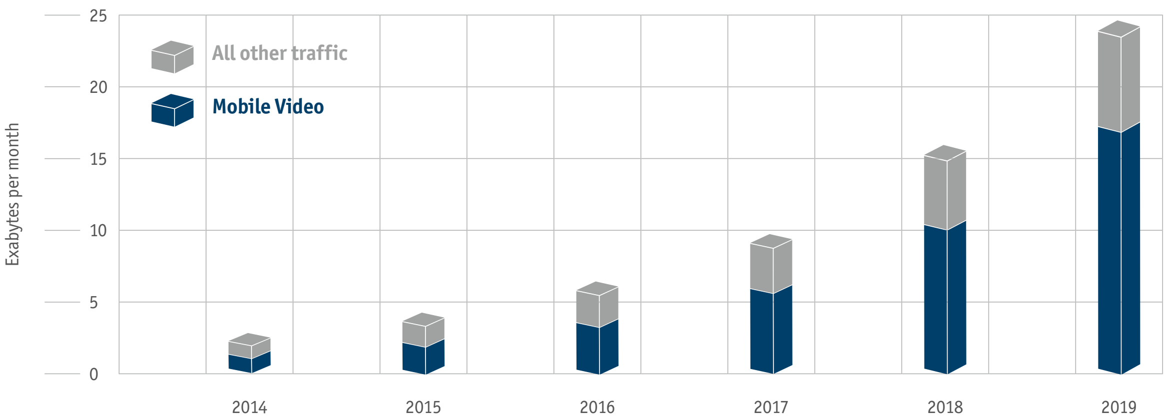
Kontron is adapting fast to respond to the new needs of the industry. The traditional barriers between ECT and IT equipment delivery to the communications market are shifting, and embedded suppliers find themselves competing with IT equipment suppliers. This can be seen as a threat, but it also represents an opportunity to deliver products and services in areas where IT suppliers are less agile. Kontron focuses on applications and solutions that allow customers to respond to the market trends of virtualisation and monetisation. IT suppliers are less capable of responding to these customer needs.

MOBILE VIDEO CONTENT

Graphic 001

Mobile Video Content has much higher bit rates than other mobile content types – and shows the highest growth rate of all mobile applications. In 2019, of the 24.3 exabytes per month crossing the network, 17.4 exabytes will be due to video.

Source: Cisco VNI



THE FUTURE OF SECURITY

ENABLING A SECURE INTERNET OF THINGS:
HOW KONTRON IS ADVANCING EMBEDDED DEVICE
SECURITY IN THE NEW CONNECTED ERA.

SECURITY
becomes a decisive factor within the Internet of Things. Kontron is developing new solutions.

60 %

of devices that provide user interfaces to date are vulnerable to a range of security issues.

Every year, security threats for connected devices grow by

20 %

Virtually every article and white paper about security begins and ends by trying to scare the reader. But security is also an opportunity for innovation, competitive advantage and profit. And nowhere is this opportunity more prevalent than in the world of embedded devices. However, as a matter of fact the number of security threats for connected devices is rising by around 20 per cent year on year. A main driver for the increasing amount of vulnerabilities is the steep growth of connectivity, driven by the so-called

Efficient security threat assessment methods need to include manufacturers, operators as well as end users.

"Internet of Things" (IoT). While the IoT evolution is driving a significant number of new applications, transforming businesses and generating new revenue streams, it is also creating unprecedentedly high demands and challenges. One of the significant requirements IoT is driving is security, the way we protect devices or assets and the way we protect information conveyed amongst those devices and cloud architectures.

The importance becomes evident by looking at the risks security breaches can pose for the cornerstones of tomorrow's society: Smart energy grids need to ensure an uninterrupted supply at all times; unauthorised interference with intelligent logistics systems or traffic engineering can have critical consequences; and data used to improve personal health care around the world is extremely sensitive. Therefore, security is increasingly becoming a matter of regulation – making it a fundamental question of economic success for global companies: Awareness and compliance with security standards and regulations will become a key requirement for gaining and maintaining a competitive advantage in the future.

Regarding the Internet of Things, the issue of security is divided into two different aspects: Information Assurance and Asset Protection. While the latter protects computer systems in a networked environment, Information Assurance focuses on the confidentiality, availability and integrity of data generated and processed within these systems. This gains increasing importance as data becomes an economic asset as well as a liability within connected systems.

The key to solving the new breed of security threats is to take a complete platform perspective rather than a piecemeal component approach to addressing security. Embedded device developers need to consider security issues at every layer — from hardware technologies, to the operating system, the network stack or other communications middleware, to the purpose-built applications required to support the device's functionality. This is why Kontron has taken on the task of adopting and enabling emerging standards of security right at the point of development of new products.

66,000
MALWARE PROGRAMS
ARE UNCOVERED EVERY DAY.

But security encompasses more – and Kontron, as a global leader in Embedded Computer Technology, has to change perspective, too: The company is starting to introduce a security improvement framework that starts with a detailed threat assessment in order to identify parameters for a secure system design, component and middleware selection, completed by system and device management. Therefore, Kontron works closely with technology partners and suppliers to ensure security as a main priority along every step of the value chain. Employees are kept informed on threats and vulnerabilities to control the system environment. Furthermore, the company follows appropriate standards committees and working groups. To further enhance our product portfolio, Kontron is planning to engage more in the development of software and middleware for its hardware components. The possibilities arising from the Internet of Things are manifold. By maximising the level of security from infrastructure design to system management, Kontron is laying the necessary foundations for customers to benefit from these opportunities – and ultimately enabling industries to move forward.

"WE NEED END-TO-END SOLUTIONS"

Jens Wiegand, Chief Technical Officer, on security risks and innovation in a growing market.

"SECURITY IS A DRIVER FOR INNOVATION."

Mr. Wiegand, what will be the main activities and market developments regarding Security in the next years?

The first step is to establish end-to-end system security threat assessment methods that include manufacturers, operators, and end users. Security needs to become an integral part of system design, as well as application development and management.

Security threats inherent in configuration or customisation must be analysed and addressed by operators. The same applies to software management, updating and provisioning processes. Even threats introduced by the end user, such as malware or virsues, need to be considered.

How does Kontron have to change its way of doing business to cater to rising Security requirements?

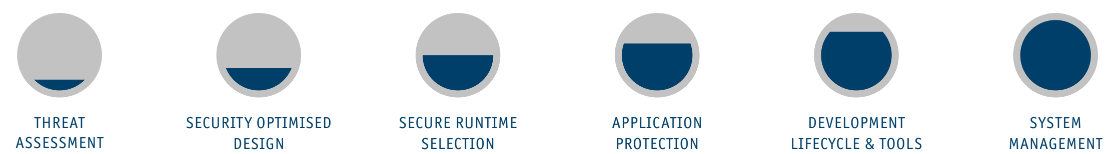
Due to the increase in government regulations, many customers or equipment manufacturers have started to require asset protection and information assurance concepts alongside with vulnerability assessments. Security threats often cause unpredictability for their business and demands modular security building block practices to combine incumbent needs with changing requirements. Also, a higher degree of threat assessment or "designed for security" services will become important.

What significance does Security hold for Kontron?

The costs of security breaches rise exponentially with the increase in connectivity driven by IoT. Major underpinnings of our economy and our infrastructure will depend on embedded controllers. A single successful attack can jeopardise everything from critical public services to healthcare. This makes security a key innovations tenet for Kontron. We see security as a key differentiator and business driver for our company.

IOT DRIVES THE NEED TO DESIGN FOR SECURITY *Graphic 002*

Kontron's Security Improvement Framework



MEMBERS OF THE MANAGEMENT BOARD

ROLF SCHWIRZ

CHAIRMAN OF THE MANAGEMENT BOARD

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

Rolf Schwirz can look back on many years of experience in the IT industry. Before his role at Kontron he ran Fujitsu Technology Solutions as 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.

MICHAEL BOY

MANAGEMENT BOARD MEMBER CORPORATE FINANCE

Michael Boy has been the CFO of the Kontron Group since June 2014.

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

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

ANDREAS PLIKAT

MANAGEMENT BOARD MEMBER

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

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

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

MICHAEL BOY
MANAGEMENT BOARD MEMBER
CORPORATE FINANCE

ROLF SCHWIRZ
CHAIRMAN OF THE MANAGEMENT BOARD

ANDREAS PLIKAT
MANAGEMENT BOARD MEMBER

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

The 2014 fiscal year was a year in which our energies were devoted to the "New Kontron" restructuring program. Together with the Management Board, we concentrated on the rigorous realignment of the company and implementation of the comprehensive measures taken to cut costs and increase efficiency. In fact, over 80% of the planned initiatives have been concluded in the meantime. One of the milestones was the sale of the operations of the subsidiaries, RTSoft and ubitronix, which were bundled in the Energy project business. Moreover, the company completed the geographical concentration of its operations in Germany on schedule in October 2014, as announced in July 2013. The Management Board and Supervisory Board agree that the course taken to optimize the Group's structures should be pursued consistently in the 2015 fiscal year on account of the future business challenges facing the company.

COOPERATION BETWEEN THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

The Supervisory Board monitored the performance of the Management Board continuously over the course of the 2014 fiscal year and advised them in their executive decision-making at regular intervals. In the process, we observed the requirements of the law, the Articles of Association, as well as the Rules of Procedure and performed our duties with great commitment and due care. We are satisfied that the management of the company complied at all times with the law, its stated business purpose and other rules and regulations.

The Management Board informed the Supervisory Board comprehensively and promptly, both in writing and verbally, at the scheduled meetings and outside of them, of all relevant events for the business and the actions taken. The issues addressed included business policy, business planning – comprising financial planning, capital expenditure planning and human resources planning – strategic development, the operating business and the economic position of the company and the Group, including its risk exposures.

Moreover, we were kept informed by the Management Board of any deviations in the development of business to planning and budget targets. These were discussed in depth by the Supervisory Board and their plausibility checked. This especially applies to decisions and measures requiring the approval of the Supervisory Board pursuant to the law, the Articles of Association and the Management Board's Rules of Procedure. The Supervisory Board gave its approval to all such cases submitted.

Over the course of the reporting period, the Supervisory Board and the Audit Committee were informed of the results of the review of the quarterly reports by the external auditors of Kontron AG and the key audit procedures.

The Chairman of the Supervisory Board and the Chairman of the Audit Committee were in close and regular contact, also outside of the scheduled meetings, in order to discuss any significant business developments. Cooperation between the Supervisory Board and the Management Board was convivial and constructive at all times during the reporting period. We were directly involved in all decisions that were of special significance for the company.

MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board convened a total of six times in the 2014 reporting period in addition to three telephone conferences. Moreover, four resolutions were passed by circulation. Generally, all members of the Supervisory Board were present at the meetings or involved in the resolutions. Dr. Harald Schrimpf and Mr. Lars Singbartl gave their apologies for not being able to participate in one meeting and one telephone conference each. Mr. Peter Bauer was represented by proxy in two of the telephone conferences. Dr. Harald Schrimpf was represented by proxy in one telephone conference.

The Management Board submitted the reports, presentations and motions for resolutions in preparation for our meetings in good time. In this way, it was possible to be well prepared for the coming meetings in an efficient manner. This fostered the quality of the discussions with the Management Board allowing us to perform our oversight duties without any impediment.

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

MAIN TOPICS OF DISCUSSION

At its meetings, the Supervisory Board was regularly informed by the CEO of the position of the Group and by the CFO on the net assets, financial position and results of operations of the Group. In addition to checking the current development of business, the Advisory Board focused on the following issues:

During the first half year, the Supervisory Board concentrated in the first quarter on the budget of Kontron Group, the “New Kontron” reorganization program and a review of the compensation paid to the Management Board and the Supervisory Board in terms as to whether it was appropriate. At the meeting on March 20, 2014, the Supervisory Board ratified the financial statements of the company for the 2013 fiscal year. In this regard, we obtained the Independence Declaration from the external auditor as required by No. 7.2.1 of the German Corporate Governance Code. Also in the first quarter, the Supervisory Board carried out an efficiency test with regard to its activities and cooperation with the Management Board.

In the second quarter, the focus of Supervisory Board activities was placed on the appointment of the CFO, Mr. Michael Boy, effective June 16, 2014. The Supervisory Board also granted its approval to adjusting the credit facility of the company, which has been in place since 2012, and also approved the decision to divest the Russian RTSoft Group.

In the third quarter, the Supervisory Board closely examined the strategic planning of the Management Board with regard to the future alignment of the Kontron Group. At its meeting on September 29, 2014, the Supervisory Board passed a resolution to renew the service agreement with Management Board member, Mr. Andreas Plikat, for a further year, expiring on December 31, 2016.

In the fourth quarter, the Supervisory Board mainly addressed the risk report of the company and issues related to corporate governance. Moreover, the company's strategy was subject to further discussion and analysis over the course of the third quarter.

COMMITTEE WORK

The work of the Supervisory Board is organized into two separate committees: the Audit Committee and the Nomination Committee. No members were appointed to the Nomination Committee in the reporting period. At the meeting on January 20, 2015 the Supervisory Board appointed the Chairman of the Supervisory Board, Mr. Rainer Erlat, as well as Mr. Harald Joos and Mr. Martin Bertinchamp to the Nomination Committee. The Chairman of the Audit Committee reported to the Supervisory Board in detail on the work of the committee.

The Audit Committee was convened six times in the 2014 fiscal year. The main points addressed by the committee were the development of the net assets, financial position and results of operations of the Group and the presentation of the interim reporting and the financial statements of Kontron for the 2013 fiscal year. Moreover, the effectiveness of the internal control system and the internal audit system was monitored and risk, legal and compliance issues discussed in depth.

At the first meeting in the 2014 fiscal year in February, the Audit Committee called upon the external auditor to report on the status of the audit for the financial statements for the 2013 fiscal year.

At the second meeting in March 2014, both the consolidated financial statements and the separate financial statements of the company for the 2013 fiscal year were intensively discussed. The external auditors of Kontron AG attended this meeting. Moreover, the Audit Committee engaged Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft at this meeting to perform a review of the quarterly reports of the Kontron Group in the 2014 fiscal year.

The Audit Committee discussed the financial statements of the first quarter at its meeting in April 2014 and subsequently approved it.

The organization of the finance department and the issues of internal auditing and risk management were discussed with the Management Board at the meetings of the Audit Committee in June and July 2014.

The financial statements of the second quarter were also discussed at the meeting in June 2014 and the financial statements of the third quarter at the meeting in October 2014. Both interim reports were approved at the respective meetings. In addition, there were discussions at both meetings on issues related to the internal audit and risk management at the company. In this regard, the Audit

Committee approved the audit plan tabled by the internal audit department and the restructuring of the risk management system of the company.

CORPORATE GOVERNANCE

In the 2014 fiscal year, the members of the Supervisory Board once again intensively addressed the further development of the corporate governance standards anchored in the company. One of the main points on which the Supervisory Board focused in the reporting period was the implementation of the aims of the German Corporate Governance Code. Together with the Management Board, the Supervisory Board updated the Compliance Declaration pursuant to Sec. 161 AktG ("Aktiengesetz": German Stock Corporations Act) at the meeting on December 10, 2014 and made it permanently accessible to shareholders on the company's website. Detailed information on corporate governance can be found in the corporate governance report published on the company's website in accordance with Sec. 289a HGB ("Handelsgesetzbuch": German Commercial Code).

The expanded management team of the company in the reporting year comprised nine individuals. These employees support the Management Board in steering business processes within the Kontron Group. The expanded management team met with the Management Board at a total of eleven meetings in the 2014 fiscal year. Personnel changes to the expanded management team of the company are outlined in the paragraph on significant events in the section on "Personnel changes to the Management Board and Executive Management".

REVIEW OF THE EFFICIENCY OF THE SUPERVISORY BOARD

The Supervisory Board carried out a review of its efficiency at the meeting on December 10, 2014 and outside of the formal meetings in January and February 2015 to assess its methods and cooperation with the Management Board. The review found that the Supervisory Board and Management Board work well and efficiently together and that no significant changes are needed to the nature or methods of the cooperation. The self-assessment of the Supervisory Board also comes to the conclusion that its work is performed efficiently and that no changes are required to the working methods here either.

PERSONNEL CHANGES WITHIN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

There were changes to both the Supervisory Board and the Management Board of Kontron AG in the reporting period.

Effective June 30, 2014, Mr. Lars Singbartl stepped down from his position on the Supervisory Board of Kontron AG. Mr. Harald Joachim Joos was appointed to the Supervisory Board by order of the local court of Augsburg on August 13, 2014 until the end of the next Annual General Meeting of Shareholders on June 11, 2015. Mr. Harald Joachim Joos was appointed by the Supervisory Board to the Audit Committee, replacing Mr. Lars Singbartl on this committee. The Supervisory Board had six members at the end of the reporting period.

At the meeting on March 23, 2015, the Supervisory Board addressed the topic of proposing the appointment of a Supervisory Board member at the 2015 Annual General Meeting of Shareholders. On account of his personal characteristics, specialist qualifications and professional experience, the Nomination Committee and the Supervisory Board have proposed Mr. Harald Joachim Joos as the candidate for the Supervisory Board position to the Annual General Meeting of Shareholders.

Mr. Michael Boy was appointed CFO at Kontron AG effective June 16, 2014. The Management Board had three members as of the end of the reporting period.

AUDIT OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft audited the separate financial statements compiled by the Management Board in accordance with the German Commercial Code and the underlying bookkeeping and management report for the period and rendered an unqualified audit opinion. The consolidated financial statements and the group management report were prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU, as required by Sec. 315a (1) HGB. Here, too, the auditor rendered an unqualified audit opinion. The audit engagement was awarded pursuant to a resolution of the Annual General Meeting of Shareholders on June 5, 2014.

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

The documents relating to the financial statements and the auditor's report were submitted to the Audit Committee in good time. They were extensively discussed with the Management Board and the auditors at the meeting of the Audit Committee and the meeting of the Supervisory Board that ratified the financial statements on March 23, 2015. The auditor reported on the significant findings of the audit and was available to both the Audit Committee and the full Supervisory Board to respond to any questions. All questions posed by the Supervisory Board were comprehensively answered. After conducting our own review and discussing the financial statements, management report and audit reports at length, we do not have any objections and concur with the findings made by the auditor of the financial statements. We approved both the separate financial statements and management report and the consolidated financial statements and group management report compiled by the Management Board for the year ending December 31, 2014 at the meeting of the Supervisory Board on March 23, 2015 and subsequently ratified the financial statements and management report of Kontron AG. The Supervisory Board discussed the proposal made by the Management Board for the appropriation of the result for the year and concurs with the proposal.

The Supervisory Board would like to take this opportunity to thank the members of the Management Board and all employees of Kontron AG for their service and loyalty to the company during the 2014 fiscal year, a year marked by dramatic change.

Rainer Erlat
Chairman of the Supervisory Board

MEMBERS OF THE SUPERVISORY BOARD

RAINER ERLAT

Chairman of the Supervisory Board
since January 20, 2015
Chaiman of the Nomination Committee

PETER BAUER

Deputy Chairman of the Supervisory Board

STEN DAUGAARD

Chairman of the Audit Committee

MARTIN BERTINCHAMP

Member of the Audit Committee
since January 20, 2015
Member of the Nomination Committee

HARALD JOACHIM JOOS

since August 13, 2014
Member of the Audit Committee
since January 20, 2015
Member of the Nomination Committee

DR HARALD SCHRIMPF

Member of the Supervisory Board

RETIRED FROM THE SUPERVISORY BOARD DURING THE REPORTING PERIOD:

LARS SINGBARTL

until June 30, 2014

THE KONTRON SHARE

STOCK MARKET DEVELOPMENTS

The development of international capital markets was mixed in 2014. Uncertain economic prospects, interest rate policies and the purchase of bonds by central banks in many countries as well as a string of political conflicts affected stock markets worldwide. After a slow start at the outset of 2014 due to worries about the global economy, turbulence on foreign exchange markets and political instability in Ukraine, stock exchanges around the globe picked up in the second quarter as investors expected the extremely low key interest rates to remain in force. On June 09, 2014, the DAX reached the 10,000 point threshold for the first time in its history. A few days earlier, the TecDAX had also set a new record of over 1,300 points.

Between July and August, both indexes fell again, mainly due to the crises in Iraq, Ukraine and Gaza but also the extended sanctions against Russia. After a brief recovery, weak economic data from Germany and the euro zone put greater pressure on both indexes, particularly in October. However, the losses were rapidly made good by the end of the month in light of a strong US economy and monetary measures taken in Japan. The recovery continued in November, with both the DAX and the TecDAX setting new records at the beginning of December.

In mid-December, share prices once again came under pressure before the Federal Reserve announced that it would not tighten the money supply until later in 2015, thereby giving the capital markets another boost. At the end of the year, fears regarding the political developments in Greece depressed the stock markets again. On the last day of trading the DAX closed at 9,805.55 points, representing a rise of 4.3 % for the full year 2014. The TecDAX closed the year at 1,371.36 points, corresponding to an annual increase of 17.5 %.

DEVELOPMENT OF THE KONTRON SHARE

The stable development of the Kontron share over the course of 2014 was in line with the cost-savings and efficiency gains from the “New Kontron” program. After peaking at € 5.68 on January 13, 2014, the price fell gradually, primarily due to the general market sentiment in the wake of weak economic data from the US and China, turbulence on the foreign exchange markets in some emerging economies, and the crisis on the Crimean peninsula.

The share price rose again and remained stable after the publication of the 2013 annual report on March 25, 2014, in which Kontron announced its plans to divest the “Energy” project business, reported on the first tangible successes from the “New Kontron” program and its outlook for the year 2014. At the end of the first six months, the share price stood at € 4.99, only slightly above the starting price at the beginning of the year of € 4.92. The share price displayed greater volatility in the third and fourth quarters. The price fell in August, reflecting the wider trend on the stock exchanges driven by the geopolitical crises and the sluggish recovery of the global economy.

On August 14, 2014 the price of the share fell to its annual low of € 4.40 before recovering to € 4.96 at the end of September. The share price fell again in October at first, once again mirroring the downwards trend on the DAX and TecDAX. However, it bounced back as the stock markets recovered in response to more positive economic data from the US and after the company had published its results for the third quarter on November 05, 2014, indicating a record order intake, confirming its forecast for the year and announcing the successful completion of 80 % of the “New Kontron” program. The Kontron share closed the year at a price of € 5.01, representing a slight increase of 1.8 %.

KEY FIGURES OF THE KONTRON SHARE AT A GLANCE

Table 002

		2014	2013
Share capital	€	55,683,024	55,683,024
Number of shares as of the reporting date	shares	55,683,024	55,683,024
Market capitalization	€ million	278.97	289.55
Closing price (XETRA year-end)	€	5.01	5.20
Closing price high (XETRA)	€	5.68	5.77
Closing price low (XETRA)	€	4.40	3.32
Earnings per share (incl. discontinued operations)	€	– 0.13	– 0.56
Equity per share	€	4.54	4.43
Operating cash flow per share	€	0.03	0.04
Dividend per share	€	0.00	0.00
Trading volume (XETRA)	million shares	19.06	34.37

Source: Bloomberg

DEVELOPMENT OF THE KONTRON SHARE COMPARED TO THE TECDAX

Graphic 003

PUBLIC LISTING AND TRADING VOLUME

The Kontron share is listed on the Regulated Market of the Frankfurt stock exchange and meets the transparency requirements of Deutsche Börse's Prime Standard. It is also traded over the counter at the regional stock exchanges in Berlin, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart. During the reporting period, Kontron was included in the TecDax, the index comprising the 30 largest listed German firms in the technology sector below the DAX. At the end of December 2014, the Kontron AG share was ranked 30 in the index issued by Deutsche Börse measured on market capitalization and 38 measured by trading volume.

In total, 19.06 million shares were traded during the reporting period (prior year: 34.37 million). This corresponds to an average daily trading volume of 75,647 shares (prior year: 135,834). The month displaying the highest trading volume was January 2014 with 3.23 million shares traded and the weakest September 2014 with 0.86 million shares traded.

KEY DATA ON THE KONTRON SHARE

Table 003

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

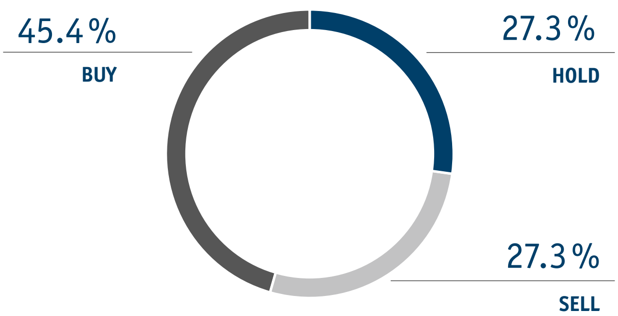
ANALYST RECOMMENDATIONS

During the course of the 2014 fiscal year, eleven analysts regularly published updated recommendations on the Kontron share. At the end of the 2014 fiscal year, 45 % of the analysts (December 31, 2013: 18 %) recommended buying the Kontron share, 27 % (December 31, 2013: 45 %) recommended holding it and 27 % (December 31, 2013: 36 %) recommended selling it. The mean target price of the analysts at the end of the reporting period stood at € 5.25 compared to € 4.50 at the end of 2013. Recommendations by financial analysts are an important decision-making basis for investors.

ANALYST RECOMMENDATIONS

Graphic 004

AS OF 12/31/2014



SHAREHOLDER STRUCTURE

66.37 % of the shares of Kontron AG are in free float with a substantial number of them being held by institutional investors. Warburg Pincus, a private equity investor, is the largest individual shareholder with a holding of 18.62 %. Triton, an investment company, holds a total of 15.01 % of the shares. As of December 31, 2014, Kontron AG held 111,976 treasury shares.

DIVIDEND

A net loss was generated in 2014 due to the company's unsatisfactory operating performance and charges to the statement of financial position arising from restructuring measures. For this reason, the Supervisory Board agrees with the proposal for the appropriation of the net result made by the Management Board. From the perspective of the Management Board and the Supervisory Board, a dividend distribution for 2014 is not justified.

ANNUAL GENERAL MEETING OF SHAREHOLDERS 2014

Almost 200 shareholders attended the Annual General Meeting of Shareholders of Kontron AG on June 05, 2014 at the SGL Arena in Augsburg representing approximately 55 % of the voting capital. The focus was placed on the extensive cost savings and efficiency enhancing measures carried out within the framework of the "New Kontron" program. The Chairman of the Management Board, Rolf Schwirz, outlined the progress made regarding these measures and also the background to the decision to relocate the company to Augsburg and Deggendorf. The Annual General Meeting of Shareholders approved the proposals made by the Supervisory Board and Management Board on the remuneration schedule for the Supervisory Board and the ratification of the acts of management of the Supervisory Board and the Executive Board with a large majority. The shareholders also adopted various changes to the Articles of Association, including the relocation of the corporate headquarters to Augsburg. The next Annual General Meeting of Shareholders is scheduled for June 11, 2015 at the SGL Arena in Augsburg.

INTENSIVE DIALOG WITH CAPITAL MARKETS

We are committed to engaging in open and reliable communications 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 report comprehensively and promptly on any business development and also actively seek an exchange of views. It is important for us to create transparency and foster trust by means of ongoing dialog.

To this end, the Management Board and the investor relations team are regularly available to talk with analysts, investors and representatives from the banks in one-on-one or group meetings or telephone conferences.

Private investors are another important group of shareholders. The investor relations pages of Kontron AG are available to them on the company's website to use as a practical and central point of contact. Likewise, all shareholders have an opportunity at the Annual General Meeting of Shareholders to obtain an understanding of Kontron AG and experience the Management Board in action.

www.kontron.com/investor

GROUP MANAGEMENT REPORT

CORPORATE INFORMATION

BUSINESS MODEL OF THE GROUP

Strong position on the market for embedded computer technology

Kontron is one of the leading developers and manufacturers of Embedded Computer Technology (ECT) with a product portfolio that covers the entire range of standard modern products for circuit boards and modules right through to specific system solutions for customers. In addition to offering its customers embedded technologies, Kontron is increasing its offer of services tailored to the product portfolio. Our engineers have a wealth of experience in developments and solutions expertise and our sales staff possess a great depth of knowledge when it comes to the market, customers and products – this makes Kontron an internationally respected partner.

Embedded computer technology is used in technical applications to realize monitoring, management and controlling functions as well as special forms of data processing or data transmission. The requirements placed on ECT are as numerous as the fields of application: The products from Kontron not only have to possess the mandatory certifications but also meet the detailed specifications of the customer and remain available without any technical change over the entire life cycle of the application. Qualities such as reliability, security and longevity are what make our high-quality products so successful on the market. The development of solutions that, on the one hand, occupy ever less space and, on the other, are increasingly networked, opens up a growing field of technological applications for ECT. The relevant market segments for Kontron display a particular need for ECT products, promising growth rates and great prospects for the future.

Global presence

Together with its subsidiaries and sales offices, Kontron AG maintains a global presence. After the organizational changes (see page 41 for more information), the company has new headquarters in Augsburg and subsidiaries in 13 countries, including Germany, France, the US, Canada, China, India and Malaysia. These subsidiaries and the international sales offices put us in close proximity to our customers and regional markets.

Systematic development of global organization and business units continued

The global organization divides our business into three global business units:

- “Industrial” focuses on the markets for industrial automation, medical technology and infotainment
- “Communications” covers the telecommunications market
- “Avionics / Transportation / Defense” (previously named Military / Avionics / Rail) bundles the activities of on the markets for civil aviation, transport, security and defense

We continued to expand the business units in 2014 and tailored them more closely to the international business model. In the first quarter of 2014, most of the former Multimarket division was integrated into Industrial. This has made our customer service even more efficient, thanks to the leaner processes and greater clarity regarding responsibilities. At the same time, management of our sales partners has been improved for the future by integrating them in the direct sales organization. This has led to better and more rapid coordination of the direct and indirect marketing to customers.

At the beginning of the third quarter of 2014, we opened a sales office in Tokyo and staffed it with experienced personnel. The goal is to improve access to the Japanese market in terms of both strategy and operations. Kontron will primarily offer its standard products to the challenging Japanese market, concentrating mainly on the transportation, defense, communication and industrial sectors.

Likewise in the third quarter of 2014, the new Avionics Systems Integration Lab (SIL) was opened at our North American base in Poway, USA. With SIL we can offer our customers a modern test facility together with a full suite of simulation possibilities for the next generation of successful onboard infotainment technologies and solutions for wireless connectivity.

We moved into the technology campus in Augsburg in the fourth quarter of the year: Augsburg has thus become the headquarters of Kontron AG and the German subsidiaries are located here. This brings the plan we announced in July 2013 to concentrate our operations at one location to a close and on schedule. Our technology campus offers modern workplaces to approximately 450 employees and generous meeting and presentation rooms. The competence center for medical technology is also located at the technology campus.

Finally, the company sold a number of entities and equity investments in 2014: in the first quarter it sold its investment in ubitronix system solutions gmbH, Hagenberg, Austria, and, in the third quarter of the year, the Russian company, Affair 000, Moscow. As a result, the decision to part with the activities bundled in the Energy project business has been completed, as announced.

We also reached the goals we set ourselves for 2014 to introduce a globally functioning IT infrastructure. Half way through the year we put the first release of the SAP-BI based management reporting platform into operation and, at the end of the year, completed the phase of the project to introduce global SAP ERP in which the processes and functions are specified.

LEGAL STRUCTURE

Group organization

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

Kontron AG holds a direct or indirect equity investment in 16 entities (prior year: 22 entities) of which all were fully consolidated in the reporting year. The change in the organization of the Group into a global structure was completed in the fourth quarter of the reporting period. In the reporting period, we also laid the groundwork for the introduction of a globally integrated SAP ERP system in the key subsidiaries. Implementation is planned for the second half of the 2015 fiscal year.

Changes to the legal structure of the Group

The following changes were made to the legal and organizational structure of the Kontron Group in the 2014 fiscal year:

By purchase agreement dated February 10, 2014, Kontron AG sold all shares (a 40% holding) in ubitronix system solutions gmbh, Hagenberg, Austria selling them to the management of ubitronix system solutions gmbh, the first step in the company's plans to part with the Energy project business as announced.

A sales office was opened on the Japanese market on July 15, 2014 as a permanent establishment of Kontron Management GmbH (formerly: Kontron Verwaltungs GmbH).

On August 14, 2014, Kontron AG sold its Russian entity, Affair 000, Moscow (and its direct and indirect subsidiaries, including RTSoft ZAO, Moscow, and its equity investments in Russia and Ukraine) and thereby completed its separation from the Energy project business.

Takeover law disclosures

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

a) Composition of issued capital

The issued capital of Kontron AG totaled € 55,683,024 as of the reporting date of December 31, 2014 (unchanged on the prior year). It is split into 55,683,024 (unchanged on the prior year) no-par bearer shares with an imputed share in capital of € 1.00 each.

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

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

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

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

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

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

The appointment and removal of members of the Management Board complies with the legal provisions of Secs. 84 and 85 AktG. These legal requirements have been further specified in Art. 8 of the Articles of Association of Kontron AG. According to the Articles, the Management Board comprises at least two members. The Supervisory Board may appoint a higher number of members to the Management Board and also appoint a chairman (or spokesman) and a deputy chairman (deputy spokesman) of the Management Board. In addition, the Supervisory Board can appoint deputies of the members of the Management Board. One new member was appointed to the Management Board in the 2014 fiscal year.

The shareholders pass resolutions to amend the Articles of Association at the Annual General Meeting of Shareholders. In accordance with the option allowed by Sec. 179 AktG, Art. 26 of the Articles of Association requires the following: Resolutions of the Annual General Meeting of Shareholders are passed by simple majority of the votes cast or, where a capital majority is required, by simple majority of the voting rights present at the meeting, unless the law or the Articles of Association require otherwise. Resolutions to amend the Articles of Association and to implement capital adjustments may be passed by simple majority, where permitted by the law. According to Art. 18 (4) of the Articles of Association of Kontron AG, the Supervisory Board is entitled to amend the Articles of Association where only the wording is involved. 15 resolutions amending the Articles of Association were passed at the Annual General Meeting of Shareholders on June 05, 2014. The current Articles of Association of Kontron AG can be inspected at the website of the company at www.kontron.com/investor.

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

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

- According to the resolution of the Annual General Meeting of Shareholders of June 07, 2011 the Management Board is authorized to increase the nominal capital of the company with the approval of the Supervisory Board by June 06, 2016 one or several times by a total of up to € 27,841,512 by issuing up to 27,841,512 new individual share certificates denominated in the older's name in exchange for cash contributions and / or contributions in kind (authorized capital 2011). The shareholders are principally entitled to a subscription right to the new shares that, according to the provisions of Art. 4 (3) of the Articles of Association, can be excluded with the approval of the Supervisory Board. The Management Board has so far not exercised the authorization to increase the nominal capital from authorized capital.

- The nominal capital is increased conditionally by up to € 16,876,662 by the issue of up to 16,876,662 new individual share 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, which are issued in exchange for cash by Kontron AG or its group companies based on the authorization resolved by the Annual General Meeting of Shareholders of June 07, 2011, after the exercise of their rights to serve their conversion rights or options or to fulfill their conversion obligations. The issue of new shares is carried out at the conversion or option price, which is to be determined according to the authorization in each case. So far, the Management Board has not exercised the authorization granted by the Annual General Meeting of Shareholders on June 07, 2011 under agenda item 10 to issue one or several times in the period until June 06, 2016, with the approval of the Supervisory Board, bonds denominated in the holder's name in a total nominal amount of up to € 200,000,000, thereby granting conversion rights or options for up to 16,876,662 individual share certificates denominated in the holder's name with a pro rata amount in the nominal capital totaling up to € 16,876,662, and to use the conditional capital created 2011 for the purpose of serving such conversion rights or options.

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

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

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

- The Annual General Meeting of Shareholders of June 09, 2010 authorized the company to acquire treasury shares until June 08, 2015 to an extent of up to 10 % of the nominal capital. The acquisition of treasury shares can be carried out via the stock exchange or by means of a public purchase offer, which is directed at all shareholders of the company. The Management Board is authorized to use, with the approval of the Supervisory Board, treasury shares acquired based on the above authorization or any prior authorization, for one or several purposes as provided for in the authorization resolved by the Annual General Meeting of Shareholders on June 09, 2010 under agenda item 7, which includes the following uses: They can be sold through an offer to all shareholders or via the stock exchange or they can be canceled or they can be offered to third parties as consideration in connection with mergers, the acquisition of other companies, participations in other companies or parts of other companies or the purchase of receivables owed by the company. Further, such treasury shares can be sold to third parties against cash or used within the scope of employee stock option programs. As of the reporting date a total of 111,976 treasury shares were in the portfolio of the company owing to previous authorizations. The company has not exercised the authorization to acquire treasury shares, granted by the Annual General Meeting of Shareholders of June 09, 2010, so far.

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

The agreements made with the members of the Management Board also include change-of-control clauses. These are described in the section on Management Board remuneration on page 47 at seq.

GOVERNANCE AND CONTROL

Kontron possesses a dual governance structure consisting of a management board and supervisory board in accordance with the terms of the German Stock Corporation Act. Until June 15, 2014, the Management Board comprised two members, the Chief Executive Officer, Mr. Rolf Schwirz and Mr. Andreas Plikat. As of June 16, 2014, the Supervisory Board appointed Michael Boy as the new CFO.

COMPOSITION OF THE MANAGEMENT BOARD AS OF DECEMBER 31, 2014

Table 004

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

There were also changes to the Supervisory Board of Kontron AG in the reporting period. Mr. Lars Singbartl resigned from the board effective June 30, 2014. By order of the local court of Augsburg, Mr. Harald Joachim Joos was appointed to the Supervisory Board effective August 13, 2014 until the end of the next Annual General Meeting of the Shareholders.

Thus, at the end of the reporting year, the Supervisory Board comprised six members.

DECLARATION OF COMPLIANCE AND CORPORATE GOVERNANCE REPORT

At Kontron AG, corporate governance refers to responsible management and leadership that is geared towards the sustainable creation of value over the long-term coupled with control mechanisms. The key elements of good corporate governance are efficient cooperation between the Management Board and the Supervisory Board, open corporate communication, respect for shareholders' interests, transparency, and responsibility for all entrepreneurial decisions and an appropriate approach to risks. The Management Board and Supervisory Board are of the opinion that good corporate governance, which takes due account of the specific aspects of the company and the sector it is active in, is a key factor in the success of the company. Compliance with national and international laws, regulations and guidelines is core component of management duties. Likewise, we observe the principles of the German Corporate Governance Code.

The members of the Management Board and the Supervisory Board examined the topic of corporate governance at Kontron AG and within the Kontron Group in the fiscal year in detail and included the recommendations of the German Corporate Governance Code in their deliberations. The two governing boards issued the following declaration of compliance with the German Corporate Governance Code on December 10, 2014:

Declaration of compliance pursuant to Sec. 161 AktG

According to Sec. 161 AktG, the management board and supervisory board of listed stock corporations must issue an annual declaration on the extent to which they have complied with the recommendations of the Government Committee on the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the Federal Gazette and when not, why not. The Management Board and Supervisory Board of Kontron AG issued a declaration in this regard in December 2014 that can be found in the internet at: www.kontron.com/investor. The latest declaration of compliance and the declarations for the last six years are permanently accessible to the public on the company's website.

Relevant corporate governance standards and practices

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

It is the goal of management to raise the business value of the company over the long-term while simultaneously satisfying the interests of customers, partners, employees and investors as well as fostering business integrity. The Management Board of Kontron AG categorically rejects any violation of the law and the guidelines laid out in the Group's internal code of conduct. For this reason, the compliance function, which monitors compliance with the legal requirements and internal rules and regulations, plays an important role at Kontron and is an essential instrument of good corporate governance.

The compliance organization installed at Kontron supports the Management Board at continuously refining the structures of a functioning compliance management system and systematically following up any indications of misconduct.

The code of conduct requires all employees of the Kontron Group worldwide to comply with high legal and ethical standards. The code of conduct is based on a core of minimum standards, particularly with regard to fair and proper behavior in the workplace, compliance with the law, integrity, fairness, data protection, respect for third party rights, correct reporting, avoidance of corruption, bribery and conflicts of interest as well as how gifts and other inducements should be treated. In addition, a whistleblower guideline has been introduced to give employees the opportunity to confidentially report any infringements within the company to an external ombudsman. Any employee who reports an infringement in good faith will be protected. This protection means that Kontron will not take or threaten any action with regard to a whistleblower that could result in a disadvantage for them.

Working methods of the Management Board and Supervisory Board and composition and working methods of executive committees

The Management Board and the Supervisory Board collaborated closely in the reporting year and stood in constant contact to reach the goals for the 2014 fiscal year and keep developing the business.

a) Composition and working methods of the Management Board

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

The CEO coordinates the work of the Management Board. He is in direct and regular contact with the chairman of the Supervisory Board and represents the company in dealings with the public. The allocation of duties among the members of the Management Board is defined in a formal schedule of responsibilities. Each member of the Management Board has been assigned responsibility for managing the functions assigned to them on their own initiative in keeping with the resolutions of the Management Board. However, overall responsibility for managing the company is held jointly by all members of the Management Board. The strategic alignment of the company and the key issues of business policy or any other issues of material significance for the company and the Group must be decided on by the full Management Board. According to the internal guidelines all important transactions for the company or the Group also require the prior approval of the Supervisory Board. The members of the Management Board work collaboratively and keep each other up to date about any significant measures and events within their sphere of responsibility.

The schedule of responsibilities for the members of the Management Board was amended by the Supervisory Board in the reporting year. It now provides for three members: the Chairman of the Management Board, the Management Board Member for Corporate Finance and the Management Board Member for Corporate Development and Technology.

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

b) Composition and working methods of the Supervisory Board

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

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

The Supervisory Board advises and monitors the Management Board in their management of the company and is involved in all decisions of fundamental significance by the Management Board. In addition, the Supervisory Board has drawn up a catalog of transactions requiring the approval of the Supervisory Board. This specifies which matters the Management Board must submit to the Supervisory Board and is an integral component of the rules of procedure of the Management Board. The Supervisory Board has two dependent members, Mr. Harald Joachim Joos and Mr. Martin Bertinchamp and four independent members: Mr. Rainer Erlat, chairman of the Supervisory Board, Mr. Sten Daugaard, chairman of the Audit Committee, and Mr. Peter Bauer and Dr. Harald Schrimpf. As recommended by the German Corporate Governance Code, the Supervisory Board has a suitable number of independent members to ensure the independence of the monitoring of the Management Board and the advice given.

The Supervisory Board is available to the Management Board for consultation and discussion and performs the duties incumbent upon it due to the law and Articles of Association. The activities of the members of the Management Board and the extended management team are monitored by means of regular reports from the Management Board, other information and joint meetings. The Supervisory Board was convened a total of six times in the 2014 reporting period in addition to three telephone conferences. In addition, four resolutions were passed by circulation.

The Supervisory Board initiated a review of the efficiency of its work at its December meeting. This self-assessment is based on a comprehensive questionnaire.

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

c) Composition and working methods of Supervisory Board committees

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

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

The Audit Committee supports the Supervisory Board with the following tasks, in particular: monitoring the accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, the statutory end-of-year audit, including the auditor's independence and any other services rendered by the independent auditor as well as overall compliance. Details on its tasks and duties are contained in the rules of procedure for the Audit Committee. Mr. Sten Daugaard is chairman of the Audit Committee. The other members of the Audit Committee are Mr. Martin Betinchamp and, until June 30, 2014, Mr. Lars Singbartl. Mr. Harald Joachim Joos was appointed to the Audit Committee at the meeting of the Supervisory Board on September 24, 2014.

The Nomination Committee did not have any members in the reporting year as the Supervisory Board decided to discuss appointments among the full board. At the meeting of the Supervisory Board in January 2015, Mr. Rainer Erlat was elected chairman of the committee and Mr. Harald Joachim Joos and Mr. Martin Betinchamp were appointed as members. The task of the Nomination Committee is to select suitable candidates for appointment to the Supervisory Board.

d) Objectives for the composition of the Supervisory Board and Management Board and the two management levels below the Management Board

The Supervisory Board and the Management Board intend to set targets for the proportion of women on the Supervisory Board and the Management Board as well as for the two management levels below the Management Board by mid-2015.

BASIC FEATURES OF THE REMUNERATION SYSTEM AND REMUNERATION REPORT

Basic features of the remuneration system pursuant to Sec. 289 (2) No. 5, Sec. 315 (2) No. 4 HGB

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

The criteria on which Management Board remuneration is measured include the responsibilities and performance of the individual members as well as the global alignment and economic position of the company. Executive board remuneration at peer group companies in Germany and abroad is also considered when setting compensation levels. More details of the basic features of the remuneration system can be found in the following report on management remuneration.

Remuneration report

The remuneration report follows the recommendations of the German Corporate Governance Code from June 24, 2014 published in the official notices section of the Federal Gazette on September 30, 2014. It describes the basic features used to set Management Board and Supervisory Board remuneration at Kontron AG and the income of the individual members of the Management Board and Supervisory Board.

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

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

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

Variable, performance-based components are paid in the form of management bonuses if certain earnings targets are met. They are dependent on certain minimum goals being met and are also capped. The earnings targets for the individual members of the Management Board are set each year in advance by the chairman of the Supervisory Board. The point of departure is a target bonus. The actual bonus can be higher or lower than this. In the reporting year, variable compensation was pegged to both revenues and EBIT adjusted for restructuring cost of the Kontron Group.

The members of the Management Board received the following total remuneration in the 2014 fiscal year:

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

MANAGEMENT BOARD REMUNERATION – BENEFITS GRANTED

IN €K	Rolf Schwirz Chairman of the Management Board			
	2013	2014	2014 (Min)	2014 (Max)
Fixed remuneration	600	600		
Fringe benefits	70	79		
Total	**670**	**679**		
One-year variable remuneration	500	500	0	800
Multi-year variable remuneration				
POP 2013 (number)	400,000			
POP 2013 (mearsured)	631			
POP 2014 (number)		300,000		
POP 2014 (measured)		259		
Total	**0**	**0**	**0**	**0**
Service cost				
TOTAL REMUNERATION	**1,801**	**1,438**	**0**	**800**

MANAGEMENT BOARD REMUNERATION – ALLOCATION

IN €K	Rolf Schwirz Chairman of the Management Board			
	2013	2014	2014 (Min)	2014 (Max)
Fixed remuneration	600	600		
Fringe benefits	70	79		
Total	**670**	**679**		
One-year variable remuneration	0	404		
Multi-year variable remuneration				
POP 2013 (number)				
POP 2013 (measured)				
POP 2014 (number)				
POP 2014 (measured)				
Total	**0**	**0**	**0**	**0**
Service cost				
TOTAL REMUNERATION	**670**	**1,083**	**0**	**0**

Table 005

Michael Boy Management Board Member Corporate Finance (since June 16, 2014)				Andreas Plikat Management Board Member Corporate Development and Technology			
2013	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)
	163			250	250		
	55			15	26		
0	**218**	**0**	**0**	**265**	**276**	**0**	**0**
	82	0	131	150	150	0	240
				150,000			
				228			
	100,000				100,000		
	103				103		
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	**403**	**0**	**131**	**643**	**529**	**0**	**240**

Table 006

Michael Boy Management Board Member Corporate Finance (since June 16, 2014)				Andreas Plikat Management Board Member Corporate Development and Technology			
2013	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)
	163			250	250		
	55			15	26		
0	**218**	**0**	**0**	**265**	**276**	**0**	**0**
	0			23	121		
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	**218**	**0**	**0**	**288**	**397**	**0**	**0**

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

In the 2014 fiscal year, the members of the Management Board received the following deferred compensation from the Performance Options Plan 2014:

VARIABLE COMPONENTS OF MANAGEMENT BOARD REMUNERATION PAID IN PERFORMANCE OPTIONS *Table 007*

PCES	Basis performance options		Premium performance options	
MANAGEMENT BOARD*	Number of POs granted on the grant date (100 %)	Allotment of POs considering target achievement	Number of POs granted on the grant date (100 %)	Allotment of POs considering target achievement
Rolf Schwirz	200,000	200,000	100,000	100,000
Michael Boy (since June 16, 2014)	100,000	100,000	0	0
Andreas Plikat	100,000	100,000	0	o
TOTAL	**400,000**	**400,000**	**100,000**	**100,000**

* According to a resolution of the Supervisory Board dated July 15, 2014, the performance targets for 2014 do not apply. In addition, 100 % of the performance options are deemed to have been granted.

In total, 1,000,000 basis performance options and 100,000 premium performance options were issued to the members of the Management Board and employees of Kontron AG and the companies in the Group.

The provision created in the fiscal year to cover the payment of long-term components of remuneration out of the performance options plan comes to a total of € 342k for the members of the Management Board. Of this amount € 236k can be allocated to Mr. Schwirz, € 79k to Mr. Plikat and € 27k to Mr. Boy.

Another component of variable compensation with the nature of a long-term incentive and risk-sharing character relates to the phantom stock options which were issued to members of the Management Board and the employees of Kontron AG and the companies in the Group in the 2011 and 2012 fiscal years within the framework of the performance share unit plan. The provision reported for the 2014 fiscal year to cover the payment of long-term incentives from these two plans includes € 8k for Mr. Plikat.

Benefit obligations and Management Board pensions in the 2014 fiscal year

The members of the Management Board have not been issued any fixed pension entitlements in their respective agreements. Consequently, there was no need to recognize a provisions for pensions as of December 31, 2014.

In the 2014 fiscal year Mr. Schwirz received a contribution of € 50k to his private pension plan and Mr. Boy a contribution of € 45k.

Fringe benefits and other benefits paid to the Management Board in the 2014 fiscal year

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

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

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

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

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

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

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

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

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

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

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

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

The members of the Supervisory Board received the following total remuneration in the 2014 fiscal year:

SUPERVISORY BOARD REMUNERATION *Table 008*

IN €K	Fixed remuneration	Variable remuneration	Total remuneration
MEMBER OF THE SUPERVISORY BOARD			
Rainer Erlat	87	0	87
Sten Daugaard	61	0	61
Martin Bertinchamp	49	0	49
Peter Bauer	41	0	41
Dr. Harald Schrimpf	41	0	41
Joachim Joos (since August 13, 2014)	24	0	24
Lars Singbartl (until June 30, 2014)	19	0	19
TOTAL	**322**	**0**	**322**

- The company does not extend any loans to the members of its Supervisory Board.
- The company has taken out D & O insurance for the Supervisory Board. At present, this does not include any deductible – as explained in the Declaration of Compliance issued by the Management Board and Supervisory Board on December 10, 2014 – as the members of the Management Board and Supervisory Board are not of the opinion that a deductible could improve the motivation or responsibility with which the Supervisory Board performs its duties.
- No other remuneration, such as for consulting and brokerage services rendered by members of the Supervisory Board, was paid, nor was any agreed.

OBJECTIVES AND STRATEGIES

The innovation, quality and reliability of our ECT portfolio offers long-term competitive advantages for our customers, who include a number of original equipment manufacturers (OEMs), systems integrators and solution providers. And that's not all: they contribute significantly to our customers' commercial success.

Like other heavily technology-based industries, the ECT market has been undergoing a process of transition for some time now. On the one hand, our customers are constantly facing new challenges as a result of the pressure associated with globalization and optimization, commoditization in specific product segments and the need to constantly minimize costs. On the other, the changes in the ECT market entail new opportunities for our customers and therefore also for us. The mega-trend of the "Internet of Things" (IoT) in particular, which essentially describes the rapid rise in networking among smart devices, opens up a large number of new fields of business. Other market opportunities are arising for example as a result of trends in the field of mobility, "green" technologies (especially with respect to energy-efficiency) and the miniaturization of electronics.

Thanks to our position as market leaders and our high-quality products, we are exceptionally well-placed to benefit from the potential growth of the ECT market around the world. Our business units are thoroughly acquainted with their customers' industries and the relevant framework conditions, such as the necessary certifications. Last but not least, our know-how is based on long-standing and close customer contacts and partnerships with the leading companies in these industries. At the same time, our company boasts extensive and widely recognized expertise that is of crucial relevance when it comes to the development of new products relating to the IoT or mobility. These core skills and our diversification between various different sectors make us one of the few globally active full-line suppliers in the ECT market. Our diversification also makes us less sensitive to fluctuations in demand on the individual sub-markets.

We aim to use selected strategic initiatives to refine our established business model and move it forward in a targeted manner. This will allow us to make the most of the opportunities that present themselves in this dynamic environment.

We will continue to build on the platform concept introduced during the reporting year, expanding our product portfolio in the process and aligning it more with new technological challenges, for example in connection with the IoT. In addition to hardware-related aspects, this expansion also and above all involves components for embedded software. As a result, we will be able to offer our customers more complete platform solutions in the future.

We also aim to add suitable services to our product portfolio so that our customers can focus even more on their own core areas of expertise. There are opportunities both for additional services in connection with our customers' product development processes as well as application and operation-related services.

We plan to optimize our market access and customer support by using existing structures more and developing additional indirect sales channels. This also includes working harder to cultivate the market in selected regions of Asia.

We are maintaining a strong focus on our cost structure and corporate infrastructure, which we are seeking to improve further still with our "New Kontron" program to cut costs and enhance efficiency.

The "New Kontron" program

"New Kontron" was introduced in 2013 as a comprehensive program to cut costs and enhance efficiency. We continued to intensify the program and achieved planned milestones during the reporting year. For example, a large number of contracts with suppliers were assessed and better conditions were negotiated in the fields of direct and indirect procurement. The reduction in the numbers of our suppliers and contract manufacturers confirms the progress we have made with respect to our global procurement activities.

The product portfolio was also successively streamlined as planned, enabling us to noticeably reduce the complexity that had developed over time. We relocated the branches in Eching, Kaufbeuren, Roding and Ulm and integrated them into our facilities in Augsburg and Deggendorf. We also continued to implement cost-cutting measures outside Germany, for example in selected European subsidiaries.

"New Kontron" is set up to run until 2016, which means that we will be implementing these measures to cut costs and enhance efficiency for the next two years, as planned.

Mid to long-term goals

It is our stated goal to become the leading provider of products and solutions in the ECT market. To this end, we intend to not only anchor our market leadership in the core segments but to build on it and significantly increase revenue and our EBIT margin through 2016.

The foundation for this strategy lies in the global management structure and the alignment of the business units to the market and our focus on the markets for the relevant applications. Kontron currently maintains locations for sales & marketing, research & development (R & D) as well as its global operations on three continents (North America, Europe and Asia), which it continued to optimize in 2014. These locations form the basis on which the company can steadily reinforce its market, customer, production and R & D profile. We intend to remain aligned to the relevant market sectors in future and serve our customers as the innovation leader on the market and a provider of strong and reliable standard and bespoke solutions.

CORPORATE MANAGEMENT

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

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

Relevant performance indicators include revenues, gross margin, EBIT and EBIT adjusted for restructuring cost. The business plan also takes account of critical sales-oriented metrics such as the order intake and order backlog as important performance indicators.

An analysis of budget variance in the monthly reporting indicates whether the defined goals have been reached or not. This is an important source of information for the Management Board, the Supervisory Board and the respective executives when monitoring the latest developments. In addition, information is obtained from finance, sales & distribution, research & development, and global operations. Analyses of budget variance reveal the main causes for any significant discrepancy to budget and allow management to take prompt counteraction where necessary.

The Treasury department also reports weekly or monthly on the financial position of the Group. These reports present the latest development of important indicators such as liabilities to banks, liquidity, net cash and the extent to which credit lines have been drawn.

The monthly report is supplemented by information from risk management to allow a rapid response to any changes in the risk exposures or opportunities available to the Group. Each entity and each department describes its risks in both quantitative and qualitative terms.

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

For historical reasons, the Group's global IT environment is still made up of a number of different Enterprise Resource Planning (ERP) systems provided by SAP and other ERP software providers. However, there are plans to roll out a new global ERP system from SAP in 2015 to establish a uniform, high-performance and standardized IT system for the whole Group. This new system will promote transparency and productivity in the company and make global harmonization of business processes possible.

DEVELOPMENT OF RELEVANT PERFORMANCE INDICATORS

Table 009

		2014	2013
Revenues	€ million	456.8	445.3
Gross margin	€ million	118.5	113.4
EBIT	€ million	– 5.1	– 29.0
EBIT adj. for restructuring cost	€ million	8.8	4.6

RESEARCH AND DEVELOPMENT

Having a high-performance research & development (R & D) department is of vital importance to us as this enables us to provide both standardized and bespoke products to our customers and is essential for the development of innovative solutions and concepts. The company profits from the power of innovation and technological competence of its R & D as well as its unique selling propositions in an increasingly competitive global market. The continued focus placed on customer needs by our highly competent and global development teams is what distinguishes Kontron from its competitors. Thanks to our global presence, we are also able to identify any key trends at an early stage and use this knowledge to develop competitive products for our customers.

In this regard we perceive growing demand – and have received a growing number of queries for – innovative products related to the "Internet of Things" (IoT). IoT innovations are based to a large extent on ECT technologies and are highly complex. The challenge posed by these new technologies lies in connecting intelligent devices that have so far been developed in isolation in terms of their connectivity, programming, data formats and security. The fact that many of these devices are not yet ready for this complicates the issue.

Other challenges facing our R & D team arise from changes in the market and new customer demand for reliable, scalable and energy-efficient products and solutions. The technological and innovative trends towards networking ECT systems in the security sector or in remote maintenance is becoming increasingly important for our customers to differentiate themselves from the competition. We are consequently constantly being called upon to develop new ECT solutions and optimize existing ones. There are increasing calls for innovative ECT software solutions that frequently comprise diverse software functions and enable our customers to bring their own IoT solutions to market significantly faster and more efficiently.

2014 was a decisive year with regard to our positioning in this changing market. We optimized our R & D structures by installing them in global design centers and standardizing them in the process. This allows us to be more forward-looking in our planning, more flexible in our reactions and also to reduce the lead-time on new product launches. Moreover, we have put new focus on the development of innovative building-block concepts and platforms that feature improved reusabilty, flexibility and interoperability. In this regard we are also driving forward the expansion of our services as we see these as being a key success factor for our customers when developing their own IoT concepts. IoT products and services are therefore evolving into a key segment for our customers and our organization as well – and therefore a decisive innovation factor that will facilitate significant growth. The proactive planning and flexibility of our research and development activities are therefore becoming ever more critical success factors for our company.

Global development approach

Our worldwide development teams coordinate their processes and resource planning to accelerate the market launch of new products. Development projects are distributed to international teams of engineers. This cross-border cooperation clearly boosts the productivity of our development department and contributes to the economic success of our company. To maximize customer service and bind customers to our company, customer projects are assigned to experts with the relevant experience located closest to the customer. The global organization is the backbone which supports the regional units.

We continued to expand our ECT development capacities in Asia in the 2014 fiscal year. In addition to providing cost benefits and good access to universities in the region, which allows us to recruit highly qualified engineers, this has improved our proximity to our Asian customers and fostered the development of specific solutions for both customers and particular markets.

In the course of optimizing the global R&D organization, we redefined employee competencies in order to enhance productivity. This has led to a better balance in the distribution of expertise plus an emphasis on software. Moreover, by combining the locations at Augsburg and Deggendorf in 2014, a number of competencies were amalgamated and similar development activities consolidated in the standard product department. At the end of the 2014 fiscal year, the R&D department was staffed with 419 employees (prior year: 488 employees). Because of these developments at the company and our new focus on innovative and flexible building-block concepts and platforms, we have already been able to recruit a number of reputable experts to our R&D team.

Optimization of the R&D organization displays the first results
The consolidation of product families and continuing product assessment are key objectives of the "New Kontron" program. In the second half of the 2014 fiscal year, the R&D department introduced new platforms and building block strategies to better support the vertically structured units, which focus on specific market segments. These activities are showing the first signs of success. This improved strategy also means that we can align our R&D capacity more specifically to supporting customers' system and solution needs.

An addition to our portfolio, for example, is a new Intel® BayTrail building-block strategy which embraces a flexible architecture and re-use. Based on our new building-block strategy, we launched a number of new products that address a broad spectrum of industrial applications: COM-Express Mini, Compact, Rugged, SMARC, CompactPCI, as well as two embedded main boards in the Mini-ITX and Pico-ITX format.

The introduction of the SMARC standard enables reliable and scalable, low-power solutions, based on Intel® Atom or Intel® Quark processors. The potential fields of application range from cost-optimized solutions to products dedicated to an extended temperature range and harsh environments.

A number of platforms based on Intel®Atom™ were introduced in 2014. The potential applications here mainly comprise battery-powered portable systems, such as test systems, medical systems and data entry systems as well as stationary solar-powered devices. This applies in all places where the focus is on energy costs.

We have expanded our product portfolio to include a new series of cloud-based products traded under the name of SYMKLOUD. SYMKLOUD is a rack mount server offering a very high number of cores per rack for communications environments. SYMKLOUD offers enormous processing power at an availability of 99.99%. The platform is equipped with middleware which allows our customers to concentrate on the development of their applications. The product is ideal for many types of potential uses ranging from pure server to powerful TV video transcoding and IoT data analytics.

The successful 10-Gigabit-Ethernet-Rackmount-Switch family provides flexible possibilities with new variants and up to 30 ports. The Switch family was enhanced with time precision protocols that enable IoT applications, such as energy transport. Developed with high shock and vibration-resistance and high interference resistance (EMV) as well as an extended temperature range, these switches are suitable for the most varied scenarios in industrial automation, energy, civil aviation, transport and defense markets.

For the medical sector, we developed the Clinic DPC 210, an extremely flexible system for storing and archiving patient data, including the associated medical images and documents, which can be perfectly integrated into a clinic's processes and workflows. Compliance with EN60601-1 ensures that the Clinic DPC 210 can be safely integrated in hospital networks. The DPC – 210 workstation can easily access image data from backbone servers and archive patient image data on DVD.

In the field of automation, we extended the kBox C-101 line, our IoT gateway product, to include the new generation that features new solutions providing more flexibility. We launched the latest family of this IPC family at the Embedded World trade fair. The kBox A-201 Connect supports various connectivity options based on Intel's IoT optimized Quark processor. Using Intel's intelligent gateway solutions, the kBox is our high-performance solution for the rapidly growing market of IoT and machine-to-machine (M2M) gateways.

In the field of avionics, the ACE FLIGHT 600 server constitutes the heart of wireless onboard infotainment systems for numerous airlines worldwide. ACE FLIGHT 600 was upgraded and now boasts the latest dual core Intel® Core™ i7 processor. Performance was further refined for more comprehensive HD content from which inflight entertainment systems will directly profit.

Finally, our TRACe B304 rail-certified operational PC now offers new, turnkey and application-specific profiles for gateway applications in the rail sector as well as applications for rolling stock control and monitoring.

ECONOMIC SITUATION

GENERAL ECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

The global economy continued to recover in 2014, if not at the same pace in every part of the world. Although the general economic trend was still positive, there was a significant slowdown in the growth of certain industrialized nations as well as some of the emerging economies. This is an expression of the uncertainty felt around the world, which has been fueled since April by a growing number of geopolitical crises such as those in Ukraine and Syria. Despite clear downward trends in Russia and Brazil, the emerging economies in general continued to make a significant contribution to global growth. The International Monetary Fund (IMF) states global GDP to grow by 3.3 % in 2014. The industrialized countries are thought to have achieved growth of just 1.7 %, while in the EU the growth of just 0.8 % within the eurozone in particular falls short of the 1.2 % forecast in the spring of 2014. On the other hand, the emerging and developing economies are expected to have contributed the most to global development with GDP growth of 4.6 %.

Looking at the global economy in detail, the mature economies in particular appeared to have recovered in early 2014. The EU, for example, saw a return to growth following several quarters of recession. Things took a turn for the worse in the summer, however, as Europe entered a period of economic weakness that even the reduction of the key interest rate by the European Central Bank (ECB) to 0.15 % in June 2014 and then to an all-time low of 0.05 % in September 2014 could do nothing to alleviate. Although growth stabilized again toward the end of the year, the EU's overall economic output was still far below pre-crisis levels.

The situation in the US was completely different. The figures posted by the world's largest economy are now much higher than before the financial crisis, and its GDP will have risen by 2.2 % in 2014. Volumes of new orders hit a ten-year high in August 2014. This development was encouraged not only by the revitalization of domestic industry but also by inexpensive American shale gas. The US was also not affected as severely as the EU by the crisis in Ukraine because the sanctions against Russia did not significantly impact its own economy.

China's economy once again grew at a more moderate pace in 2014. The world's second-largest economy was mainly affected by the global economic slump, faltering domestic demand and a cooling domestic real estate market. The growth of 7.4 % in GDP was the lowest rate of growth recorded since 1990, and fell short of the government's target of 7.5 % for the first time since 1998. Industrial output rose by 8.3 %, a much lower rate of increase than in 2013 (2013: 9.7 %). The longest period of weakness for the Chinese economy looks set to continue – despite the fact that it stabilized somewhat in the fourth quarter of 2014 and its growth of 7.3 % was stronger than experts had anticipated. With respect to the current year, the IMF has reduced its forecast for the growth of China's economy by 0.3 percentage points to just 6.8 %.

The EU, and the eurozone in particular, continued to lag behind the rest of the global economy in 2014. The region's GDP did grow, but only by 0.8 %. In contrast to previous years, this time it was not the crisis-hit countries on the periphery of the eurozone but the two core countries of France and Italy that were holding the common currency region back. France only managed to achieve growth of 0.4 %, while Italy even fell into recession with negative growth of 0.2 %. Since these countries are the eurozone's two largest economies after Germany, the outlook for the future of the region is also subdued.

The German economy appeared robust on the whole in 2014, although the faltering economic conditions left their mark and the forecasts were amended accordingly. GDP grew 1.5 % year-on-year in real terms, exceeding the average growth of 1.2 % for the last ten years. Private consumption, which benefited from outstanding figures seen on the employment market, was still the main driver of domestic growth with an increase of 1.1 % (adjusting for inflation). Investment in machinery and equipment also experienced a substantial rise of 3.7 %. At the same time, exports picked up again with growth of 3.7 %, although there was an almost equally strong increase in imports which grew by 3.3 %. The balance of trade (exports net of imports) therefore made a relatively low contribution of 0.4 % to the growth of GDP. On the whole, these figures reflect a stable economic trend in Germany that has benefited from exports and strong domestic demand.

Developments and trends in the ECT market

The ECT market is continuing to grow at rates that is in the high single-digit range. In some regions, particularly in emerging economies, growth is even higher, in the low double-digit range, comparable to the level prior to the financial crisis.

This positive development is being driven by trends and market demand for IoT (Internet of Things) devices and M2M (machine to machine) communication. The challenge of securely and effectively networking billions of intelligent devices and machines and simultaneously processing larger volumes of data is seen by Kontron as the signal for taking the next step in the evolution of the ECT business with the development of IoT concepts and solutions expected to stimulate the ECT market in the coming year and thereafter.

Another factor driving growth is rising demand for ECT software solutions. If a product or solution necessitates matching ECT software, customers currently have to work their way through a maze of offers on the embedded software market and are forced to address the question of whether it makes more sense to make or buy. What is more, the act of integrating ECT software often delays the launch of new products on account of the high degree of complexity involved. Customers are therefore more frequently finding themselves in the position of urgently needing external solutions which allow them to concentrate on their own core competencies. They are seeking precisely the solutions that Kontron is striving to provide: solutions which support our customers by avoiding operational complexity, delays in market launches and instability in their business.

Trends in miniature formats such as SMARC, COM, Express-Mini or Pico-ITX are having a positive impact on market growth. Calls for energy and space-saving designs are becoming increasingly complex but at the same time are raising the demands made on the processors used. If ultra low power consumption is specified for applications, increasing use is made of Intel processors, such as the new Intel ATOM SoC (system on chips). ARM processors are also posing a growing challenge on account of the increasing variety and accelerated product cycles.

Development in strategic market niches

Kontron is organized into three global business units which focus on their various markets. The “Industrial” business unit concentrates on markets for industrial automation, medical technology and infotainment. The “Communications” business unit covers the telecommunications market and “Avionics / Transportation / Defense” bundles the Group’s activities on these markets.

INDUSTRIAL

Growth in the Industrial business unit outstripped the market in the 2014 fiscal year. Industrial automation was particularly buoyant, supported by exports to OEMs, although the pressure on prices was still keenly felt due to the growing competition from Asia, particularly for standard modules and motherboards.

The growth in Industrial Automation was in line with the budget projections for the year. The US market was slightly softer than expected, but the European market was somewhat better. The new building block industrial PC platform has been well received in Europe. The no-maintenance architecture of the platform improves availability and reduces operating costs. We were awarded with a number of new development contracts, most of which originated in Asia. In this regard, we are profiting from our ability to customize standard products to fit the customer's individual designs. Another unique selling proposition is the computer on module concept, which brings together a number of benefits: scalable performance, the latest processor technology and lower overall cost. The prospects for industrial automation are bright, partly because market trends like "Industry 4.0" and the "Internet of Things" are driving a rapid renewal of existing automation equipment.

With regard to the "Internet of Things" and "Industry 4.0" solutions we built up a solid network of partners in 2014 which enables us to provide solutions to our customers more rapidly. In conjunction with a number of partners we presented platform solutions for various fields, such as security, at the leading exhibition for electrical automation, "SPS / IPC / DRIVES 2014". We also presented a new gateway solution for the "Internet of Things" together with Intel, our technology partner.

The medical technology market saw robust growth in the year, particularly in Asia and Europe. The US market by contrast, remained below expectations, especially towards the end of 2014. From a global perspective, the field of medical technology developed better than the market data suggests. This can primarily be attributed to the continuing strong sales to existing customers and the start of serial production within the framework of new development orders.

In China we saw strong growth. We have signed new development contracts there with both international and local OEMs in the field of medical technology. In Europe and the US, our OEMs are forecasting a difficult year for 2015. The ongoing pressure on prices and the slow-down in growth in the health sector have meant that the pressure on costs has spread to suppliers as well. Generally, we expect European and US development centers to shift to China and India.

Overall, the trends towards digital healthcare, cloud-based analytics and integration of mobile applications will power growth in embedded technologies just as much as the expanding market for products for healthcare at home. The pace at which new technology is being introduced has, however, been slowed by more stringent certification and validation requirements.

We expect growth in the Industrial business unit in 2015 to match that of 2014.

COMMUNICATIONS

Communications is profiting from a clear trend towards the virtualization of networks after witnessing a comparable trend towards the enterprise market in recent years. Using technologies such as SDN (Software-Defined Networking) and NFV (Network Functions Virtualization), operators are striving to make their infrastructure more flexible, adaptable and manageable. The goal is to cope with ever-increasing traffic levels and compete for monetization of the content delivered to users. This trend is posing new challenges to the existing market players and is opening up significant opportunities for smaller, more flexible and more innovative providers of systems and solutions. Kontron has also benefited from this trend by offering solutions aimed at solid growth, trail-blazing applications such as video transcoding for multi-screen media delivery, network analytics, and video encoding for IPTV solution providers. We will continue to expand our portfolio of solutions to provide a wider range of network applications.

We expect the growth from communications solutions revenue to more than overcome any erosion in our more traditional communication business, and generate overall revenue and margin uplift for the company.

AVIONICS / TRANSPORTATION / DEFENSE

In the defense business unit served by Avionics / Transportation / Defense, there is a clear trend towards less cost-intensive commercial off-the-shelf (COTS) components. Overall, customers in the public sector are still displaying some reluctance to invest in larger contracts for the development of new systems and are instead relying on upgrades and purchases of COTS components when modernizing existing equipment. However, this business unit still constitutes a potential growth market for providers of ECT solutions who can produce the associated COTS platforms. Due to our broad product portfolio and unique service offers, we are in a strong position to profit from this continuing growth trend.

The year saw continued growth in the avionics and transportation segments. Airline revenues grew and orders for equipping aircraft with wireless infotainment solutions and innovative server solutions remain healthy. Competition amongst airlines to offer more and enhanced passenger services fueled the growth of the In-Flight Entertainment (IFE) offerings, especially Wi-Fi onboard, on an increasing number of short-haul / narrowbody aircraft. The trend towards offering greater air-to-internet connectivity for passengers picked up pace in 2014. ECT technology is essential for transmitting content to the mobile terminals of the passengers in flawless condition and target-oriented. We have a product portfolio that can meet these high demands, and also possess valuable experience from the first projects realized in this segment. We are in a good position to profit from further developments in this market.

Rail business in the transportation segment continued to see sustained growth, particularly in North and South America, Western Europe and Asia Pacific. The strongest growth in demand for ECT products was seen in Asia Pacific, driven by the investments of the Chinese government as urbanization in the region proceeds. The overall trend within the global rail market is for continued and sustained growth well into 2017. Modern systems increasingly rely on safety critical ECT solutions, which have to be exactly coordinated to the individual requirements and needs of the transportation market. In this regard, we profit from our technological expertise and the certifications we have already obtained, without which business would be impossible in this regulated market.

Another trend in the Avionics / Transportation / Defense business unit is the growing significance of the Internet of Things (IoT) within fleet maintenance and new fields such as agricultural vehicles. The first indication of strong demand for connectivity and sensor / data fusion has become evident on these segments of the transportation segment which will enable services that have not traditionally been available in these markets. We addressed these trends at an early stage and have adjusted our product portfolio accordingly.

For the future we expect our Avionics / Transportation / Defense business unit to contribute significantly to our company's success.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

Results of operations

Results of operations, net assets and financial position

Kontron generated revenues amounting to € 456.8 million over the past fiscal year, putting it within the corridor of between € 450 million and € 470 million forecast for 2014. The gross profit margin of 26.0 % exceeded the target of 25 %, and was also up 0.5 % in comparison to 2013. The EBIT adjusted for restructuring cost was in line with expectations.

We consistently pushed forward with the "New Kontron" program to cut costs and enhance efficiency, improving cost structures and the gross margin in comparison to the prior year. As expected, the positive effects were offset to some extent by additional restructuring costs resulting, as planned, from these measures, which impacted the company's earnings.

Income / loss from continuing operations improved significantly in the reporting year, coming to a net loss of € 6.4 million compared to a net loss of € 24.0 million in the prior year.

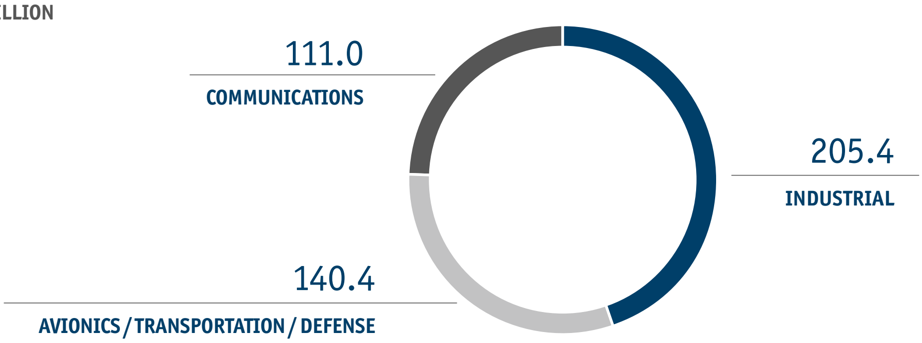
Revenues and expenses from the Energy project business, which is classified as a discontinued operation, were presented under income / loss from discontinued operations in the statement of income for 2013 and 2014.

Pleasing development of revenues

The reporting year was shaped by a number of factors: the restructuring within the Group and the associated relocations as well as the challenging market and industry environment. Against this backdrop, we managed to increase our revenues by 2.6 % to € 456.8 million (prior year: € 445.3 million). If one considers the changeover of two customers in North America to a royalties business model – these customers now pay royalties for the right to produce the products themselves – then there is an additional increase in revenues of € 19.1 million. This means that after taking account of this change in the business model, we have grown by 7.2 % and therefore more or less in step with the expected growth of the wider ECT market.

2014 REVENUES *Graphic 005*

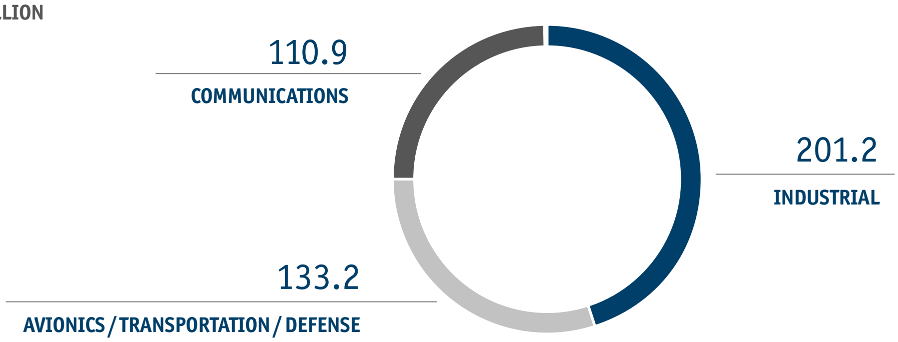
IN € MILLION



2013 REVENUES

Graphic 006

IN € MILLION



An analysis of our global business units shows that Industrial recorded growth of 2.1 % to € 205.4 million (prior year: € 201.2 million). An important factor in this positive development is the focus on key account business. Avionics / Transportation / Defense generated revenues of € 140.4 million (prior year: € 133.2 million), representing growth of 5.4 %, primarily driven by the progress of a large underground railway project in Poland. If the effect of the changeover of one customer to a royalties business model is eliminated, revenue growth actually comes to 11.5 %. Revenues generated by Communications, on the other hand, were in decline: Revenue of € 111.0 million remained at the level of the prior year (€ 110.9 million) on account of the completion of customer projects and the changeover of the second major customer to the royalties business model. If this had not occurred, revenues would have risen by 11.8 % on the prior year.

Revenue trends varied from one region to the other. While sales grew in EMEA and APAC, they contracted in North America. As in the past, EMEA once again recorded the highest sales in the Group, with revenues increasing to € 257.5 million compared to € 218.3 million in the prior year. As a result, its share in the total revenues of the Group rose to 56.4 % (prior year: 49.0 %). In North America the Group generated revenues of € 172.6 million (prior year: € 204.8 million). The 15.7 % decrease can largely be attributed to the changeover to a royalties business model, as mentioned above. Overall, the share of total revenues accounted for by North America fell to 37.8 % (prior year: 46.0 %).

The APAC region grew over the reporting period, with revenues jumping 20.0 % to € 26.7 million (prior year: € 22.2 million). Its share in total revenues rose to 5.8 % accordingly (prior year: 5.0 %). This growth is due to the expansion of our business in China. We generated almost 30 % more revenue on the Chinese market than in the prior year.

REVENUES BY BUSINESS UNIT

Table 010

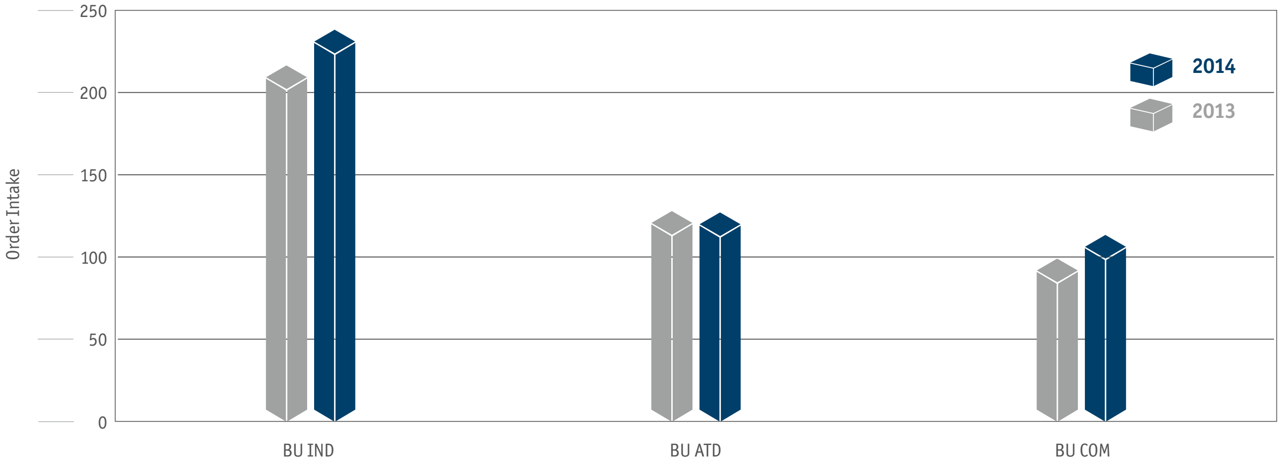
	2014		2013	
	€ million	%	€ million	%
Industrial	205.4	45.0	201.2	45.2
Avionics / Transportation / Defense	140.4	30.7	133.2	29.9
Communications	111.0	24.3	110.9	24.9
TOTAL	**456.8**		**445.3**	

Significant improvement in the order situation

The order situation, which comprises both the order intake and order backlog, evolved in a very satisfactory manner in the reporting year. Order intake (without the effects of the changeover to the royalties business model) rose by 7.9% to € 481.7 million, leading to a positive book-to-bill ratio of 1.05. This increase shows that our customers continue to value the innovative strength, quality and reliability of our ECT portfolio. Order intake in the various business units developed as follows:

ORDER INTAKE *Graphic 007*

IN € MILLION



If the effect of the changeover to the royalties business model in the Avionics / Transportation / Defense business unit is taken into account, all three business units recorded a rise in order intake.

The increase in order intake also led to an increase in order backlog to € 324.6 million (prior year: € 280.0 million). The order backlog is extremely promising in both the Industrial and the Communications business units. Order backlog only contracted in the Avionics / Transportation / Defense business unit, falling slightly in the reporting year.

Cost reductions show first tangible results

We have reduced the ratio of the cost of goods sold to revenues from 74.5% in the prior year to 74.0% in 2014, largely due to optimizing the ratio of the cost of materials to revenues and other production costs. This was countered by the amortization of capitalized development costs which rose by € 2.3 million to € 15.6 million. We reduced the cost of materials by € 2.3 million to € 278.7 million (prior year: € 281.0 million) despite a simultaneous rise in revenues. As a result, the ratio of the cost of materials to revenues dropped to 61.0% (prior year: 63.1%). This is a consequence of the positive effects of the cost-cutting program. However, order-related development costs continued to rise, mainly on account of the progress in the underground railway project in Poland being handled by the Avionics / Transportation / Defense business unit. This resulted in a rise of € 7.0 million to € 13.4 million in 2014 (prior year: € 6.4 million).

We managed to reduce other production costs from € 31.1 million to € 30.6 million in the 2014 fiscal year. Relative to revenues, this represents an improvement of 0.3% to 6.7%. The effects of the cost-cutting program were instrumental here too, particularly the long-term cost savings generated by the relocations within Germany.

Amortization of capitalized development projects rose from € 13.3 million to € 15.6 million, primarily due to the impairments recorded on capitalized development projects following impairment testing. These impairments had an aggregate effect of € 3.3 million. Thus, if they are eliminated, the net change in amortization of capitalized development costs is a reduction of 7.5 %.

The increase in revenues and reduction in the costs of goods sold led to the gross profit rising from € 113.4 million to € 118.5 million, an improvement of 4.5 % on the prior year. The gross margin developed well, improving within the year from 25.5 % to 26.0 %.

Slight increase in operating costs

Operating costs increased slightly in the reporting year by € 1.2 million to € 110.2 million (prior year: € 109.0 million). However, they dropped in proportion to total revenues, slipping from 24.5 % to 24.1 % in 2014.

Selling and marketing cost accounts for the majority of operating costs and rose by € 2.0 million to € 44.5 million in the reporting year. Higher write-downs of receivables from customers had an effect here as well as did higher personnel costs, partly due to the costs of opening the sales office in Japan.

Research and development cost remained virtually unchanged, closing the 2014 fiscal year at € 32.8 million (prior year: € 33.3 million). However, the overall cost of research and development (i.e. prior to the capitalization of development cost) decreased by € 4.3 million to € 44.1 million (prior year: € 48.4 million). At the same time, capitalized development work fell from € 15.2 million to € 11.3 million. The main cause for the decrease in overall research and development cost is the move to concentrate operations at fewer locations and the associated reduction in personnel. The global harmonization of the research and development organization also led to a fall in the number capitalized projects. The ratio of research and development cost (excluding order-related development cost) to revenues came to 7.2 % in the reporting year (prior year: 7.5 %).

General and administrative cost amounted to € 32.8 million, down € 0.4 million on the prior year. The savings in costs of maintenance were partly offset by higher expenses for software licenses and amortization.

Decrease in restructuring cost as planned

After amounting to € 33.5 million in the prior year, restructuring cost came to € 13.9 million in the reporting year. Main reason for the decline is the fact that very few restructuring-related personnel expenses were incurred in the period, coupled with a significant reduction in impairment losses recorded on internally generated intangible assets and inventories that were incurred in the prior year with regard to the streamlining of the portfolio as part of the “New Kontron” program as well as impairment losses related to Sales / Customers.

Restructuring cost in the reporting year mainly consisted of personnel-related measures (e. g. severance benefits, retention incentives, and the benefits agreed on in the socially compatible redundancy plan (Sozialplan) such as travel allowances, relocation benefits and shuttle buses). Likewise, restructuring cost contains contractual risks, write-downs recorded on inventories as a result of streamlining the portfolio as well as legal expenses and consulting fees associated with the reorganization and restructuring.

Other operating income amounted to € 11.6 million in 2014 compared to € 6.8 million in the prior year. This significant increase is primarily due to the rise in exchange rate gains to € 11.0 million (prior year: € 6.4 million). Other operating expenses increased from € 6.7 million to € 11.1 million, with exchange rate losses of € 10.6 million (prior year: € 6.5 million) accounting for the majority.

In sum, operating income before financial result and income taxes (EBIT) from continuing operations improved by € 23.9 million, closing the year at a loss of € 5.1 million, compared to a loss of € 29.0 million in the prior year.

Finance income net of finance expense deteriorated slightly to a net expense of € 1.8 million (prior year: a net expenses of € 1.6 million) and can be attributed chiefly to the costs for the credit facility.

Tax income decreased on the prior year by € 6.6 million to € 0.5 million. While in the prior year this line item was principally affected by the increase in deferred tax assets recognized on unused tax losses, in the 2014 fiscal year contrary factors affected it. On the one hand, deferred tax assets on unused tax losses increased. On the other hand, current tax expenses increased due to the profits returned by significant group entities.

Net income / loss from discontinued operations came to a net loss of € 0.8 million in the 2014 reporting year (prior year: a net loss of € 7.6 million). The main factor in the improvement is that impairment losses of € 7.9 million were recorded in the 2013 fiscal year on goodwill, intangible assets and receivables from construction contracts.

The Group's net loss after aggregating both continuing operations and discontinued operations came to € 7.2 million (prior year: net loss of € 31.6 million). The share of this loss attributable to the equity holders of Kontron AG comes to € 6.3 million compared to € 31.2 million in the fiscal year 2013. Accordingly, earnings per share came to € – 0.13 (prior year: € – 0.56) with the earnings per share from continuing operations coming to € – 0.11 (prior year: € – 0.43).

Financial position

Principles and goals of financial management

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

At the core of corporate finance is a revolving credit facility entered into with a banking syndicate (5 banks) in 2012 for a total volume of € 170.0 million, which expires on April 19, 2017. The credit volume was adjusted downwards in the reporting year to € 119.1 million to accommodate changes in the business environment and the associated changes in financing requirements – also with regard to discontinued operations – that have occurred since the facility was concluded.

At the same time, we agreed with the syndicate banks that they may charge a moderately higher lending margin. However, this increase in the margin does not significantly affect the financial result of the Group, assuming no change in the amount drawn under the loan, because the standby fee is decreased accordingly. As the former loan agreement only arranged for joint liability of the significant subsidiaries of Kontron AG towards the banks, additional collateral was arranged with the syndicate. In addition to mortgages, this includes a blanket assignment of non-current assets and current assets as well as collateral assignments. The covenants agreed upon remain largely unchanged.

This credit facility comprises a cash line of € 103.8 million and a bank guarantee of € 15.3 million. Kontron can draw on the cash line either as a fixed term loan of three or six months or via ancillary lines, which refer to bilateral overdraft facilities with the individual banks in the syndicate. The foreign subsidiaries which cannot be financed using intercompany loans on account of the various restrictions applying in the respective countries have an opportunity to arrange local credit facilities via the branch offices or subsidiaries of the syndicate banks (subsidiary lines).

As of the reporting date, the Group has a cash line of € 74.4 million available for fixed term loans, of which € 15.0 million had been drawn on. These fixed term loans all mature in three months. Of the ancillary lines extended to the Group of € 29.6 million as of the reporting date, an amount of € 0.2 million was provided as bank guarantees. Of the remaining cash lines of € 29.4 million, an amount of € 20.9 million was drawn. € 0.1 million was provided on standby as a subsidiary line.

Taking account of the currency translation differences, the Kontron Group therefore had cash lines of € 103.8 million available from the facility. Of this amount, € 35.9 million had been drawn. Consequently, the Group has sufficient credit available to it.

In addition to the cash lines granted under this long-term credit facility, the Group also has access to further credit of € 2.1 million from bilateral credit lines arranged with foreign subsidiaries. None of these had been drawn on as of December 31, 2014.

In sum, the Group has cash lines of € 105.9 million available to it, of which € 35.9 million were drawn on. Thus, the remaining credit available to the Group came to € 70.0 million.

The credit facility requires compliance with a number of covenants, such as the ratio of net debt to EBITDA, the ratio of net financial income to EBITDA and a minimum equity ratio. The definition of these ratios in the loan agreement has been adjusted to Kontron, for example, to eliminate non-recurring items from the Group's earnings.

We met all covenants during the reporting period and have complied with them over the term of the credit facility to date. The company believes that it will meet the covenants in future as well.

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

Comments on the statement of cash flows

No distinction is made between continuing operations and discontinued operations in the statement of cash flows.

Cash flow from operating activities virtually unchanged

Although the cash flow from operating activities decreased marginally to € 1.7 million (prior year: € 2.0 million), it was affected by a number of contrary movements. Cash inflow was boosted by an improvement of € 24.4 million in the net income / loss for the year, mainly due to a significant decline in restructuring costs and funds of € 7.4 million freed up during the year from reducing inventories. In the prior year, business development led to an additional € 1.5 million being tied up in inventories. In addition to tax payments, the negative effect on cash flow arose from the increased funds tied up in trade receivables. In comparison to the prior year, additional funds of € 14.6 million were tied up, which can be primarily attributed to the significant increase in sales at the end of the year in comparison to the same period of the prior year. Another negative effect arose from lower depreciation and amortization recorded on non-current assets (a decrease of € 5.5 million in depreciation and amortization) and the negative impact on cash of € 6.2 million due to the reduction in liabilities and provisions, which is primarily due to the utilization of the provision created in the prior year for restructuring cost.

Rise in investing activities

Without considering the cash inflows from the sale of subsidiaries of € 7.1 million, the cash outflow from investing activities increased from € 20.4 million to € 22.6 million. The majority of the capital expenditures relate to intangible assets (development projects and investments in the global IT infrastructure).

Significant reduction in cash flow from financing activities

Cash flow from financing activities amounted to a cash outflow of € 2.9 million in the reporting period, significantly below the net cash inflow of € 23.0 million recorded in the prior year. The Kontron Group was able to repay a number of its liabilities to banks on account of the improvement in its liquidity situation.

Explanation of net debt and gearing

As of December 31, 2014 the Group carried cash and cash equivalents of € 15.6 million, down € 15.1 million on the amount carried on December 31, 2013 (prior year: € 30.7 million (including the cash and cash equivalents carried by discontinued operations)). We have almost totally redeemed all short-term borrowings from banks while simultaneously taking out long-term borrowings of € 1.0 million. Regardless of the way the funds are drawn from the credit facility, the loans are presented under long-term borrowings as the credit line has been provided for the long-term.

In sum, short-term and long-term borrowings from banks of € 35.9 million remain virtually unchanged on the prior year (€ 35.1 million). As a result, the net cash position at the end of year fell to a deficit of € 20.3 million at the end of 2014 (prior year: a cash deficit € 8.4 million).

The gearing ratio of 66.9 % is approximately 13 percentage points below the level of the prior year of 80.1 %. The reason for the reduction in the gearing ratio can be primarily attributed to the reduction in debt capital.

Net assets

Total assets in decline

The statement of financial position as of December 31, 2014, classified by maturity:

STATEMENT OF FINANCIAL POSITION CLASSIFIED BY MATURITY *Table 011*

	12/31/2014		12/31/2013		Change	
	€ million	%	€ million	%	€ million	%
Current assets	242.2	57.4	256.0	57.6	– 13.8	– 5.4
Non-current assets	179.6	42.6	188.6	42.4	– 9.0	– 4.8
	421.8		**444.6**		**– 22.8**	**– 5.1**
Current liabilities	120.9	28.7	137.8	31.0	– 16.9	– 12.3
Non-current liabilities	48.2	11.4	59.9	13.5	– 11.7	– 19.5
	169.1	**40.1**	**197.7**	**44.5**	**– 28.6**	**– 14.5**
Equity	252.7	59.9	246.9	55.5	5.8	2.3
	421.8		**444.6**		**– 22.8**	**– 5.1**

Total assets as of December 31, 2014 came to € 421.8 million (prior year: € 444.6 million) and are therefore 5.1 % down on the prior year. Both current assets and non-current assets have decreased on the prior year. Total liabilities fell substantially, with the non-current portion falling by a greater amount. On the other hand, equity has risen, primarily on account of foreign exchange differences.

Comments on current and non-current assets

General reduction in current assets

Cash and cash equivalents decreased by € 11.2 million to € 15.6 million as of December 31, 2014 (prior year: € 26.8 million, excluding cash and cash equivalents from discontinued operations).

Inventories remained more or less unchanged on the prior year at € 85.7 million (prior year: € 84.7 million). Trade receivables of € 115.1 million were up € 26.5 million on the prior year when they came to € 88.6 million. The main reason for the increase can be found in the strong sales in December, which were up 22.6 % on the same month of the prior year. The aging structure of receivables has hardly changed in comparison to the reporting date of the prior year.

Income tax receivables were carried at € 3.3 million on December 31, 2014 (prior year: € 3.6 million) and were therefore € 0.3 million below the level of the prior year. Other current receivables and assets rose by € 2.2 million to € 14.3 million due to rebates of € 2.3 million allowed on the purchase volume.

The decrease in assets-held-for-sale in the amount of € 32.1 million is due to the sale of the Energy project business. As of December 31, 2014, this item includes the properties of the various German locations that became free due to the relocations.

Decrease in non-current assets

The reduction of € 8.4 million in property, plant and equipment to € 10.9 million as of the 2014 reporting date is primarily due to the reclassification of held-for-sale properties. Other intangible assets mainly comprise capitalized development cost and increased on account of the investments in global IT infrastructure to € 61.1 million (prior year: € 58.3 million). Goodwill increased as of the reporting date by € 2.5 million due to foreign currency translation and closed the year 2014 at a carrying amount of € 91.2 million (prior year: € 88.7 million).

The balance of deferred tax assets and deferred tax liabilities increased from € 2.6 million to € 7.3 million, primarily on account of the rise in deferred tax assets on unused tax losses. Deferred tax liabilities are reported within the non-current liabilities.

Development of current and non-current liabilities

Decrease in current liabilities due to sale of the Energy project business

At € 76.3 million, trade payables were 13.5 % above the carrying amount of the prior year (€ 67.2 million), chiefly on account of the higher use of material towards the end of the year. Current provisions decreased by € 3.3 million to € 10.9 million (prior year: € 14.2 million). This can be attributed to the utilization of provisions for personnel expenses associated with the restructuring. Obligations from construction contracts dropped by € 1.2 million to € 0.1 million in line with the progress of the underground railway project awarded to the Avionics / Transportation / Defense business unit. By contrast, other current liabilities increased by € 2.8 million to € 25.3 million. They mainly consist of obligations to personnel and liabilities associated with outstanding invoices.

Subsequent to the sale of the Energy project business in the 2014 fiscal year, no liabilities are reported in relation to held-for-sale assets (prior year: € 28.1 million).

Decrease in non-current liabilities

Non-current liabilities primarily comprise liabilities to banks. These liabilities from long-term financing increased slightly on the prior year from € 34.9 million to € 35.9 million.

Rise in the equity ratio

The carrying amount of equity on the reporting date came to € 252.7 million, a year-on-year increase of € 5.8 million (prior year: € 246.9 million). The equity ratio of 59.9 % is therefore 4.4 percentage points higher than in 2013 (prior year: 55.5 %). The net loss of € 7.2 million in the reporting year is countered by exchange rate gains of € 10.4 million.

NON-FINANCIAL PERFORMANCE INDICATORS

Employees

Conclusion of restructuring and consolidation of German locations

On the reporting date of December 31, 2014, Kontron employed a total of 1,342 individuals around the world, plus 32 apprentices. On the reporting date of the prior year, there were 1,479 employees working for the continuing operations of the Group. After adding in the discontinued operations of the Energy project business, the workforce came to a total of 2,110 employees.

EMPLOYEES BY FUNCTION *Table 012*

	2014*	2013*/**	Change
Production	351	394	– 43
Research & Development (R&D)	419	488	– 69
Sales & Marketing	373	375	– 2
Administration & IT	199	222	– 23
Group	**1,342**	**1,479**	**– 137**

* Headcount as of December 31 (per capita)
** Headcount of continuing operations

We carried the restructuring measures initiated in 2013 through to a successful conclusion and completed the consolidation of locations in Germany. This resulted in economies of scale that led to efficiency gains in all functions.

EMPLOYEES BY REGION *Table 013*

	2014*	2013*/**	Change
EMEA	720	857	– 137
North America	450	467	– 17
APAC	172	155	+ 17
Group	**1,342**	**1,479**	**– 137**

* Headcount as of December 31 (per capita)
** Headcount of continuing operations

The consolidation of locations in Germany is also reflected in the regional development of the headcount: The headcount in the EMEA region fell significantly. A further but less dramatic fall in North America was compensated by a slight increase in APAC. This increase is in response to the expected development of the Asian market on which special focus has been placed.

Employees are the foundation for sustained success

At tech companies like Kontron, one principle is particularly true: the competencies and expertise of the employees are the key to sustained success in the future. For this reason we intend to invest more strongly in promoting and training our staff than in the past. This corresponds to the wishes of our employees for such measures expressed in the course of this year's cycle of annual reviews. Continuously developing and nurturing the expertise of our employees is one of the core tasks of our HR work. For this reason we already added reinforcements to the personal development team of the Group during the reporting year. We rely on both customized and team-related measures that are tailored to both personal and corporate requirements and goals.

Actively designing change processes

Kontron sets great store by actively designing its change processes and involving its workforce in the realignment of the company. This consists of pursuing clear goal-oriented communication in all phases of the process and actively encouraging feedback from the employees. To further this endeavor, a global employee survey was conducted at the end of the reporting year. We will use the findings of the survey to initiate a structured dialog at all levels of the organizational hierarchy to derive the priorities for the current year and draw up the associated measures and higher-level HR policy initiatives.

Innovative and international working environment

As a global player in the tech industry, Kontron offers its employees an attractive working environment which gives them the opportunity to gather international experience. Direct communication, flat hierarchies as well as the strengths of an international network foster the development of innovative solutions for our customers. The same holds true for the modern open-plan office at the new Technology Campus in Augsburg. When filling vacancies, the sole criterion is the qualification of the candidate or employee, regardless of their origin, age, gender or confession. In this way we ensure that diversity drives the future development of the company.

Training as an entry opportunity

The vocational training of young people remains one of the central pillars of our human resources strategy – for this is the only way we can cover our requirements for highly qualified and motivated employees, preferably from our own resources. In total, Kontron trained 32 young women and men at its German locations in eight different trades and professions. The main focus was on communication electronics / industrial commerce and commerce for the electronics industry.

Sustainability report

At Kontron sustainability in business is understood as steady global growth while simultaneously acting responsibly towards both the environment and society. Social engagement, entrepreneurial responsibility and promoting science and research are integral to our philosophy. Ecological concerns and a conservative approach to natural resources have just as much importance. We are currently revising the internal Corporate Social Responsibility guideline. The revised version will also be based on the SA 8000 standard.

A key goal of our innovative strength is to develop products that exhibit very low energy consumption, provide our customers with competitive advantages but can still be produced in an economic manner that conserves resources.

Energy-saving ECT solutions are already strongly represented in our portfolio – and these will increase in response to a continuous rise in customer demand for such products. Ecology stands at the center of our innovative activities more than ever. Conservative handling of resources, avoidance of waste and efficient recycling solutions are therefore given equal weight in our economic feasibility studies and decisions.

Kontron promotes science and research by cooperating with a number of universities and institutes of higher learning. This involves intensive cooperation, frequently over many years, with such institutes as the University of Applied Sciences in Deggendorf, a number of technical universities in the Czech Republic, such as in Prague, Pilsen and Brünn as well as with universities in the US, Canada, and Australia. Now that the relocations in 2014 have been brought to a successful conclusion, cooperation with universities of applied sciences and other universities in Augsburg and its surroundings will be intensified. Kontron provides both financial support and human resources to selected technical research projects.

Environmental protection

Another very important corporate goal at Kontron is a responsible approach to environmental and climate protection, which are integral to our corporate strategy. Management therefore actively raises the awareness of employees for environmental issues, particularly in the course of their daily work. Conserving natural resources and protecting all employees and users when handling Kontron products, is central to our environmental policy and one of our stated goals. Users can be protected by ensuring that no toxic or hazardous substances are used, etc.

Important departments such as research and development, sales and marketing, and production are bundled at our new Technology Campus in Augsburg. This concentration improves the synergies between the corporate departments and also facilitates environmental and climate protection. For example, our high technical standards with regard to heating, insulation and illumination were taken into account from the very beginning and integrated in the planning.

A Service & Repair Center was established at our location in Penang, Malaysia, and additional technicians were recruited and trained. Since January 2015, the Service & Repair Center has performed the repair work for Asian customers directly on location for an increasing number of systems in the region. This avoids the need to send products back to America or Europe at great expense before returning them to Asia. The advantages include shorter processing times for our customers, the avoidance of unnecessary transport and logistics costs, as well as the associated reduction in CO_2 emissions.

Environmental management

Kontron has developed an environmental management system for all its major European branches in order to assess the standard of their environmental protection and continuously improve it. The system is based on the environmental policy of the company, its overriding environmental goals but also more specific individual goals. Moreover, the most important production locations in Europe are certified in accordance with ISO 14001. This certification process will be rolled forward indefinitely into the future.

We are planning to harmonize our environmental management system in 2015 throughout Europe to improve comparability between the locations. This will involve individually assessing environmental issues and classifying them accordingly. This analysis will allow us to identify relevant and significant environmental issues and take specific action targeted at improving the situation. The assessment will be reviewed and updated at least once a year.

Such a structured environmental management system helps the company to control and identify the relevant changes to environmental and statutory requirements in the respective country and location, thereby ensuring constant compliance with regulations. We will also rely on internal audits to identify internal strengths and weaknesses in our environmental management at the respective locations. It is critical that our auditors retain their neutrality.

We also expect our suppliers to comply with ecological and social standards. This is ensured by an audit that we perform at each and every supplier.

Environmental program

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

CDP – Carbon Disclosure Program

As a global player, we are always aware of our responsibility for CO_2 emissions and climate change. Kontron has therefore participated conscientiously in the public reporting forum, the Carbon Disclosure Project, since 2010. The CDP program also reveals at an early stage any risks and opportunities for our company arising from climate change and allows to take counteraction. Customers, partners, investors and other stakeholders can view the full report at www.cdproject.net.

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

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

Declaration of materials

Kontron records the materials used for each of its own products, also to ensure that its product design complies with its environmental standards, and communicates this list to its customers. In this regard Kontron compiles information on the composition of products and components that it acquires from its suppliers for use in its products. Specific customer requirements are met within the wider regulatory framework as laid down by such laws as the German Electrical and Electronic Equipment Act (ElektroG) or the Restriction of Hazardous Substances (RoHS). Moreover, Kontron issues reports on REACH and conflicts of materials.

Procurement

Prices on the relevant procurement markets for electronic assemblies and components were generally stable over the course of the reporting year. The slow-down in the economy led to an easing of global demand.

The introduction of global organizational structures for purchases and procurement has resulted in higher productivity thanks to the exploitation of synergies and more favorable terms of purchase. This approach was driven forward and intensified within the framework of the “New Kontron” program over the course of 2014. Most of all, we are working on making our purchases function more efficient throughout the entire Group. This involves bundling local purchase teams under central management and optimizing purchase processes generally. In addition we have built on our close cooperation with suppliers, based on an intensive exchange of information and agreeing on quality standards, price models and logistics. The growing strategic importance of Asia for our business has also led to the purchases organization in this region growing at a rapid rate.

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

Brand building

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

SUBSEQUENT EVENTS

Further restructuring measures were announced at the beginning of 2015. These involve adjustments to the workforce and the closure of one foreign operation. The associated restructuring cost amounts to less than € 1 million.

RISK REPORT

BASIC PRINCIPLES OF OPPORTUNITY AND RISK MANAGEMENT

Our opportunity and risk management system comprises measures aimed at the systematic and transparent handling of opportunities and risks in order to generate sustainable growth for our company. This involves managing risks, assessing them responsibly on a regular basis and avoiding them as much as possible. Our risk management system is a tool to help us achieve our company's goals. It raises awareness of risks, promotes confidence among stakeholders and puts planning and decision-making on a firmer footing. In this way, risk management helps to further boost confidence in our company's performance and reliability.

By closely integrating risk management into our financial processes and regularly refining the risk management system with respect to the evaluation, management and reporting of risks, we ensure that the Management and Supervisory Boards are kept promptly and fully informed about our company's current risk situation.

The risk manager is responsible for managing the Group's risk management organization, working closely with the Management Board, the heads of internal organizational units (heads of divisions, cross-function and support function heads and general managers) and the local risk managers. The risk manager is also responsible for ensuring that the implemented processes and reporting procedures are observed and complied with. However, a certain amount of risk is involved in any business activity. Not all risks can be controlled.

Opportunities

For us, responsible company management includes the systematic management of opportunities and potential both within the company and on the ECT market. Our aim is to identify and exploit opportunities and potential at an early stage while at the same time analyzing, evaluating and managing the associated risks. This requires opportunities and potential to be processed transparently in order to allow us to incorporate them into our business decision-making processes. That is why we adopt a systematic approach to risk management that also allows us to identify opportunities.

The opportunities described below reflect our current assessment of the situation, and therefore serve as an indication of their present significance for our company.

With the "New Kontron" efficiency program, we hope to further improve our internal processes, streamline our portfolio and reduce our costs. The aim is also for our company to be able to take advantage of the opportunities that present themselves on the ECT market.

The aim of the "New Kontron" program is to build up our company's global standing and reinforce its position on the market with respect to its competitors. The program makes major inroads into the company's structure. In Germany we have combined what were previously four production, administration and development facilities in Augsburg and Deggendorf, significantly improving the collaboration between the different functions as a result. This is manifesting itself in the improved effectiveness of previously complex business processes, as well as improved internal communication. Around the world, we have transitioned from an organization based on regional structures to one centered around divisions that operate at a global level. This gives rise to risks in relation to our company's core processes, which we describe later on in this risk report.

We see potential in offering innovative and self-contained products, solutions, platform solutions and innovations in connection with the "Internet of Things". That is why we are working constantly to develop new technologies and improve existing ones.

Kontron has extensive technological expertise in the field of ECT, a global R & D organization and a wide-ranging portfolio of products and services. Taken together, this enables us to satisfy specific customer requirements in all of our business units and regional clusters. The synergies resulting from the bundling of the research and development department at the technology campus in Augsburg and the concurrent conversion of the development functions in North America, Asia and Europe into competence centers promote collaboration within our R & D organization. This allows us to improve the way we coordinate the development expertise of our engineers (which is recognized throughout the industry) around the world, and make more use of methods such as distributed, 24-hour development. This kind of networked collaboration also offers potential for further efficiency gains.

We see substantial development opportunities in the creation of new technologies in close partnership with our customers. We also see potential in improving the international competitiveness of our standard products. The focus is also on technologies and products relating to the "Internet of Things", which can for example lead to reduced maintenance expenses and the more efficient use of products. In this context, we also see significant potential in offering our products and solutions in combination with integrated ECT software solutions.

There are opportunities associated with adding to the range of services we offer.

Our primary goal is to use services to make our products and solutions even more beneficial for our customers while also developing new services geared specifically to our products. Our market analyses and the positive reception from our customers show what potential there is for the growth of our existing services, which we use to provide our customers long-term support throughout the entire product life cycle.

We also see opportunities to increase our market share in Asia.

In the high-growth region of Asia in particular, we expect to be able to increase our market share and reinforce our local presence as a result. We have already taken steps to this end. For example, we plan to increase our capacity and capabilities in the region by relocating to a new, modern production and administration building in Beijing, and expand our local product portfolios by building up our development expertise at our facility in Penang, Malaysia. We also opened up a new sales office in Tokyo while at the same time expanding our sales channels using established and competent partners. This allows us to offer our customers operating at an international level an improved level of service in this region.

The increased use of indirect sales channels gives us more opportunities to further improve our performance.

We want to continue expanding and reinforcing our indirect sales channels in all regions by acquiring new, carefully selected sales partners and improving the coordination of joint sales activities further still. By working more closely with systems integrators and value-added resellers, we are expanding our regional points of access to the market and opening up additional business opportunities for ourselves.

Targeted acquisitions, equity investments and partnerships offer additional opportunities.

Using targeted acquisitions, equity investments and partnerships, we see opportunities to complement and reinforce our core areas of technological expertise, refine our product portfolio and increase our market coverage. That is why we are constantly monitoring the markets and looking for new opportunities to use strategic acquisitions and partnerships to expand faster than we can through organic growth alone, and to complement our technological portfolio in selected areas.

Risk management process

In the reporting year, Kontron worked with an external consultancy firm to overhaul the risk management process and modify it in terms of the scope and level of detail used to describe the current risk situation. This mainly involved improving the level of transparency and documentation. Steps were taken to further formalize and standardize the elements of the risk management process (identification, analysis, evaluation, management, monitoring and reporting).

The internal risk management organization complies with the policies for managing corporate risks as agreed with the Supervisory Board and Management Board. We have switched to quarterly reporting for the monitoring and updating of risks, which is also discussed with the Management Board and presented to the Supervisory Board once a quarter. All of the operating units and entities also update their risks and risk appraisals once a quarter. The operating units all designate a risk owner for each of their main risks. This person is responsible for the risk in question, and is charged with controlling and monitoring the measures aimed at managing that risk.

If possible we arrive at a quantitative assessment of our risks by identifying the likelihood that they will occur and their potential impact on our income and assets. The likelihood of occurrence and impact are categorized and then converted into a risk value. We assign equivalent risk values to risks that cannot be quantified at all or only with difficulty, which allows us to weight them and position them within our company's risk landscape.

Appropriate measures are defined and implemented for all of our risks in order to minimize specific risks over time and reduce the likelihood of them occurring and / or the severity of their impact. In individual cases, risks are transferred to insurance providers in order to limit the financial consequences in the event that a risk occurs. As part of our risk management activities, we regularly monitor our company's risk profile and seek to improve it using targeted measures in order to raise our chances of achieving our corporate goals.

The risk management system is assigned to the internal audit function for organizational purposes. The new head of internal audit, who reports directly to the CFO, has been working for our company since mid-2014.

Controlling and risk management system for accounting purposes (disclosures in accordance with Secs. 289 (5) and 315 (2) No. 5 HGB) and explanatory report

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

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

The financial statements of our group entities, which are prepared in accordance with IFRS, are consolidated using standard software on a standard central IT system. System-based and manual validations and plausibility tests are also carried out in connection with the ICS. In accordance with the requirements pertaining to the segregation of duties, each coordinator or group accounting employee conducts regular manual checks.

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

Main risk categories

In this section we will describe what we currently consider to be the most significant individual risks. These are risks that have a material influence on the achievement of our company's strategic and operating goals, as well as its net assets, financial position and results of operations. Other influential factors of which we not yet aware or that are not yet considered to be material could also influence our business activities. The risk items relate to the 2014 fiscal year.

The various risk categories have been listed according to an assessment of the potential risk, from greatest to least.

Risks from the "New Kontron" program

During the reporting year we implemented much (but not yet all) of our "New Kontron" program to cut costs and enhance efficiency. This also gives rise to a material risk for our company during the year in progress. The "New Kontron" program involved changing and reorganizing key functions and units of Kontron AG, in some cases substantially. This translates into changes to the organization's core processes, which we have to stabilize and potentially improve even further.

We were required to reorganize important process, organization and production workflows as a result of the consolidation of the Eching, Kaufbeuren, Roding and Ulm facilities and their relocation to Augsburg and Deggendorf and the centralization and consolidation of business processes and organization structures. The Management Board and the extended management of the business and production units paid particularly close attention to the resulting risks with respect to product quality, compliance with delivery deadlines, delivery volumes and the organization of the service division in 2014.

These risks in particular relate to risks in the organization and production area that stem from the transfer of tasks from employees exiting the company to new hires at the company. The relocation of production processes also gives rise to risks if the necessary process-related expertise has to be built up from scratch at the new location. The Augsburg location was audited by our customers several times in this respect, and received all of the certifications required for production.

The consolidation of facilities also entails risks for the research and development function. According to the reorganization plan, the company's Management Board and the extended management provides extensive support in order to implement the changes and promote further improvement measures. By setting up a global and process-oriented R&D organization, we have distributed our core areas of expertise, reduced dependencies and in so doing mitigated the risks relating to expertise. As a result, we were able to support the changes in the organization process and the employees in the R&D division and compensate for the loss of potential expertise during the reporting period.

We will start introducing a global SAP ERP system in 2015 as part of the ongoing development of our organization. The associated disruptions of our existing organizational procedures and production management process could pose a risk to the performance of our business activities. Professional project management and an effective project control system should enable us to avoid disruptions such as system malfunctions. The new SAP ERP system is also to be introduced in the various countries in a step-by-step process involving multiple waves. Furthermore, a thorough testing process will be carried out before switching to the new processes in order to ensure that there are no disruptions and that all of the system's processes function properly before it is used for the first time. Intensive training will be provided to all users before the new system is introduced in order to ensure a smooth transition from the current legacy systems.

One of the targets of the "New Kontron" program to cut costs and enhance efficiency is also the global consolidation of our company's IT infrastructure. This will involve switching from local, standalone IT systems to global solutions and applications. The complexity of this transformation process may delay the implementation processes and could potentially disrupt operating processes. These risks are also being reduced as much as possible by means of professional project management and intensive testing of the new, global IT systems before they are introduced.

Market and sector-specific risks
One of the greatest business risks during the restructuring process is a lack of orders or the loss of important customers. The economic trend in our main sales markets of Europe and North America and the ongoing consolidation of government budgets in Europe and North America could impact the volume of orders we receive, for example because customers in these important areas are reluctant to invest. In the Asian markets there is a risk that growth will lose momentum, in which case we would respond by redoubling our marketing and sales activities in the region.

The possibility of consolidation among our customers also gives rise to another risk with the potential to affect the margins we can generate. We have initiated various activities aimed at improving our international supply chain and modernizing the development units in order to mitigate any potential pressure on our margins. At the same time, the strategic realignment of our sales organization is starting to show positive results. The organization's focus is currently on highlighting our products' benefits for our customers and identifying new strategically important customers.

Finally, we see a risk that the rate at which prices on the market are falling could quicken as a result of progressive standardization and commoditization, particularly for modular and board products. We combat this risk by constantly improving our procurement and supply chain processes in order to reduce our manufacturing costs.

Technological risks
We see technological risks in developments that render the technologies we have developed obsolete or supplant them, as well as in the possibility that we could fail to react quickly enough to the progress of technology. Over the course of the reporting year, we systematized our analysis of the market and improved our responsiveness in the process in order to mitigate these risks. In this way, we hope to prevent our standard products from getting to the market later than those of our competitors, or unexpectedly being rendered obsolete by technological innovation. Other technological risks can arise as a result of the introduction of costly new technologies, for example in the field of security. The relevant customer contracts must be clearly structured in order to minimize liability risks for our company in connection with technology. It is also important for the relationship between customer-specific development contracts and standard product contracts to be managed in a way that avoids breaches of intellectual property rights as much as possible.

The relocation of our facilities resulted in delays to some development projects, combined with the risk that it may not be possible to make up for these delays in 2015. We are endeavoring to counter this risk by reorganizing our global development organization. In 2014 we hired several experienced managers and engineers around the world for this purpose. We also revised our project management system in development, and standardized it throughout the Group. We introduced this standardized project management at the end of 2014, and expect the first positive effects in 2015.

Regular project controlling supports the standardized project management system and the structured processing of development projects. This allows us to identify deadline and budget overruns at an early stage, take appropriate measures in good time and limit the risks associated with deadlines and budgets.

Product-related risks
Product-related risks can arise in connection with our company's business activities, for example potential warranty or breach of contract claims relating to quality defects and the associated defect remedy claims, or as a result of any other defective performances such as the delayed provision of goods and / or services. In many cases we are engaged by customers to develop customer-specific ECT solutions, and contractual penalties are sometimes agreed in connection with completion deadlines. The company seeks to limit these contractual risks by means of its internal contract management activities, as well as by having its own lawyers examine the clauses of contracts and support negotiations over contracts, and obtaining legal advice from external specialists if necessary. We seek to minimize the liability risk associated with potential warranty claims by observing the applicable quality and safety standards, constantly improving the quality of our products, continuously assessing complaints and potentially by taking out insurance policies. Our company also recognizes warranty provisions, which totaled € 3.8 million as of the reporting date December 31, 2014.

Procurement risks
Procurement risks mainly relate to the loss of important suppliers, defects in the quality of supplied components or failure to meet important delivery deadlines. These risks mainly relate to components and electronic assemblies, but also the production services that we procure from various suppliers. Our suppliers produce in a number of different regions, including China, Taiwan, the US, Canada, Malaysia and Germany.

We also bolstered the workforce of our procurement organization in 2014. We reduced the number of suppliers in the field of production services (contract manufacturers), and are developing strategic partnerships with the remaining suppliers that are based on long-standing business relationships in some cases. Our aim is to make the manufacturing process less complex and allow us to manage our suppliers more effectively.

In order to manage its risks relating to quality, Kontron maintains a professional quality assurance organization that regularly audits the company's suppliers, sometimes on their premises.

Some of the components we require are subject to strong fluctuations in demand due to economic factors, which can lead to significant price volatility. We have set up our own storage for critical components at multiple locations in order to combat this risk.

Some of our products are sold unchanged on the market for very long stretches of time (more than ten years), and in some cases replacement parts have to be supplied for correspondingly long periods due to contractual obligations to our customers. We address this risk by regularly analyzing critical components with respect to their availability and usability. When the supply of important components comes to an end, we endeavor to adjust our stocks to the anticipated demand over what remains of the product life cycle.

We are currently working at all of our locations on improving the way stocks of components and assemblies are monitored in order to minimize the risk associated with obsolete inventories.

Regional risks

Kontron produces and sells its products all over the world. This results in various regional risks for our ongoing business operations.

Risk considerations were partly behind our decision to sell our entity in Russia in the reporting year. Our remaining business in Russia is in the single-digit million range. Thus as a result, the current situation in Russia in relation to the crisis in Ukraine and the weakness of the ruble has only had a limited impact on us.

We mitigate the risk of coming into conflict with international regulations and the resulting potential legal and financial consequences by consistently monitoring the relevant international regulations and taking the necessary measures to ensure compliance with them. One of the areas to which this applies is the field of export controls.

We have expanded our management team in Asia in response to the continued dynamic growth of the region's emerging economies. This also allows us to learn more about the opportunities and risks in these markets.

Regional risks need to be kept under control. That is why we take regional considerations into account as much as possible when selecting suppliers, so that alternative production facilities are usually available in another region if there is an outage of a production facility in a particular region (for example as the result of an earthquake). Nevertheless, we may not be able to prevent delays to our deliveries in the event of such outages.

Personnel risks

The expertise and dedication of a company's employees are crucial to its long-term success. Kontron competes against a large number of other companies in its search for qualified employees. In 2014 we considerably boosted our HR expertise by hiring experienced employees to improve our appeal and our presence on the employment market.

As part of our program to cut costs we completed the relocation of jobs to the new technology campus in Augsburg and Deggendorf in the fourth quarter of 2014. The most important risk associated with this reorganization concerns the exit of employees in key positions, especially if the employees in question have specialized expertise in the fields of development and production. We have put an employee retention program in place to combat this risk. With its clear emphasis on promoting mobility, the social-compensation plan helped us to retain most of the employees despite longer commutes. Nevertheless, there is still a risk that we could lose more employees. We use a clear strategy and attractive working conditions (including in the new business premises) to minimize this risk. We also aim to offer our employees compensation that encourages performance, as well as tailored opportunities for development and training.

At the end of 2014 we conducted a global employee survey for the first time, and about 84 % of the workforce took part. We are introducing specific optimization measures on the basis of the survey's findings. The aim of the measures is to make noticeable progress toward improving employees' work environments and working conditions. The employee survey is to be carried out every year in order to monitor progress and make it measurable. Our hope for these measures is that they will strengthen our employees' ties with the company while also positioning us as an employer of choice.

Debtor risks

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

We already have long-standing business relationships with many of our customers, and therefore a solid track record with respect to their payment patterns. We also obtain external ratings if necessary, and conduct regular customer analyses in order to assign internal ratings. This provides us with a profile which we can use to define a credit limit and payment conditions, compliance with which is then monitored by the relevant functions. Despite these efforts, customers can still experience financial bottlenecks that cause them to default on their payments. Bad debt allowances are recognized for specific risks. As of December 31, 2014, customer balance of individual customers do not exceed € 10 million.

Currency risks

Since Kontron operates in technology markets around the world, we are exposed to exchange rate (transaction) risks in connection with a number of different currencies on account of our business relationships. That is why, as part of our currency hedging strategy, we seek to offset obligations entered into in foreign currencies with transactions going in the other direction as much as possible. Our treasury department attempts to hedge spikes that cannot be offset where possible.

Our expenses and material procurement volumes, for example, which are largely in US dollars (USD) and euros (EUR), are balanced out by a similar volume of revenues in the relevant currency. In order to monitor risks, our central treasury department regularly analyzes the main receivables and liabilities that are recorded. Treasury concludes corresponding hedging transactions for the remaining spikes after netting.

We take a corresponding approach if our global cash management activities (cash pool) give rise to significant foreign currency items in connection with the financing of subsidiaries or subsidiaries' assets. The same applies to significant individual transactions in foreign currencies.

In order to optimize the currency risk, we have started hedging planned revenues and expenses in foreign currencies that are highly likely to be incurred using a combination of various different hedging instruments.

Financing and liquidity risks

Our company still has sufficient financial commitments from various banks to cover its financing needs in connection with its operating business activities and the "New Kontron" measures. As things stand, therefore, sufficient provision has been made for the liquidity risk for the immediate future.

During the fiscal year, we signed an agreement to amend the existing credit facility with the financing syndicate of banks. This amendment allows us to finance all of the measures associated with the "New Kontron" restructuring project. Our company still has a strong equity base of 59.9 %.

Net cash amounted to € – 20.3 million at the end of the reporting year. The available credit line on the same date amounted to € 70.0 million. The banks' financial commitments are linked to certain covenants. Important requirements include the development of EBITDA. The deterioration of the company's operating business performance and / or operating profit reduces its financing options, and therefore increases its refinancing costs.

Compliance with these covenants is analyzed on a regular basis, and the findings are reported to the syndicate of banks. We also regularly report to the banks in the syndicate on the performance of our business. The treasury department continuously monitors changes in the company's net cash reserves.

Legal risks

Legal risks can result from the assertion of claims or filing of lawsuits against the parent company or its subsidiaries by third parties, as well as official proceedings. If claims are asserted by third parties, we have the claims examined carefully by our own lawyers as well as external lawyers if necessary. Legal disputes in and out of court are monitored by our own legal experts, even if external lawyers have been engaged to handle the actual legal defense or assertion of rights.

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

The main lawsuits at present are as follows:

Lawsuits filed by Kontron AG and Kontron Asia Design Sdn. Bhd. against various defendants in Malaysia. Civil lawsuits were filed against various debtors and parties in October 2010 in connection with defaults on payments to Kontron Asia Design Sdn. Bhd. in 2010. The lawsuits are currently pending in court as part of the principal proceedings. Several court appointments were held in 2014 for the examination of witnesses. Considering the large numbers of both witnesses and defendants, we do not expect the lawsuits to be brought to a close in 2015. One of the defendants involved in Kontron AG and Kontron Asia Design Sdn. Bhd.'s lawsuits brought a countersuit against Kontron Asia Design Sdn. Bhd. in connection with the aforementioned lawsuits. This lawsuit concerns the termination of the plaintiff's employment by the defendant in 2010. We consider the risk to our company associated with this lawsuit to be low.

There are also fundamental risks associated with the fields of competition and antitrust law, patent law, export / cross-border trade law, customs and tax law, and environmental law. In our code of conduct, we have entered into a strict obligation to comply with all legal provisions and standards pertaining to the business activities of the company and its subsidiaries. It is our firm intention to observe and comply with the laws and customs of the countries in which we operate. Our Management Board follows a consistent strategy of zero tolerance for breaches of our code of conduct.

Business partners assert various claims against our company in connection with its ordinary business activities, both in and out of court. Particularly noteworthy in this context is a replacement campaign for installed Kontron products for a customer in the slot machine industry. We recognized a warranty provision in the low single-digit million euro range in 2014. The remaining amount of the claim is currently covered by our insurance policies. We do not associate an unusually high level of risk with the company's other legal proceedings, or believe that these risks have the potential to significantly influence our company's net assets, financial position or results of operations as things stand.

We have provided for various other risks by taking out insurance such as asset insurance or product liability insurance. We have also increased the coverage of our product liability insurance (aviation) in order to hedge the corresponding risks.

Overall statement from the Management Board regarding the risk situation

The overall statement from the Management Board regarding the risk situation is the result of a consolidated evaluation of all known sources of risk that could have a material impact on the Kontron Group's net assets, financial position and results of operations. At the time of reporting, the Management Board of Kontron AG considers the identified risks to be manageable (also due to further improvements to the risk management system). The company's management does not currently see any risks that could jeopardize the company's ability to continue as a going concern.

We will realize further planned measures of the "New Kontron" program in 2015. This, together with the development of the business model already initiated, Kontron is in a position to take on new strategic challenges and develop appropriate solutions for this purpose, as well as to make the best possible use of its internal success factors.

FORECAST – OVERALL STATEMENT REGARDING FUTURE DEVELOPMENTS

ANTICIPATED BUSINESS PERFORMANCE AND RESULTS OF OPERATIONS

Our plans assume an increase in revenues from € 456.8 million in the reporting year to between € 490 million and € 510 million in 2015.

The gross profit margin is expected to remain above 25 % in 2015. Kontron also expects a positive operating margin excluding restructuring cost (EBIT adjusted for restructuring cost) of between 3 % and 5 %.

The Management Board expects revenues of at least € 550 million for 2016. The gross profit margin is expected to exceed 25 %, and the operating margin excluding restructuring cost (EBIT adjusted for restructuring cost) is expected to be higher than 6 %.

This growth is likely to mainly stem from the expansion of the distribution channel business as well as the promotion of our business activities in Asia. In the reporting year, for example, Kontron opened up a new sales office in Tokyo in order to intensify our activities on the Japanese market. The Group's pronounced power of innovation and the high quality of its product portfolio will also make a significant contribution to the positive trend for revenues.

The main investments planned for the 2015 fiscal year concern the implementation of a global SAP ERP system and further investment in Research & Development as well as the technology campus in Augsburg.

Restructuring costs in will also be incurred in 2015 in connection with the "New Kontron" program.

OVERALL STATEMENT REGARDING ANTICIPATED DEVELOPMENTS

In 2014, we successfully implemented important steps and measures in connection with the "New Kontron" program, and significantly improved our revenues and earnings in comparison to 2013. Against this backdrop, the company has therefore set itself ambitious targets for the 2015 fiscal year.

We aim to consistently exploit the identified potential to cut costs and improve efficiency. Our activities in 2015 will still be guided by the "New Kontron" program decided on in mid-2013, which envisions the implementation of all measures by 2016.

The global SAP ERP project will be implemented and rolled out at an operational level at all of the company's major locations by the end of 2015. The introduction of this universal IT solution will standardize and optimize the structure of many of the Kontron Group's business processes around the world. At the same time, it shall improve our ability to react quickly and effectively to the demands of the market.

In addition to the operating processes in supply chain management and both direct and indirect procurement, we also want to make our production facilities in Augsburg significantly more efficient. In 2015, the structures and procedures there in the fields of production, warehousing, service and repairs will be improved.

Despite of a cautious start into the 2015 fiscal year, Kontron expects solid growth in 2015. In particular our Avionics / Tranportation / Defense business unit will contribute to this positive development.

In addition to our primary markets of Europe and North America, we also want to strengthen our activities in the Asian market in 2015. Expanding the local service and production units will allow us to address those customers' preferences faster and better while also promoting market growth.

Our activities with selected sales partners in the field of indirect sales will be expanded. Reinforcing the indirect sales channel will allow the demands of smaller customers to be met more quickly and promote sales of our standard products. This will allow the direct sales channel to focus more on advising customers in the field of higher-end systems and platform solutions, and provide even more support to our core clients.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME (IFRS)

Table 014

IN €K	Notes	01 – 12/2014	01 – 12/2013
REVENUES	(1)	**456,799**	**445,253**
Cost of materials		– 278,650	– 280,962
Other production cost		– 30,602	– 31,118
Amortization of capitalized development projects		– 15,625	– 13,312
Order-related development cost		– 13,380	– 6,424
Cost of goods sold		**– 338,257**	**– 331,816**
GROSS MARGIN		**118,542**	**113,437**
Selling and marketing cost		– 44,515	– 42,529
General and administrative cost		– 32,953	– 33,297
Research and development cost		– 32,774	– 33,204
SUBTOTAL OPERATING COSTS	(3)	**– 110,242**	**– 109,030**
Restructuring cost	(4)	– 13,866	– 33,543
Other operating income	(5)	11,604	6,822
Other operating expenses	(5)	– 11,111	– 6,679
OPERATING INCOME BEFORE FINANCIAL RESULT AND INCOME TAXES		**– 5,072**	**– 28,993**
Finance income	(6)	306	347
Finance expense	(6)	– 2,145	– 1,931
Income taxes	(7)	517	6,587
INCOME / LOSS FROM CONTINUING OPERATIONS		**– 6,394**	**– 23,990**
Net income / loss from discontinued operations	(8)	– 827	– 7,617
NET INCOME / LOSS FOR THE PERIOD		**– 7,221**	**– 31,607**
thereof attributable to non-controlling interests		– 961	– 383
thereof attributable to equity holders of Kontron AG		– 6,260	– 31,224
Earnings per share (basic) in €	(33)	– 0.13	– 0.56
Earnings per share (diluted) in €	(33)	– 0.13	– 0.56
Earnings per share (basic) from continuing operations in €	(33)	– 0.11	– 0.43
Earnings per share (diluted) from continuing operations in €	(33)	– 0.11	– 0.43

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

Table 015

IN €K	01 – 12/2014	01 – 12/2013
NET INCOME / LOSS FOR THE PERIOD	**– 7,221**	**–31,607**
OTHER COMPREHENSIVE INCOME:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	10,373	– 5,915
Reclassification adjustment for a foreign operation, which was discontinued in the fiscal year	4,516	0
Income tax effects	0	– 4
	14,889	**– 5,919**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Actuarial gains / losses from pensions, before tax	– 262	99
Income tax effects	86	– 28
	– 176	**71**
OTHER COMPREHENSIVE INCOME AFTER TAX	**14,713**	**– 5,848**
TOTAL COMPREHENSIVE INCOME	**7,492**	**– 37,455**
thereof attributable to non-controlling interests	– 1,121	– 744
thereof attributable to equity holders of Kontron AG	8,613	– 36,711

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)
ASSETS

Table 016

IN €K	Notes	12/31/2014	12/31/2013
ASSETS			
Cash and cash equivalents	(9)	15,637	26,755
Inventories	(10)	85,731	84,695
thereof prepayments		1,096	584
thereof receivables from construction contracts		506	1,004
Trade receivables	(11)	115,083	88,619
Tax receivables		3,320	3,552
Other current receivables and assets	(12)	14,279	12,148
Assets held for sale	(8)	8,146	40,293
TOTAL CURRENT ASSETS		**242,196**	**256,062**
Financial assets		637	564
Property, plant and equipment	(14)	10,902	19,290
Other intangible assets	(15)	61,085	58,251
Goodwill	(15)	91,221	88,711
Other non-current receivables and assets	(12)	1,597	1,554
Tax receivables	(7)	14,181	20,202
TOTAL NON-CURRENT ASSETS		**179,624**	**188,572**
TOTAL ASSETS		**421,820**	**444,634**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)
LIABILITIES AND EQUITY

Table 016

IN €K	Notes	12/31/2014	12/31/2013
LIABILITIES AND EQUITY			
Trade payables	(16)	76,334	67,209
Short-term borrowings	(19)	5	197
Current portion of finance lease obligation	(19)	39	104
Current provisions	(20)	10,868	14,175
Deferred income		4,796	698
Obligations from construction contracts	(10)	135	1,268
Taxes payable		3,467	3,615
Other current liabilities	(17)	25,304	22,504
Liabilities associated with assets held for sale		0	28,066
TOTAL CURRENT LIABILITIES		**120,950**	**137,836**
Long-term borrowings	(19)	35,938	34,932
Non-current provisions	(20)	1,662	2,194
Pension provisions	(20)	1,742	1,428
Non-current portion of finance lease liability	(19)	100	190
Other non-current liabilities	(17)	1,840	3,482
Deferred taxes	(7)	6,890	17,628
TOTAL NON-CURRENT LIABILITIES		**48,172**	**59,854**
Issued capital	(22) – (24)	55,683	55,683
Additional paid-in capital	(28)	200,048	200,048
Retained earnings		20,554	26,990
Other equity components	(26)	– 21,492	– 32,705
Treasury shares	(25)	– 1,813	– 1,813
Reserve of a disposal group classified as held for sale		0	– 3,836
Equity attributable to equity holders of the parent		**252,980**	**244,367**
Non-controlling interests	(27)	– 282	2,577
TOTAL EQUITY		**252,698**	**246,944**
TOTAL LIABILITIES AND EQUITY		**421,820**	**444,634**

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

Table 017

IN €K	Notes	01 – 12/2014	01 – 12/2013
Income / loss from continuing operations		– 6,394	– 23,990
Net income / loss from discontinued operations		– 827	– 7,617
NET INCOME / LOSS FOR THE PERIOD		**– 7,221**	**– 31,607**
Depreciation and amortization of fixed assets		24,258	29,703
Depreciation and amortization of financial assets		0	13
Impairment losses on goodwill	(15)	0	7,948
Net gain / loss in connection with investing activities		– 173	132
Change in deferred taxes		– 4,965	– 9,771
Interest income	(6)	– 318	– 370
Interest expense	(6)	1,261	2,182
Other non-cash items		766	– 411
Change in assets / liabilities:			
Trade receivables		– 16,784	– 2,138
Inventories		7,422	– 1,531
Other receivables		– 982	676
Liabilities and provisions		1,878	8,127
Interest paid		– 791	– 1,147
Interest received		306	192
Income taxes paid		– 4,617	– 654
Income taxes refunded		1,703	635
NET CASH USED IN / PROVIDED BY OPERATING ACTIVITIES	(31)	**1,743**	**1,979**
Purchases of property, plant and equipment		– 4,199	– 3,445
Purchases of intangible assets		– 18,940	– 17,325
Purchases of financial assets		– 42	– 22
Proceeds from the disposal of property, plant and equipment		622	365
Proceeds from the sale of subsidiaries, net of cash		7,128	400
NET CASH USED IN / PROVIDED BY INVESTING ACTIVITIES	(31)	**– 15,431**	**– 20,027**
Change in current account / overdrafts	(19)	– 3,778	3,748
Repayment of short-term borrowings	(19)	– 7,564	– 24
Proceeds from short-term borrowings	(19)	7,497	44
Repayment of long-term debt	(19)	– 17,958	– 1,688
Proceeds from long-term debt	(19)	18,943	23,106
Dividends paid		0	– 2,223
NET CASH USED IN / PROVIDED BY FINANCING ACTIVITIES		**– 2,860**	**22,963**
Effect of exchange rate changes on cash		1,444	– 1,708
NET CHANGE IN CASH AND CASH EQUIVALENTS		**– 15,104**	**3,207**
Cash and cash equivalents at the beginning of period		30,741	27,534
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	(9)	**15,637**	**30,741**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

		Equity attributable to equity holders of the parent		
IN €K	Notes	Issued capital	Additional paid-in capital	Retained earnings
JANUARY 1, 2013		**55,683**	**233,803**	**26,667**
Net income / loss				– 31,224
Other comprehensive income				71
TOTAL COMPREHENSIVE INCOME		**0**	**0**	**– 31,153**
Drawings from additional paid-in capital	(28)		– 33,700	33,700
Discontinued operations	(8)			
Dividend payment				– 2,223
Share-based payment	(32.1)		– 55	
DECEMBER 31, 2013		**55,683**	**200,048**	**26,990**
JANUARY 1, 2014		**55,683**	**200,048**	**26,990**
Net income / loss				– 6,260
Other comprehensive income				– 176
TOTAL COMPREHENSIVE INCOME		**0**	**0**	**– 6,436**
Sale of a subsidiary				
DECEMBER 31, 2014		**55,683**	**200,048**	**20,554**

Table 018

Equity attributable to equity holders of the parent					
Foreign currency translation reserve	Discontinued operations	Treasury shares		Non-controlling interests	**Total equity**
–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**
–32,705	**–3,836**	**–1,813**	**244,367**	**2,577**	**246,944**
			–6,260	–961	–7,221
11,213	3,836		14,873	–161	14,713
11,213	**3,836**	**0**	**8,613**	**–1,121**	**7,492**
				–1,738	–1,738
–21,492	**0**	**–1,813**	**252,980**	**–282**	**252,698**

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

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

Table 019

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

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2013 (IFRS)

	Acquisition and production cost						
IN €K	Carried forward 01/01/2013	Exchange rate effects	Reclassi-fication	Additions	Disposals	Discontinued operations	As of 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	103,012	– 1,810	0	15,256	3,096	– 2,510	110,852
3. Goodwill	166,919	– 954	0	0	0	– 11,410	154,555
	316,364	**– 3,868**	**20**	**17,063**	**3,312**	**– 19,624**	**306,643**
II. PROPERTY, PLANT AND EQUIPMENT							
1. Land, land rights and buildings including buildings on third-party land	21,467	– 113	0	283	94	– 238	21,305
2. Plant and machinery	17,625	– 546	137	1,293	886	– 1,040	16,583
3. Other equipment, furniture and fixtures	16,646	– 654	– 157	1,801	761	– 2,350	14,525
4. Leased assets	1,327	– 10	0	0	0	0	1,317
	57,065	**– 1,323**	**– 20**	**3,377**	**1,741**	**– 3,628**	**53,730**
	373,429	**– 5,191**	**0**	**20,440**	**5,053**	**– 23,252**	**360,373**

Table 020

Depreciation and amortization							Carrying amounts	
Carried forward 01/01/2013	Exchange rate effects	Additions	Impairment losses	Disposals	Discontinued operations	As of 12/31/2013	As of 01/01/2013	As of 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**

NOTES TO THE 2014 CONSOLIDATED FINANCIAL STATEMENTS OF KONTRON AG

GENERAL INFORMATION

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

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

FINANCIAL REPORTING

Kontron AG prepared its consolidated financial statements for 2014 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. All pronouncements of the International Accounting Standards Board (IASB) whose adoption is mandatory for the 2014 fiscal year were considered. Significant effects of new or amended standards are described in the section "New and amended standards and interpretations".

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

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

The consolidated financial statements and the group management report as of December 31, 2014 and 2013 were prepared in accordance with Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code]. The consolidated financial statements and the group management report as of December 31, 2013 were submitted to and published in the Bundesanzeiger [German Federal Gazette].

CHANGES IN THE MANAGEMENT AND REPORTING STRUCTURE WITH EFFECT ON ACCOUNTING

Kontron completed its conversion of the group-wide business management and financial reporting in the fourth quarter of 2014. While in previous periods the management and reporting structure was based above all on the three regions: Europe, Middle East and Africa (EMEA), North America and Asia-Pacific (APAC; formerly: Emerging Markets), operational management was aligned in the fourth quarter of 2014 to the three global business units: Industrial, Communications and Avionics / Transportation / Defense, in which the business activities are combined based on similarity of products and services as well as the application range for customers. In accordance with IFRS 8 (Operating Segments), Kontron's segment reporting reflects the group-wide business management so that the operating segments now correspond to the three global business units. This change in segment reporting also has an impact on the allocation of goodwill, as this pertains to the operating segments pursuant to IAS 36. Until the end of the third quarter of 2014, the EMEA, North America and Emerging Markets regions qualified as the cash-generating units to which goodwill was allocated. Starting in the fourth quarter of 2014, goodwill is now allocated to the individual business units Industrial, Communications and Avionics / Transportation / Defense. Please refer to note 35 for further information on segment reporting. Recognized goodwill is tested for impairment based on the business unit to which the respective goodwill is allocated (for further explanations please refer to note 15).

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The consolidated financial statements were prepared in euro in accordance with IFRSs as adopted by the EU. The accounting policies remained unchanged compared to the consolidated financial statements for the 2013 fiscal year, with the exception of the mandatory adoption of IFRS 10 to IFRS 12 as of January 01, 2014, with subsequent amendments to IAS 27 and IAS 28. IFRS 10 sets out a uniform definition of control for the purpose of including entities in the consolidated financial statements. IFRS 10 does not have any effect on the investment entities currently held by the Group as they are majority holdings that are already included in the consolidated financial statements as subsidiaries. IFRS 11 governs the accounting treatment of joint arrangements and does not have any effect on the consolidated financial statements on account of the Group's investment structure. IFRS 12 regulates the full set of disclosure requirements for all kinds of investments in other entities.

The new or amended standards issued in 2014 that are listed below will not have effects on the net assets, financial position or results of operations of the Group:

- Amendments to IFRS 11 from May 2014
- Amendments to IAS 16 and IAS 38 from May 2014
- Amendments to IAS 16 and IAS 41 from June 2014
- Amendments to IAS 27 from August 2014
- Amendments to IFRS 10 and IAS 28 from September 2014

IFRS 15 was issued on May 28, 2014 and contains new requirements on revenue recognition. IFRS 15 sets out a five-step model according to which revenues are recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, IFRS 15 results in new comprehensive disclosure requirements. The new standard replaces IAS 18 “Revenue”, IAS 11 “Construction Contracts” as well as all related interpretations and is effective for fiscal years beginning on or after January 01, 2017. The impact of IFRS 15 on the net assets, financial position and results of operations of the Kontron Group is currently being analyzed.

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

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

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

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

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

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

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

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

BASIS OF CONSOLIDATION

Including Kontron AG, the basis of consolidation comprises a total of 17 companies (prior year: 23). The basis of consolidation was reduced by six companies compared to the prior-year reporting date as a result of the sale of the Russian company Affair OOO, Moscow, Russia, and its equity investments in Russia and Ukraine as well as ubitronix system solutions gmbh, Hagenberg, Austria.

In addition to Kontron AG, the following subsidiaries have been included in the consolidated financial statements as of December 31, 2014 in accordance with the regulations governing full consolidation:

BASIS OF CONSOLIDATION *Table 021*

IN % NAME AND REGISTERED OFFICE OF ENTITY	Share in capital
EMEA	
Kontron UK Ltd., Chichester, UK	100
Kontron ECT design s.r.o., Pilsen, Czech Republic	100
Kontron Europe GmbH, Augsburg (formerly: Kaufbeuren)	100
Kontron Modular Computers S.A.S., Toulon, France	100
Kontron East Europe Sp. z o.o., Warsaw, Poland	97.5
Kontron Modular Computers AG, Cham, Switzerland	100
Kontron Technology A / S, Hørsholm, Denmark	100
Kontron Management GmbH, Augsburg (formerly: Kontron Verwaltungs GmbH, Kaufbeuren)	100
Kontron Compact Computers AG i.L., Luterbach / Solothurn, Switzerland	96.59
NORTH AMERICA	
Kontron America Inc., San Diego, USA	100
Kontron Canada Inc., Boisbriand, Canada	100
APAC	
Kontron Asia Pacific Design Sdn. Bhd., Penang, Malaysia	100
Kontron (Beijing) Technology Co. Ltd., Beijing, China	100
Kontron Hongkong Technology Co. Ltd., Hong Kong, China	100
Kontron Australia Pty. Ltd., Sydney, Australia	90
Kontron Technology India Pvt. Ltd., Mumbai, India	55

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

Divestitures

RTSoft Group
On August 14, 2014, Kontron AG successfully concluded the sale of the Russian company Affair 000, Moscow and its equity investments in Russia and Ukraine, including RTSoft ZAO, following approval from anti-trust authorities by means of a share deal. The purchasers were the management of RTSoft ZAO and an Austrian investor. The gain on sale resulting from this transaction totaling € 1,162k is disclosed in the income / loss from discontinued operations. Kontron AG will continue to pursue its ECT activities in Russia and additional CIS states via RTSoft ZAO as an indirect channel partner.

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

No acquisitions were carried out in fiscal year 2014.

ACCOUNTING POLICIES

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

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

Identifiable assets, liabilities and contingent liabilities of subsidiaries consolidated for the first time are recognized at their fair values as of the acquisition date. In the course of subsequent consolidation, identifiable assets, liabilities and contingent liabilities are carried forward, amortized or reversed. The cost of an acquisition is the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative cost. Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss in other operating income / expenses or as a change to other comprehensive income.

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

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

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

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

Currency translation

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

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

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

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

EXCHANGE RATES

Table 022

	Closing rate (based on € 1)		Average rate (based on € 1)	
	12/31/2014	12/31/2013	**2014**	2013
US dollar	1.21	1.38	1.33	1.33
Pound sterling	0.78	0.83	0.81	0.85
Taiwan dollar	38.49	41.29	40.26	39.47
Russian ruble	72.34	45.32	51.03	42.33
Danish krone	7.45	7.46	7.45	7.46
Swiss franc	1.20	1.23	1.21	1.23
Australian dollar	1.48	1.54	1.47	1.38
Chinese yuan	7.54	8.35	8.19	8.16
Polish zloty	4.27	4.15	4.18	4.20
Czech koruna	27.74	27.43	27.54	25.99
Malaysian ringgit	4.25	4.52	4.35	4.19
Indian rupee	76.72	85.37	81.05	77.90

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

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

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

Sale of goods

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

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

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

Long-term construction contracts

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

Interest income

Interest income is recognized using the effective interest method.

Operating expenses

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

Government grants

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

Borrowing costs

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

Trade receivables

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

Inventories

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

Financial instruments

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

IAS 39 classifies financial assets into the following categories:

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

Financial liabilities are classified into the following categories:

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

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

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

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

Derivative financial instruments are measured at fair value through profit or loss. Forward exchange contracts concluded within the Kontron Group serve to economically hedge transactions in foreign currency; they are, however, not recognized as hedging instruments as defined by IAS 39 Financial Instruments: Recognition and Measurement. The fair value of option deals concluded in the course of acquisitions (call and put options for the acquisition of shares) is determined using a binomial model or the standard Black Scholes model. The results of the fair value measurement of these options are reported in the financial result.

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

Derecognition of financial instruments

Financial assets

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

- The contractual rights to the cash flows from the financial asset expire.

- The Group retains the contractual rights to receive cash flows from financial assets, but assumes a contractual obligation to pay those cash flows to a third party without material delay as part of an agreement that fulfills the conditions in IAS 39.19 (“pass-through arrangement”).

- The Group has transferred the contractual rights to receive cash flows of a financial asset and (a) has transferred substantially all the risks and rewards of ownership of the financial asset or (b) has neither transferred nor retained substantially all risks and rewards of ownership of the asset, but has transferred control of the asset.

Financial liabilities

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

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

Property, plant and equipment

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

Depreciation is primarily based on the following useful lives:

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT *Table 023*

YEARS	
Buildings and leasehold improvements	5 – 60
Plant and machinery	2 – 25
Other equipment, furniture and fixtures	2 – 18

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

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

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

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

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

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

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

Amortization is primarily based on the following useful lives:

USEFUL LIVES OF INTANGIBLE ASSETS *Table 024*

YEARS	
Other intangible assets	2 – 10
Capitalized development costs	2 – 7

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

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

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

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

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

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

Taxes

Current tax assets and liabilities

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

Deferred taxes

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

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

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

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

Deferred taxes are generally considered non-current.

Trade payables

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

Leases

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

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

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

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

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

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

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

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

In accordance with IAS 37, the amount recognized as other provisions is the best estimate of the expenditure required to settle the present obligation without considering recourse claims. Provisions with a residual term of more than one year must be stated at their prospective settlement value discounted to the reporting date. A reversal of a provision is generally reported in that position of the income statement where its addition was originally recorded.

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

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

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

Financial liabilities and equity

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

If an equity instrument is converted on the maturity date, the liability component is derecognized and reported in equity. The original equity component continues to be treated as equity. If it is not converted, the liability component is derecognized upon maturity and the original equity component continues to be recorded in equity.

Treasury shares

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

Obligations from share-based payments
(share option schemes and employee stock option programs)
In the past, the Kontron Group has granted benefits to certain employees that are settled with equity instruments. The compensation to be settled with equity instruments is measured at fair value on the date the grant is made. The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled (vesting period). This period ends on the first possible exercise date, i. e., the date on which the relevant employee is irrevocably entitled to subscribe. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income or expense recognized in the profit for the period corresponds to the development of the cumulative expenses recognized at the beginning and at the end of the reporting period.

Fair value is calculated in accordance with the Black-Scholes model. The stock option plans measured at fair value are recognized in personnel expenses and equity. All stock options plans are described in note (32.1) "Stock option plans – stock options" of these notes.

The dilutive effect of the outstanding stock options is considered in the calculation of earnings per share as additional dilution. There was no resulting dilutive effect in the 2014 fiscal year (see note (33) "Earnings per share" for details).

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

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

In the 2013 fiscal year, the Management Board's planned sale of the Energy project business, comprising the entities RTSoft ZAO, RTSoft Project, Affair 000 and ubitronix system solutions gmbh, required the assets and liabilities of the project business to be classified as "held for sale". The entities were then designated as discontinued operations. Management considered the subsidiaries to have met the criteria to be classified as held for sale as of that date for the following reasons:

- The entities are available for immediate sale and can be sold to a potential buyer in their current condition.

- Management plans to sell the entities and has entered into negotiations with potential buyers.

The sale of the Energy project business was completed as planned in the 2014 fiscal year.

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

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

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

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

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

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

Goodwill, which is capitalized at € 91,221k in the consolidated financial statements (prior year: € 88,711k), is tested for impairment once a year based on operating projections over a four-year planning horizon and assuming annual growth rates. There was no need to recognize impairment losses for any of the three cash-generating units in the 2014 fiscal year. Further information can be found in note (15).

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

Deferred tax assets are recognized to the extent that their recovery appears sufficiently likely, i. e., taxable profits are expected in future periods. Actual taxable profits in future periods may diverge from the estimates prepared when deferred tax assets are recognized. The carrying amount of deferred tax assets totals € 14,181k as of the reporting date (prior year: € 20,202k).

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

1. REVENUES

Revenues break down as follows:

Table 025

IN €K	2014	2013
Revenues from the sale of goods	429,644	425,930
Revenues from construction contracts	13,612	6,057
Revenues from services	13,543	13,266
TOTAL REVENUES	**456,799**	**445,253**

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

2. PERSONNEL EXPENSES

Table 026

IN €K	2014	2013
Wages and salaries	80,734	83,537
Social security expenses	17,129	17,328
Severance payments	3,089	3,211
PERSONNEL EXPENSES	**100,952**	**104,076**

Personnel expenses were reduced by 3.0 % to € 100,952k in line with the decrease in the headcount. Social security expenses include pension expenses of € 63k (prior year: € 218k). Information concerning pension provisions can be found in note (20).

As a non-current remuneration component, the company grants performance share unit plans as well as performance option plans, which are explained in note (32).

Contributions to the statutory pension insurance scheme total € 2,698k (prior year: € 2,763k).

AVERAGE HEADCOUNT BY FUNCTION

Table 027

	2014	2013
Production	367	390
Research & Development (R&D)	443	529
Sales & Marketing	369	372
Administration & IT	197	194
ANNUAL AVERAGE	**1,376**	**1,485**

AVERAGE HEADCOUNT BY REGION

Table 028

	2014	2013
EMEA	770	865
North America	449	465
APAC	157	155
ANNUAL AVERAGE	**1,376**	**1,485**

3. OPERATING EXPENSES

Table 029

IN €K	2014	2013
Personnel expenses	67,136	67,342
Outsourcing	10,180	9,877
Rent, building and fixtures maintenance	6,319	5,830
Depreciation, amortization and write-downs	6,207	5,519
Travel expenses	3,405	3,590
Office material and internal material requirements	3,100	3,365
Advertising	2,763	3,143
Legal, consulting and audit fees	3,045	1,653
Vehicle fleet	1,615	1,601
Insurance and bank charges	1,555	1,103
Telephone and communication	789	914
Other	4,128	5,093
	110,242	**109,030**

The costs listed above comprise expenses for sales and marketing, research and development as well as general administration.

Research and development cost included in current operating expenses that does not meet the IFRS recognition criteria are treated as expenses for the current fiscal year. These expenses amount to € 32,774k in the 2014 fiscal year (prior year: € 33,204k).

Depreciation and amortization recognized in current operating expenses pertain to write-downs of non-current assets, with the exception of amortization of capitalized development project costs. Amortization of capitalized development projects of € 15,624k (thereof impairment losses: € 3,322k) are disclosed in full under the cost of goods sold.

The allocation of depreciation and amortization to non-current assets is shown in the statement of changes in non-current assets.

4. RESTRUCTURING COST

The implementation of measures from the "New Kontron" Cost Reduction Program (CRP) to cut costs and enhance efficiency has above all given rise to non-recurring costs of € 13,866k in the reporting year (prior year: € 33,543k). In 2014, the focus of the measures was on successfully relocating the Eching, Kaufbeuren, Roding and Ulm branches to Augsburg and Deggendorf as well as continuously simplifying product portfolios, achieving savings in direct and indirect material costs and reducing overhead structures. The program that was approved by Kontron AG's Management Board in July 2013 was based on the "Shape" program launched in 2011. "Shape" was concluded in April 2013 with the conversion of the management structure.

OVERVIEW OF RESTRUCTURING COST

Table 030

IN €K	2014	2013
Expenses for personnel restructuring	5,161	12,731
Expenses for reorganization / restructuring, IT	4,570	6,785
Measurement effects in R&D / operations	1,729	10,487
Measurement effects in sales / customers	2,406	3,540
	13,866	**33,543**

5. OTHER OPERATING INCOME AND EXPENSES

Table 031

IN €K	2014	2013
Exchange rate gains	10,962	6,365
Income from the reversal of provisions	177	100
Subsidies	83	8
Income from the disposal of assets	60	141
Sundry income	322	208
OTHER OPERATING INCOME	**11,604**	**6,822**
Exchange rate losses	10,576	6,499
Other taxes	466	124
Sundry expenses	69	56
OTHER OPERATING EXPENSES	**11,111**	**6,679**

Other operating income and expenses mainly contain realized and unrealized exchange rate gains and losses of receivables and liabilities denominated in foreign currencies.

6. FINANCIAL RESULT

Table 032

IN €K	2014	2013
Interest income	112	209
Gains from derivative financial instruments	2	109
Interest and similar income	192	29
FINANCE INCOME	**306**	**347**
Interest and similar expenses	1,094	797
Credit facility transaction costs	589	435
Credit facility guarantees and standby fees	462	699
FINANCE EXPENSE	**2,145**	**1,931**
FINANCIAL RESULT	**– 1,839**	**– 1,584**

7. INCOME TAXES

Income tax expense breaks down as follows:

Table 033

IN €K	2014	2013
Current income tax	– 3,175	– 1,241
Origination and reversal of temporary differences	3,692	7,828
TAXES REPORTED IN THE INCOME STATEMENT	**517**	**6,587**

Income tax expense comprises corporate income tax and trade tax for German entities as well as comparable taxes levied at foreign entities. Other taxes are included under other operating expenses.

Kontron AG applies an income tax rate of 31.1 % in Germany (prior year: 28.4 %). The year-on-year change in the income tax rate stems from the adjusted trade tax levy rate as result of the relocation of Kontron AG to Augsburg.

The tax rates outside of Germany range between 15 % and 36 %.

Consolidated statement of other comprehensive income

Table 034

IN €K	2014	2013
Actuarial gains / losses from pensions	86	– 28
Losses on net investments	0	– 4
INCOME TAX CHARGED TO OTHER COMPREHENSIVE INCOME	**86**	**– 32**

The following table presents the reconciliation of the expected income tax expense that would theoretically result from applying the current income tax rate in Germany of 31.1 % (prior year: 28.4 %) to the current tax expense reporting by the Group.

RECONCILIATION OF INCOME TAX EXPENSE

Table 035

IN €K	2014	2013
Income / loss for the year from continuing operations before tax	– 6,911	– 30,577
Group income tax rate	31.1 %	28.4 %
Estimated tax effect	2,145	8,684
Effect of other tax rates from foreign operations	41	– 11
Share of taxes for differences and losses for which no deferred taxes were recognized	– 161	– 994
Government grants exempted from tax	106	98
Tax-free income	403	211
Non-deductible expenses	– 2,320	– 348
Tax refunds for prior years	167	0
Tax expense for prior years	0	– 427
Adjustments of deferred tax from prior years	792	– 192
Change in deferred taxes from unused tax losses and tax credits	– 734	– 508
Other	78	74
INCOME TAXES REPORTED	**517**	**6,587**
Income tax rate	7.5 %	21.5 %

In the 2014 fiscal year, income tax income totals € 517k (prior year: € 6,587k). Government grants exempted from tax stem from tax credits for research and development for the entity Kontron Modular Computers S.A.S.

The total amount of deferred tax assets and liabilities as of December 31, 2014 and December 31, 2013 relates to the following items:

DEFERRED TAX ASSETS / LIABILITIES

Table 036

	Deferred tax assets		Deferred tax liabilities	
IN €K	**2014**	2013	**2014**	2013
Property, plant and equipment	17	42	602	741
Intangible assets	327	538	13,510	14,630
Inventories	2,542	1,245	200	191
Receivables / other receivables	1,031	695	1,167	1,058
Provisions and accruals	1,551	2,061	1,252	1,239
Liabilities / other liabilities	189	60	1,091	529
Loss carryforwards	15,279	11,966	0	0
Tax credits for research and development	4,247	4,395	0	0
Other	300	315	371	355
GROSS AMOUNT	**25,484**	**21,317**	**18,193**	**18,743**
Offsetting	11,303	1,115	11,303	1,115
DISCLOSURE	**14,181**	**20,202**	**6,890**	**17,628**
NET DEFERRED TAX LIABILITIES			**– 7,291**	**– 2,574**

TAX INCOME / EXPENSE

Table 037

IN €K	**2014**	2013
AS OF JANUARY 1	**2,574**	**– 5,286**
Tax income / expense during the reporting period recognized in profit or loss	3,692	7,828
Tax income / expense during the reporting period recognized in other comprehensive income	86	– 32
Exchange rate differences / tax credits not included in tax expense	939	64
AS OF DECEMBER 31	**7,291**	**2,574**

The entities Kontron AG, Kontron Europe GmbH and Kontron Australia Pty. Ltd. have set up deferred tax assets for unused tax losses equivalent to the amount of the tax effect on the anticipated gains from the current projections in the current business plan.

It is possible to deduct certain research and development expenses from taxes in Canada and the US. The capitalized tax credits for research and development reduce future tax payments at the entities Kontron Canada Inc. and Kontron America Inc. The tax credits may be carried forward for 20 years in Canada and the US.

Deferred tax assets may be netted against deferred tax liabilities if they are levied by the same taxation authority and offsetting is permitted. Deferred tax assets netted against deferred tax liabilities amount to € 11,303k in the 2014 fiscal year. Deferred tax assets of € 14,181k and deferred tax liabilities of € 6,890k are recognized in the consolidated statement of financial position.

Unused tax losses break down as follows:

UNUSED TAX LOSSES

Table 038

IN €K	2014	2013
Can be carried forward 1 year	0	0
Can be carried forward 10 years	24,950	26,003
Can be carried forward more than 10 years	5,157	0
Can be carried forward indefinitely	82,290	69,516
	112,397	**95,519**
Recognition of unused tax losses	– 52,326	– 38,721
UNUSED TAX LOSSES	**60,071**	**56,798**

Unused tax losses relate to the subsidiaries Kontron Modular Computers AG, Kontron America Inc., Kontron Modular Computers S.A.S., Kontron Technology A / S, Kontron Asia Pacific Design Sdn. Bhd. and Kontron Compact Computers AG.

On account of the sale of production at Kontron Asia Pacific Design Sdn. Bhd. the entity lost its pioneer status in 2012 and the associated tax exemption. At the same time, loss carryforwards of € 30,352k recorded in the prior years can be used in the future due to the loss of the pioneer status, thus raising the quantity of unused tax losses that can be carried forward indefinitely in the 2013 fiscal year. Due to the company's history of losses, it was not however possible to account for the loss carryforwards in the 2014 fiscal year.

Kontron Modular Computers AG is purely a holding company, which will not generate sufficient profit to utilize unused tax losses of € 2,485k in the future.

As a result of the closure of Kontron Compact Computers AG in 2015, the existing unused tax losses of € 21,201k will be forfeited in future fiscal years.

Kontron Technology A / S's unused tax losses of € 3,465k will most likely be forfeited on account of the planned restructuring of the entity.

As of December 31, 2014, no deferred tax liabilities were recognized on the accumulated profits of subsidiaries of € 62,058k (December 31, 2013: € 51,736k) as it is intended to reinvest these profits for an indefinite period.

8. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets held for sale

In the fiscal year, buildings with a carrying amount of € 8,146k at German locations that are no longer used were reclassified from current assets to assets held for sale.

Discontinued operations

As planned, Kontron completed the sale of the Energy project business in the reporting year in order to focus exclusively on the core competencies in the Embedded Computer Technology (ECT) market.

The sale of the equity investment in ubitronix system solutions gmbH, Hagenberg, Austria, took place on February 10, 2014. The shareholding in ubitronix of 40 % that was acquired in July 2010 was sold to the management of the company in a management buy-out. The voting rights with respect to an additional 11 % of the shares were returned to the previous shareholders.

The Russian entity Affair 000, Moscow, including its direct and indirect investments, which include RTSoft ZAO, Moscow, and its investments in Russia and Ukraine, was sold on August 14, 2014. The sale was executed through the transfer of all shares (share deal). Kontron will continue to pursue its ECT activities in Russia and additional CIS states via RTSoft ZAO as an indirect channel partner.

The acquisition price for the sale of discontinued operations came to € 11,600k in cash. The carrying amounts of the assets at the time of deconsolidation, less cash and cash equivalents of € 4,472k, came to € 27,010k and were classified as assets held for sale. The corresponding liabilities of € 23,485k were reported as liabilities associated with the assets held for sale.

The results of the Energy project business break down as follows:

INCOME / LOSS FROM DISCONTINUED OPERATIONS

Table 039

IN €K	2014	2013
OPERATING RESULT BEFORE FINANCIAL RESULT AND INCOME TAXES	**– 2,874**	**– 8,389**
thereof amortization of goodwill		– 3,663
thereof impairment of other assets		– 4,285
Financial result	– 155	– 228
Impairment loss recognized on the remeasurement to fair value less costs to sell		– 226
INCOME / LOSS BEFORE TAX FROM DISCONTINUED OPERATIONS	**– 3,029**	**– 8,843**
Income taxes	566	1,226
NET INCOME / LOSS FROM DISCONTINUED OPERATIONS	**– 2,463**	**– 7,617**
Income / loss from the disposal of discontinued operations	1,636	
NET INCOME / LOSS FROM DISCONTINUED OPERATIONS	**– 827**	**– 7,617**

Included in other comprehensive income in the respective fiscal year:

IN €K	2014	2013
Exchange differences on translation of foreign operations	– 680	– 1,499
Reclassification due to sale of discontinued operations	4,516	0
TOTAL	**3,836**	**– 1,499**

Earnings per share:

IN €K	2014	2013
Income / loss for the year from discontinued operation (basic)	– 0.02	– 0.13
Income / loss for the year from discontinued operation (diluted)	– 0.02	– 0.13

The main assets and liabilities of the discontinued operations as of December 31, 2013 are as follows:

ASSETS AND LIABILITIES OF DISCONTINUED OPERATIONS

Table 040

IN €K	12/31/2013
ASSETS	
Cash and cash equivalents	3,986
Inventories	6,763
Trade receivables	19,874
Other current receivables and assets	6,338
Property, plant and equipment	1,181
Intangible assets	254
Other non-current receivables and assets	1,897
ASSETS CLASSIFIED AS HELD FOR SALE	**40,293**
LIABILITIES	
Trade payables	9,706
Short-term borrowings	3,801
Current provisions	1,397
Obligations from construction contracts	431
Prepayments received	8,345
Other current liabilities	4,334
Other non-current liabilities	52
LIABILITIES ASSOCIATED WITH THE ASSETS HELD FOR SALE	**28,066**

The net cash flows incurred by the discontinued operations are as follows:

NET CASH FLOWS INCURRED BY THE DISCONTINUED OPERATIONS:

Table 041

IN €K	2014	2013
Operating activities	4,832	– 3,365
Investing activities	– 593	– 837
Financing activities	– 3,600	4,071
NET CASH FLOW	**639**	**– 131**

Impairment of property, plant and equipment, intangible assets and write-downs on inventories
Due to the classification as a discontinued operation from the 2013 fiscal year, the assets and liabilities of ubitronix system solutions gmbh were measured at the selling price less costs to sell and an impairment loss of € 227k was recognized in the statement of income in the line item net income / loss from discontinued operations in the 2013 fiscal year.

In the 2013 fiscal year, the net income / loss from discontinued operations also included impairment losses on RTSoft's goodwill, intangible assets and receivables from long-term construction contracts totaling € 7,948k, which were the result of an impairment test performed directly prior to the classification as a discontinued operation due to the planned sale of this entity.

In order to determine the need for impairment, the fair value less cost to sell was counterbalanced against the carrying amounts of both entities due to the planned sales. The fair value stems from the purchase prices anticipated and deemed realistic by Kontron for both entities, which were to be sold independent of each other. ubitronix system solutions gmbh was sold in February 2014 and the RTSoft Group was sold in August 2014.

The fair value less cost to sell was allocated to level 1 in the fair value hierarchy in 2013.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents totaling € 15,637k (prior year: € 26,755k) consist of cash on hand, checks and bank balances that are available within three months of deposit and earn interest at the respective short-term deposit rates.

CASH AND CASH EQUIVALENTS

Table 042

IN €K	2014	2013
Bank balances, cash on hand, checks	15,627	26,746
Short-term deposits with banks	10	9
TOTAL CASH AND CASH EQUIVALENTS	**15,637**	**26,755**

For the purpose of the statement of cash flows, cash and cash equivalents comprised the following as of December 31:

CASH AND CASH EQUIVALENTS INCLUDING DISCONTINUED OPERATIONS

Table 043

IN €K	2014	2013
Bank balances, cash on hand, checks	15,627	26,746
Short-term deposits with banks	10	9
Bank balances, cash on hand, checks and short-term deposits with banks of discontinued operations	0	3,986
TOTAL CASH AND CASH EQUIVALENTS	**15,637**	**30,741**

10. INVENTORIES

Inventories break down as follows:

INVENTORIES *Table 044*

IN €K	2014	2013
Raw materials, consumables and supplies	34,656	30,484
Work in process	14,594	15,392
Finished goods and merchandise	34,879	37,231
Prepayments	1,096	584
Receivables from construction contracts	506	1,004
	85,731	**84,695**

Inventories remeasured at the lower of cost and net realizable value. Net realizable value is the estimated sales price less all estimated costs to complete and selling and marketing costs.

Write-downs of inventories recognized as an expense amounted to € 8,462k (prior year: € 3,331k). This amount is recognized under cost of goods sold.

Inventories are calculated using end-of-year or perpetual inventory-taking.

As part of the credit facility, a storage assignment of raw materials, consumables and supplies and work in process and finished goods and merchandise was arranged in the 2014 fiscal year. The carrying amount of the storage assignment totals € 34,587k as of December 31, 2014. This collateral is linked to the term of the credit facility.

Amounts for construction contracts are as follows:

CONSTRUCTION CONTRACTS *Table 045*

IN €K	2014	2013
Contract revenues	13,613	6,057
Costs incurred	– 12,058	– 5,092
PROFIT	**1,555**	**965**

Receivables from construction contracts amount to € 506k (prior year: € 1,004k). Obligations from construction contracts amount to € 135k (prior year: € 1,268k). The company received prepayments on account of construction contracts of € 1,061k (prior year: € 0k).

11. TRADE RECEIVABLES

Receivables and other assets are accounted for at nominal value or at cost. All recognizable risks are covered by appropriate allowances. The general credit risk is accounted for by allowances based on past experience, an aging analysis as well as the value of the assets according to prudent business judgment.

The line item "Trade receivables" comprises the following items:

TRADE RECEIVABLES

Table 046

IN €K	2014	2013
Trade receivables	150,113	121,343
Impairments	– 35,030	– 32,724
TOTAL TRADE RECEIVABLES	**115,083**	**88,619**

As of December 31, 2014, trade receivables with an initial value of € 35,925k were impaired (prior year: € 33,428k).

Movements in the provision for impairment of receivables was as follows:

BAD DEBT ALLOWANCES

Table 047

IN €K	2014	2013
Impairments as of January 01	– 32,724	– 35,387
Charge for the year	– 1,547	– 2,067
Utilized	1,200	342
Unused amounts reversed	0	713
Exchange rate effects	– 1,959	3,675
IMPAIRMENTS AS OF DECEMBER 31	**– 35,030**	**– 32,724**

The amount carried over from 2013 of € 32,724k contains impairment losses of € 28,524k at the level of Kontron Asia Pacific Design Sdn. Bhd., which were recognized in 2010 in connection with a case of suspected fraud. € 516k thereof was utilized in the fiscal year.

Additions totaling € 1,547k in 2014 (prior year: € 2,067k) consist of additions to specific bad debt allowances of € 1,026k (prior year: € 1,839k) and portfolio-based bad debt allowances of € 521k (prior year: € 228k).

Reversals in the prior year stem from receivables paid by certain customers that had been written down in the prior year on account of the signs of economic difficulties as well as from the reversal of the portfolio-based bad debt allowances.

The aging analysis of trade receivables is as follows:

AGING ANALYSIS OF RECEIVABLES *Table 048*

			thereof: not impaired but past due by					
IN €K	Initial amount	thereof: neither past due nor impaired	less than 30 days	between 31 and 60 days	between 61 and 150 days	between 151 and 240 days	between 241 and 330 days	more than 330 days
12/31/2014	150,113	95,417	13,614	2,933	1,085	487	360	292
12/31/2013	121,343	74,251	8,000	2,299	1,716	1,207	210	234

With respect to the trade receivables that were neither impaired nor past due, there was no indication as of the reporting date that the debtors would fail to meet their payment obligations. The also applies to past due trade receivables that are not impaired.

As part of the credit facility, a blanket assignment of trade receivables was arranged in the 2014 fiscal year. The carrying amount of these receivables totals € 53,769k as of December 31, 2014. The assignment of collateral is linked to the term of the credit facility.

12. OTHER RECEIVABLES AND ASSETS

Other receivables and assets are composed of the following items:

OTHER CURRENT RECEIVABLES AND ASSETS

Table 049

IN €K	2014	2013
Prepaid expenses	3,368	1,907
Receivables from supplier bonuses	2,252	0
Short-term securities	1,864	1,213
Receivables from escalation clauses	1,684	1,761
VAT receivables	1,420	3,049
Security deposits	1,192	1,170
Other tax receivables	794	620
Receivables from insurance claims	635	1,093
Creditors with debit balances	490	162
Receivables from personnel	47	92
Receivables from derivative financial instruments	0	138
Sundry	533	943
	14,279	**12,148**

OTHER NON-CURRENT RECEIVABLES AND ASSETS

Table 050

IN €K	2014	2013
Prepaid expenses	1,193	1,175
Security deposits	367	360
Sundry	37	19
	1,597	**1,554**

Non-current prepaid expenses include transaction costs of € 1,193k (prior year: € 1,145k) for a credit facility of € 170,000k obtained in the 2012 fiscal year. The total amount of € 1,739k will be added on a straight-line basis over the term of the facility of five years to interest expense. The credit facility was reduced by € 119,070k in the 2014 fiscal year. The transaction costs of € 496k associated with this reduction were capitalized and added to the interest expense over the remaining term of the facility.

13. DEFERRED TAX ASSETS

Explanations regarding deferred taxes can be found in note (7) of these notes.

14. PROPERTY, PLANT AND EQUIPMENT

Impairment losses are calculated in accordance with IAS 36 *Impairment of Assets*. Impairment losses of € 277k were recorded on property, plant and equipment in the reporting year (prior year: € 140k).

In addition, this also includes production facilities and vehicles classified as finance leases of € 131k (prior year: € 52k), which are owned by the Group from an economic perspective due to the substance of the underlying lease agreements. These leases have terms of renewal but typically no bargain-purchase options and escalation clauses.

The details on minimum lease payments of the respective lease agreements are as follows:

MINIMUM LEASE PAYMENTS

Table 051

IN €K	2014	2013
Due in less than one year	64	114
Due between one and five years	84	200
Due in more than five years	0	0
	148	**314**
INTEREST COMPONENT OF MINIMUM LEASE PAYMENTS	**10**	**20**
TOTAL FUTURE MINIMUM LEASE PAYMENTS	**138**	**294**

The details on the minimum lease payments broken down by present value are as follows:

MINIMUM LEASE PAYMENTS BROKEN DOWN BY PRESENT VALUES

Table 052

IN €K	2014	2013
Due in less than one year	58	104
Due between one and five years	66	190
Due in more than five years	0	0
	124	**294**

The development of property, plant and equipment is shown in detail in the statement of changes in non-current assets.

There were no contractual commitments for the acquisition of property, plant and equipment.

As part of the credit facility, a collateral assignment of certain property, plant and equipment was arranged in the 2014 fiscal year. The carrying amount of the collateral assignment of assets totals € 1,400k as of December 31, 2014. The assignment of collateral is linked to the term of the credit facility.

In addition, a land charge of € 1,500k was assigned in February 2015.

15. INTANGIBLE ASSETS, GOODWILL

Internally generated intangible assets

Research and development costs totaled € 44,087k in the 2014 fiscal year (prior year: € 48,439k), of which € 11,313k (prior year: € 15,235k) meets the IAS 38 recognition criteria.

Impairment losses of € 3,322k were recorded on internally generated intangible assets (capitalized development costs) in the reporting year (prior year: € 7,560k). The recoverable amount of internally generated intangible assets is determined based on a value-in-use calculation using cash flow projections. Cash flow projections are based on the market requirement document approved by management. Product development is released upon approval. The market requirement document covers a planning period of eight years, growth is determined for each product according to the available market analyses. The pre-tax discount rates used in the cash flow projections range between 8.49 % and 11.97 % (prior year: between 8.44 % and 10.79 %).

The Kontron Group received government grants of € 151k in the fiscal year (prior year: € 724k), which reduced the cost of capitalized development projects, as well as additional subsidies of € 812k (prior year: € 432k), which reduced research and development costs.

Rights and licenses, other intangible assets

An amount of € 9,567k was invested in the further development of existing IT systems and the purchase of software licenses in the 2014 fiscal year (prior year: € 1,684k).

In addition, intangible assets comprise rights and licenses and other intangible assets from acquisitions (e. g., customer base, technology, brand names and order backlog).

Amortization of intangible assets is contained in the following individual line items of the statement of income:

AMORTIZATION OF INTANGIBLE ASSETS *Table 053*

IN €K	2014	2013
Other production cost	14,087	20,890
Research and development cost	2,841	739
General and administrative cost	1,799	978
Selling and marketing cost	1,335	1,883
Net income / loss from discontinued operations	0	5,466
	20,062	**29,955**

In the course of the impairment test of goodwill, an impairment loss of € 1,225k was recorded on RTSoft ZAO's internally generated intangible assets in the 2013 fiscal year. This amount was recorded in the line item "Net income / loss from discontinued operations" in the statement of income for 2013.

Goodwill

Goodwill stems from business acquisitions. The tables below show goodwill broken down by region and, as of December 31, 2014, also by business unit:

GOODWILL BY REGION 2014 *Table 054*

IN €K	01/01/2014	Exchange rate effects	Additions / disposals	Impairment losses	12/31/2014
EMEA	46,470	190	0	0	46,660
North America	40,129	2,301	0	0	42,430
APAC	2,112	19	0	0	2,131
	88,711	**2,510**	**0**	**0**	**91,221**

GOODWILL BY REGION 2013 *Table 055*

IN €K	01/01/2013	Exchange rate effects	Additions / disposals	Impairment losses	12/31/2013
EMEA	46,624	–154	0	0	46,470
North America	40,895	–766	0	0	40,129
RTSoft Group	3,663	0	0	3,663	0
APAC	2,144	–32	0	0	2,112
	93,326	**–952**	**0**	**3,663**	**88,711**

As a result of the change in the internal management and reporting structure, cash-generating units were transitioned from regions to business units in the 2014 fiscal year. Please refer to page 99 for further information.

GOODWILL BY BUSINESS UNIT *Table 056*

IN €K	Industrial	Communi-cations	Avionics / Transportation / Defense	Total
12/31/2014	32,096	9,948	49,177	**91,221**

The annual impairment test as of December 31, 2014 was carried out for the allocation of goodwill to regions as well as for the allocation to business units. This did not result in the need to recognize impairment losses in either case. In the prior year, the test resulted in impairment of € 7,948k, € 3,663k of which was recognized as an impairment loss on goodwill. Other intangible assets were impaired by € 1,225k and receivables from construction contracts were impaired by € 3,060k. In the 2013 fiscal year, the impairments of € 7,948k related to discontinued operations are reported in the statement of income in net income / loss from discontinued operations.

Impairment testing of goodwill:
Kontron performs its annual impairment test of goodwill as of December 31 of each year. In addition to the general business development, the Group also considers the relationship between its market capitalization and its carrying amount when reviewing for indicators of impairment.

Impairment tests of goodwill are based on the going concern principle and take into account current conditions and the actual situation of the Group as of the measurement date (as is situation). The positive growth and earnings effects which could arise from the program to cut costs and enhance efficiency (CRP) that was introduced in the 2013 fiscal year have been included in the financial planning.

At the cash-generating units, which correspond to the business units as of the fourth quarter of 2014, there was no need to recognize impairment losses pursuant to IAS 36 due to the fact that the recoverable amounts determined in the course of the impairment test exceeded their respective carrying amounts. The impairment test gave rise to an impairment loss of € 7,948k in the 2013 fiscal year.

In order to determine the need for impairment, the recoverable amounts of the cash-generating units are prepared based on a value-in-use calculation using cash flow projections. The cash flow projections are based on financial budgets approved by the Supervisory Board covering a four-year period (2015 to 2018). Cash flows after the four-year period are extrapolated using a growth rate of 1 % based on the final year that was planned separately (2018). In order to determine the values-in-use of the cash-generating units, cash flows have been forecast based on operating results and reliability of recent projections, current operating results of the fiscal year and the best possible estimate of future developments, using, among other things, management's assumptions concerning future development and market conditions. The value-in-use is primarily derived from the final figures (terminal value), which responds particularly sensitively to changes in the long-term growth rate and discount rate.

The pre-tax discount rate applied to the cash flow projections is presented in the following table:

DISCOUNT RATES FOR THE FORMER CASH-GENERATING UNITS (REGIONS)

Table 057

IN %	2014	2013
EMEA	10.50	9.40
North America	12.63	11.36
APAC	14.14	12.90

DISCOUNT RATES FOR THE NEW CASH-GENERATING UNITS (BUSINESS UNITS)

Table 058

IN %	2014
Industrial	10.74
Communications	10.54
Avionics / Transportation / Defense	12.01

Key assumptions used in value-in-use calculations

There are valuation uncertainties regarding the following assumptions that form the basis of the calculation of the value-in-use of the cash-generating units:

- Growth in revenues during the forecast period
- EBIT margins
- Discount rates
- Growth rates used to extrapolate cash flows beyond the detailed planning period

Growth in revenues – This was planned using the market studies available and taking into account past experience from prior fiscal years. In this context, the company uses growth rates in line with market growth in the ECT market and growth rates exceeding the market in the ECT market for detailed planning years.

EBIT margins – EBIT margins are based on average values achieved in prior fiscal years as well as expectations of price, cost and changes in the product range and improvements to efficiency in the planning period. In addition, anticipated effects from the implementation of measures of the program to cut costs and enhance efficiency (CRP) have been included. This results in an increasing EBIT margin overall in the detailed planning period.

Discount rates – Discount rates represent the current market assessment of the risks specific to each cash generating unit. The discount rate calculation is based on the specific circumstances of Kontron AG and its operating segments and is derived from its weighted average cost of capital (WACC) for the industry. The average cost of capital takes into account both debt and equity. The cost of equity is derived from the expected return on investment, while the borrowing costs are determined based on the anticipated debt servicing. This rate was further adjusted to reflect the market assessment of any risk, foreign exchange and interest rate risks, specific to the cash-generating unit for which future estimates of cash flows have not been adjusted.

Growth rate estimates – The growth rate of 1 % was used to extrapolate the cash flow projections after the four-year planning period. It includes external macroeconomic factors and industry-specific trends.

Sensitivity of the assumptions made
The implications of the key assumptions for the recoverable amount are discussed below:

Growth rate assumptions – The long-term growth rate may be significantly impacted by the speed of technological change and the possibility of new competitors. Nevertheless, Kontron does not expect forecast cash flows to be negatively impacted by potential entry of new competitors based on current knowledge. However, this could potentially lead to a reasonably different potential growth rate. A decrease in the long-term growth rate from 1 % to 0.5 % would not result in an impairment loss for the cash-generating unit.

Development of EBIT margin – The EBIT margin of the Communications cash-generating unit for the terminal value is a mid-single-digit percentage. The positive difference between the recoverable amount and the carrying amount stood at around € 10 million as of the measurement date. An EBIT margin of one percentage point lower over time would result in an impairment loss of about € 1 million for the Communications cash-generating unit. The other cash-generating units would not need to recognize an impairment loss.

Discount rates – An increase in the discount rates of one percentage point would cause the value-in-use of the cash-generating unit to remain higher than their carrying amount.

16. TRADE PAYABLES

Trade payables break down as follows:

Table 059

IN €K	**2014**	2013
Trade payables	73,928	64,897
Customer prepayments	2,406	2,312
	76,334	**67,209**

Trade payables have the following remaining terms:

REMAINING TERMS OF PAYABLES

Table 060

IN €K	Due in less than one year	Due in one to five years	Due in more than five years	**Total**
12/31/2014	76,029	305	0	**76,334**
12/31/2013	66,427	782	0	**67,209**

17. OTHER LIABILITIES

Other liabilities break down as follows:

OTHER CURRENT LIABILITIES

Table 061

IN €K	2014	2013
Personnel obligations	11,446	12,559
Outstanding invoices	5,548	2,704
Liabilities from purchase commitments	2,589	815
Other taxes	2,254	1,809
Legal and consulting costs	889	1,268
Cost of preparing the financial statements and AGM costs	527	355
Liabilities from social security	332	149
Rental obligations	316	271
Security deposits from suppliers	299	112
Return obligation from the sale of materials	180	328
Debtors with credit balances	121	711
Interest payable	2	239
Liabilities from derivative financial instruments	0	63
Sundry	801	1,121
	25,304	**22,504**

OTHER NON-CURRENT LIABILITIES

Table 062

IN €K	2014	2013
Personnel obligations from stock options	834	0
Deferred income	389	2,567
Onerous contracts	0	693
Sundry	617	222
	1,840	**3,482**

As of December 31, 2013, non-current deferred income includes an amount of € 2,288k for the advance receipt of a compensation insurance payment for damage caused by flooding at a German subsidiary.

In the prior year, the obligation from stock options of € 178k was recorded in other current liabilities.

18. DEFERRED TAX LIABILITIES

Explanations regarding deferred tax liabilities can be found in note (7) of these notes (income taxes).

19. FINANCIAL LIABILITIES

All interest-bearing liabilities of the Kontron Group as of the respective reporting date are shown under financial liabilities. They break down as follows:

2014 FINANCIAL LIABILITIES

Table 063

IN €K	Due in less than one year	Due in one to five years	Due in more than five years	2014 Total
NON-CURRENT				
Non-current liabilities (bank loans)	0	35,938	0	35,938
Obligations from financial leases	0	100	0	100
NON-CURRENT FINANCIAL LIABILITIES	**0**	**36,038**	**0**	**36,038**
CURRENT				
Liabilities to banks	5	0	0	5
Obligations from financial leases	39	0	0	39
CURRENT FINANCIAL LIABILITIES	**44**	**0**	**0**	**44**
	44	**36,038**	**0**	**36,082**

2013 FINANCIAL LIABILITIES

Table 064

IN €K	Due in less than one year	Due in one to five years	Due in more than five years	2013 Total
NON-CURRENT				
Non-current liabilities (bank loans)	0	34,932	0	34,932
Obligations from financial leases	0	190	0	190
NON-CURRENT FINANCIAL LIABILITIES	**0**	**35,122**	**0**	**35,122**
CURRENT				
Liabilities to banks	197	0	0	197
Obligations from financial leases	104	0	0	104
CURRENT FINANCIAL LIABILITIES	**301**	**0**	**0**	**301**
	301	**35,122**	**0**	**35,423**

Non-current liabilities to banks have the following maturities and interest rates:

MATURITIES / INTEREST RATES OF NON-CURRENT LIABILITIES *Table 065*

IN €K	2014	2013
Credit facility with an average interest rate of 1.73 % (prior year: 1.59 %) until 2017	35,938	34,923
Other loans with an average interest rate between 6.9 % and 9.79 % until 2014	0	9
	35,938	**34,932**

Overdraft facilities and bank loans due in less than one year

There are bilateral lines of credit at some subsidiaries with a total volume of € 2,835k in order to finance working capital and cover any necessary bank guarantees. Of this amount, € 2,079k pertains to overdraft facilities and € 756k to bank guarantees. These credit lines were concluded without an assumption of liability by Kontron AG and apply until revoked. The overdraft facility had not been utilized as of the reporting date. € 557k of the bank guarantees provided was utilized.

Bank loans with a term of more than one year

A credit facility for a total of € 170,000k was entered into with a syndicate of five banks in April 2012. This credit facility, which provides for the financing of investment and potential acquisitions in addition to financing the Kontron Group's working capital, had an original term of five years and ends in April 2017.

On account of the changed business environment – also with regard to discontinued operations – the resulting financing requirement was adjusted to a credit volume totaling € 119,070k in the fiscal year.

At the same time, the company agreed with the syndicate banks that they may charge a moderately higher lending margin upon signing. This increase in the margin does not significantly affect the financial result of the Group, assuming no change in the amount drawn under the loan, because the standby fee is decreased accordingly. As the former loan agreement only arranged for joint liability of the significant subsidiaries of Kontron AG towards the banks, additional collateral was arranged with the syndicate. In addition to mortgages, this includes a blanket assignment of all non-current assets and current assets as well as collateral assignments. The covenants agreed upon remained largely unchanged.

The credit facility is divided into a tranche of € 103,791k for short-term borrowings in the form of overdraft and forward loans (cash line) and a bank guarantee facility for bank guarantees of € 15,279k. Furthermore, the furnished cash line offers Kontron AG the opportunity to arrange bilateral lines of credit (ancillary lines) with individual members of the syndicate of banks and foreign subsidiaries (subsidiary lines). Kontron AG took advantage of this financing option and concluded bilateral lines of credit (ancillary lines) of € 29,600k with all participating syndicate banks as of December 31, 2014. In addition, a local line of credit (bank guarantee facility) was arranged for a foreign subsidiary as a subsidiary facility of € 119k (translated at the closing rate). € 24k of this line of credit, for which Kontron AG is jointly liable as part of the credit facility, was utilized as of the reporting date.

The credit facility is contingent on compliance with agreed financial and non-financial covenants. The financial covenants relate to the ratio of the Group's net debt to EBITDA, the ratio of the Group's net financial income to EBITDA and a minimum equity ratio. If the covenants are not observed, the outstanding liabilities become payable immediately to the lending banks. The covenants stipulated in the loan agreement were met in full as of the reporting date.

Interest on borrowings within the scope of the credit facility is charged based on the underlying EURIBOR of the respective terms plus a credit margin that is determined on the basis of the ratio of the Group's net debt to EBITDA. The interest rates of bilateral ancillary lines have been arranged individually with the respective syndicate banks and are calculated based on the current money market interest rate. The average financing interest rate totaled about 1.73 % p. a. as of the reporting date.

On December 31, 2014, € 35,938k of this credit facility had been utilized. Within the scope of the subsidiary line concept agreed with the syndicate of banks, an additional guarantee line of € 119k was provided for a foreign subsidiary, meaning this amount was deducted from Kontron AG's cash line.

Total bank loans

In total, cash lines of € 105,870k were thus available to the Group as result of the bilateral lines of credit and the credit facility. As a result, the Group has additional, theoretical headroom of € 69,932k.

€ 8,862k of the guarantee line as part of the credit facility and the aforementioned bilateral line of credit provided to Kontron AG totaling € 16,035k was utilized as of the reporting date. This gives the Group additional headroom of € 7,173k.

As of December 31, 2013, the Group had access to credit lines of € 170,641k. In this context, the Group had unutilized cash lines of € 87,126k as well as bank guarantees for an additional € 33,322k.

For the financial liabilities recognized as of the reporting date, there were no payment problems in the reporting period with respect to principal or interest payments, the redemption fund or redemption clauses.

20. PROVISIONS

IAS 37 defines provisions as liabilities of uncertain timing or amount, although a distinction must be made between provisions and accruals.

Accruals are included in the items “Other current liabilities” or “Other non-current liabilities” and are discussed in more detail in note (17).

Provisions developed as follows:

CURRENT PROVISIONS 2014

Table 066

IN €K	Carried forward 01/01/2014	Exchange rate effects	Reclassi-fication	Additions	Utilization	Reversal	**As of 12/31/2014**
Warranties	2,708	142	0	858	367	394	2,947
Litigation	110	0	0	154	50	0	214
Potential losses	1,169	0	757	0	1,157	193	576
Restructuring	7,827	– 48	– 214	3,861	5,451	104	5,871
Sundry	2,361	0	0	101	143	1,059	1,260
TOTAL	**14,175**	**94**	**543**	**4,974**	**7,168**	**1,750**	**10,868**

NON-CURRENT PROVISIONS 2014

Table 067

IN €K	Carried forward 01/01/2014	Exchange rate effects	Reclassi-fication	Additions	Utilization	Reversal	**As of 12/31/2014**
Warranties	696	70	0	511	364	29	884
Potential losses	770	0	– 757	0	13	0	0
Restructuring	698	1	214	0	177	0	736
Sundry	30	3	0	11	2	0	42
TOTAL	**2,194**	**74**	**– 543**	**522**	**556**	**29**	**1,662**

CURRENT PROVISIONS 2013

Table 068

IN €K	Carried forward 01/01/2013	Exchange rate effects	Reclassi-fication	Additions	Utilization	Reversal	Interest	Discontinued operation	As of 12/31/2013
Warranties	2,897	– 112	0	949	366	204	0	– 456	2,708
Litigation	721	– 113	0	249	747	0	0	0	110
Potential 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
Sundry	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**

NON-CURRENT PROVISIONS 2013

Table 069

IN €K	Carried forward 01/01/2013	Exchange rate effects	Reclassi-fication	Additions	Utilization	Reversal	As of 12/31/2013
Warranties	933	– 73	0	284	331	117	696
Potential losses	1,731	0	– 746	198	413	0	770
Restructuring	1,322	– 23	– 928	698	0	371	698
Sundry	131	– 4	– 96	0	1	0	30
TOTAL	**4,117**	**– 100**	**– 1,770**	**1,180**	**745**	**488**	**2,194**

Warranties

A provision is created for warranty obligations from the products sold during the last two years. Warranties from construction contracts are recognized in the calculation of provisions once the respective project has been accepted by the customer. The measurement of the provision is based on past experience of repairs and returns. It is expected that most of these costs will be incurred in the next fiscal year and all will have been incurred within two years of the reporting date. Assumptions used to calculate the provision for warranties were based on current sales levels and current information about returns based on the two-year warranty period for all products sold.

Litigation

The addition to current provisions for litigation comprises provisions in connection with personnel.

Potential losses

The utilization of the current provision for potential losses relates to lease payments for the SAP systems.

Restructuring

In the course of ongoing restructuring, an amount of € 3,055k was added to current restructuring provisions for contractual risks. The utilization of the restructuring provision mainly comprises the provisions set up in the prior year for severance payments and other personnel expenses in connection with the "New Kontron" program to cut costs and enhance efficiency (CRP).

Pensions and other post-employment benefits

Regulatory framework and description of benefits

In Germany, the regulatory framework for the company pension plan is stipulated by the BetrAVG ["Gesetz zur Verbesserung der betrieblichen Altersversorge": German Company Pensions Act], which prescribes the minimum legal requirements for company pension plans. In addition, labor legislation regulations and court rulings must also be observed. At Kontron, the post-employment benefit system consists of a pension that is paid as:

- old-age pension upon or after reaching the fixed retirement age of 65
- early old-age pension in the event of drawing benefits from the statutory pension insurance scheme
- disability benefits upon retirement and subsequent occupational disability

The pension amount is not affected by salary increases. As in the prior year, 10 employees were participating in the plan as of the reporting date.

As a result of the legal regulations and collectively bargained agreements in France, the company is required to make one-off payments to its employees upon retirement. The payments are collectively bargained and are based on employees' years of service and final salary prior to retirement. An employee that leaves the company prior to retirement does not receive payment, regardless of whether they leave the company of their own volition or not. As of the reporting date, 97 employees were participating in the plan (prior year: 98 employees).

Current risks

In Germany, the company pension plan is closed for new entrants. The pensionable salaries of entitled employees are fixed. As a result, total claims of all eligible employees are limited to less than € 9k per year. Currently paid pensions total less than € 3k per year. Risks are therefore essentially limited to the development of interest rates and longevity.

In France, risks are also essentially limited to the development of interest rates and longevity. An additional financial risk is the risk of employee turnover (due to the fact that employees do not draw benefits from the plan if they leave the company before reaching retirement age). The plan is not covered by plan assets, as is customary for small entities.

Provisions for pension obligations and other benefits

Provisions for pension obligations and other post-employment benefits developed as follows:

PENSION PROVISIONS 2014 *Table 070*

IN €K	
PENSION PROVISIONS AS OF 01/01/2014	**1,428**
Additions, thereof:	63
– Current service cost	63
– Past service cost	0
– General and administrative cost	0
Utilization	– 55
Interest cost	44
ACTUARIAL GAINS AND LOSSES TO BE POSTED TO OTHER COMPREHENSIVE INCOME:	
Gains (–) / losses (+) from changes in demographic assumptions	0
Gains (–) / losses (+) from changes in financial assumptions	229
Gains (–) / losses (+) from experience adjustments to defined benefit obligations	140
Gains (–) / losses (+) from plan assets (not included in interest income)	0
Effect from the limit on a defined benefit asset in accordance with IFRIC 14	– 107
Exchange differences from plans denominated in foreign currency	0
PENSION PROVISIONS AS OF 12/31/2014	**1,742**

PENSION PROVISIONS 2013

Table 071

IN €K	
PENSION PROVISIONS AS OF 01/01/2013	**1,307**
Additions, thereof:	218
– Current service cost	105
– Past service cost	111
– General and administrative cost	2
Utilization	– 34
Interest cost	37
ACTUARIAL GAINS AND LOSSES TO BE POSTED TO OTHER COMPREHENSIVE INCOME:	
Gains (–) / losses (+) from changes in demographic assumptions	– 37
Gains (–) / losses (+) from changes in financial assumptions	3
Gains (–) / losses (+) from experience adjustments to defined benefit obligations	– 92
Gains (+) / losses (–) from plan assets (not included in interest income)	67
Effect from the limit on a defined benefit asset in accordance with IFRIC 14	– 42
Exchange differences from plans denominated in foreign currency	0
PENSION PROVISIONS AS OF 12/31/2013	**1,428**

The following tables summarize the components of expenses recognized in the consolidated statement of income and amounts recognized in the consolidated statement of financial position for the respective plans.

Net benefit expense for defined benefit plans recognized in the consolidated statement of income:

NET BENEFIT EXPENSE *Table 072*

IN €K	2014	2013
Current service cost	63	105
Past service cost	0	111
Plan settlements	0	0
Net interest expense:		
Interest expense (DBO)	44	77
Interest income (plan assets)	0	–40
Interest income from reimbursements	0	0
Interest expense (+) / interest income (–) from the asset ceiling	0	0
Actuarial gains / losses	0	0
General and administrative cost	0	2
NET BENEFIT EXPENSE / INCOME	**107**	**255**
Actual return on plan assets	0	28

The expenses are recognized in general and administrative cost in the statement of income. The Group expects to make direct benefit payments of € 29k in the 2015 fiscal year.

Changes in the present value of the defined benefit obligations are as follows:

PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS *Table 073*

IN €K	2014	2013
DEFINED BENEFIT OBLIGATION AS OF JANUARY 01	**1,428**	**5,493**
Current service cost	63	105
Past service cost	0	111
Gains / losses on plan settlements	0	0
Interest cost	44	77
Benefits paid from plan assets	– 107	0
Benefits paid by employer	– 55	– 4
Plan settlements	0	– 4,177
Employee contributions	0	28
General and administrative costs (contained in DBO)	0	0
Taxes (contained in DBO)	0	0
Insurance premiums for risks	0	0
Business combinations	0	0
Reclassifications	0	0
Remeasurements:		
Gains (–) / losses (+) from changes in demographic assumptions	0	– 37
Gains (–) / losses (+) from changes in financial assumptions	229	3
Gains (–) / losses (+) from experience adjustments to defined benefit obligations	140	– 92
Exchange differences from plans denominated in foreign currency	0	– 80
Other	0	0
DEFINED BENEFIT OBLIGATION AS OF DECEMBER 31	**1,742**	**1,428**

Changes in the fair value of plan assets are as follows:

FAIR VALUE OF PLAN ASSETS

Table 074

IN €K	2014	2013
FAIR VALUE OF PLAN ASSETS AT JANUARY 01	**107**	**4,337**
Change in basis of consolidation	0	0
Expected returns on plan assets	0	40
Gains / losses on plan assets	0	– 67
Employee contributions	0	28
Employer contributions	0	30
Benefits paid from plan assets	– 107	0
Plan settlements	0	– 4,177
General and administrative cost	0	– 2
Plan settlements / adjustments	0	0
Exchange differences from plan assets denominated in foreign currency	0	– 83
FAIR VALUE OF PLAN ASSETS AT DECEMBER 31	**0**	**107**

As of December 31, 2014, there are no planned assets for defined benefit obligations following the dissolution of the pension plan in Switzerland.

The principal assumptions used in determining post-employment benefit obligations are shown below:

UNDERLYING ASSUMPTIONS FOR PENSION PROVISIONS

Table 075

IN %	2014	2013
Discount rate	2.03	3.08
Future salary increases (commitments in France)	2.00	2.00
Future pension increases (commitments in Germany)	2.00	2.00

As of December 31, 2014, the discount rate was 2.20 % in Germany and 2.00 % in France.

HEUBECK 2005G LIFE EXPECTANCY

Table 076

Age on 12/31/2014	Average male / female at age 65	Prior-year
65	20.89	20.75
45	23.49	23.37
40	24.11	23.98

Life expectancy is only presented for Germany. In France a lump sum is paid out, meaning that life expectancy is not a decisive factor.

The sensitivity analysis of underlying assumptions results in the following amounts:

SENSITIVITY ANALYSIS FOR PENSION PROVISIONS

Table 077

IN €K	**12/31/2014 Assumption**	**12/31/2014 Obligation**	+ 50 basis points	– 50 basis points
Discount rate	2.03 %	1,742	1,631	1,864
Future salary increases	2.00 %	1,742	1,850	1,643
Future pension increases	2.00 %	1,742	1,758	1,728

The duration of the obligations is 13 years.

An increase in life expectancy by one year results in an increase in the total obligation of € 19k.

21. DISCLOSURES ON LITIGATION

In the reporting period, there was various litigation pending in the Kontron Group. This litigation relates to the operating activities of group entities. To the extent that this litigation was not concluded in the reporting period, the Management Board does not assume that the outcome of these disputes will have a significant impact on the net assets, financial position and results of operations of the company.

The claim for damages (litigation as plaintiff) against various plaintiffs that has been ongoing in Malaysia since the 2010 fiscal year could not be resolved in the reporting period. With the action, a claim for damages of € 29,348k has been asserted. Kontron has not recognized receivables for the claim for damages. Three hearings were held in the reporting period to hear witnesses. The lawyers engaged by Kontron in Malaysia are not yet able to forecast when a verdict from the court action in Malaysia can be anticipated.

In connection with the relocation to the Augsburg and Deggendorf locations as part of the program to cut costs and enhance efficiency (CRP), employees again filed suits with the competent labor courts in the reporting year. The lawsuits pertain to the redundancy notices with the option to be reemployed on new terms or transfer notices issued by the company. Provisions have been set up for legal costs. These have been included under provisions for restructuring cost.

22. EQUITY AND STOCK OPTIONS

Kontron had 55,683,024 no-par bearer shares outstanding as of December 31, 2014. Each share represents € 1 of the issued capital. Different share categories do not exist.

The additional paid-in capital includes share premiums and expenses from share option schemes (see note (32)).

Retained earnings contains profits generated in the past by the entities included in the consolidated financial statements that have not been distributed, actuarial gains / losses from pensions and other post-employment benefits. In addition, since January 01, 2010, the difference between the consideration and the carrying value of the interest acquired when purchasing non-controlling interests has been recognized in retained earnings.

23. CONTINGENT CAPITAL

The company's share capital is contingently increased by contingent capital 2003 I by up to € 1,105k by issuing up to 1,104,850 new shares for conversion or subscription rights. The contingent capital increase will only be conducted to the extent that bearers of options issued under the 2003 stock option program make use of this option right. By resolution of the Annual General Meeting of Shareholders of June 09, 2010 the term of stock options issued but not yet exercised was extended until December 31, 2013. No stock options were outstanding as of December 31, 2014.

The company's share capital is contingently increased by contingent capital 2007 I by up to € 1,500k by issuing up to 1,500,000 no-par value shares (contingent capital 2007). The contingent capital increase will only be conducted to the extent that bearers of options issued under the 2007 stock option program make use of this option right. There were no stock options outstanding as of December 31, 2014 (prior year: 49,000).

The company's share capital is contingently increased by contingent capital 2011 by up to € 16,877k by issuing up to 16,876,662 no-par value shares (contingent capital 2011). The contingent capital increase will only be conducted to the extent that the bearers of convertible and / or warrant bonds issued based on the authorization granted by the Annual General Meeting of Shareholders on June 07, 2011 for issue by the company until June 06, 2016 make use of this conversion / option right. As in the prior year, this did not result in any convertible or warrant bonds as of December 31, 2014.

24. AUTHORIZED CAPITAL

By resolution passed at the Annual General Meeting of Shareholders of Kontron AG on June 07, 2011, authorized capital 2011 was approved, which replaced authorized capital from 2010.

The authorized capital 2011 authorizes the issue, once or several times, of up to 27,841,512 new individual share certificates denominated in the holder's name in exchange for cash contributions or contribution in kind subject to the approval of the Supervisory Board by June 06, 2016 (authorized capital 2011). In principle, shareholders are granted the right to subscribe to the new shares. The shareholders' statutory subscription right can also be granted to the shareholders in such a way that the new shares may also be acquired by one or more banks subject to the proviso that they offer them to the shareholders for subscription.

The Management Board is authorized to preclude, subject to the approval of the Supervisory Board, the shareholders' statutory subscription rights

- to the extent necessary to offset fractional amounts

- to the extent necessary to provide subscription rights for new shares to the creditors of the bonds (including profit participation rights and participating bonds) with convertible or warrant bonds or a conversion right granted by Kontron AG or one of its group entities as it would have been granted to them after the exercise of their conversion rights or options or after fulfilling their conversion obligations

- if the new shares are issued in exchange for contributions in kind for the purpose of business combinations, acquiring companies or equity investments in companies or parts of companies, receivables due from the company or for the issue of other assets.

- if the new shares are issued at a price per new share does not fall significantly below the quoted price, and the shares issued without subscription rights pursuant to Sec. 186 Sentence 4 AktG, do not represent more than 10% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. This limit of 10% is included in treasury shares during the term of this authorization in application of Sec. 186 (3) Sentence 4 AktG. Moreover, this limit is to include those shares that were or are issued in order to serve bonds (including profit participation rights and participating bonds) with convertible or warrant bonds or a conversion right, if the bonds or profit participating rights have been issued during the term of this authorization in exclusion of shareholders' subscription rights in application of Sec. 186 (3) Sentence 4 AktG.

After this authorization in exclusion of the shareholders' subscription rights in return for contributions in cash or in kind, the total of the issued shares may not represent more than 25% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. This limit of 25% is included in treasury shares during the term of this authorization. Moreover, this limit is to include those shares that were issued or are intended to serve bonds (including profit participation rights and participating bonds) with convertible and warrant bonds or a conversion right, if the bonds or profit participating rights have been issued during the term of this authorization in exclusion of shareholders' subscription rights.

The Management Board is also authorized, subject to the approval of the Supervisory Board, to decide on the content of the respective share rights and the conditions of share issue as well as on the further details concerning performance of the capital increase.

25. TREASURY SHARES

At the Annual General Meeting of Shareholders on June 09, 2010, the Management Board was authorized to redeem treasury shares with an imputed value of up to 10% of share capital. The authorization is valid until June 08, 2015.

In the reporting year, the company did not redeem any treasury shares or transfer any treasury shares to employees on account of share options.

As of December 31, 2014, Kontron holds 111,976 treasury shares (prior year: 111,976); this corresponds to a nominal amount of € 112k of share capital (prior year: € 112k). The imputed share of capital comes to 0.22% (prior year: 0.22%).

26. OTHER EQUITY COMPONENTS

Other equity components developed from € – 32,705k to € – 21,492k, primarily relating to exchange rate fluctuations.

27. NON-CONTROLLING INTERESTS

The share in equity attributable to non-controlling interests of € – 282k mainly comprises the subsidiary Kontron Compact Computers AG (€ – 391k). As of December 31, 2013, this item included the non-controlling interests of RTSoft ZAO (€ 2,526k) which was sold in 2014.

Applicable IFRS regulations stipulate that non-controlling interests are to be recognized in equity.

28. NATURE AND PURPOSE OF RESERVES

Additional paid-in capital

In addition to share premiums and costs of capital increases, additional paid-in capital also includes share-based payments. The share-based payment transaction reserve is used to recognize the value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. Please refer to note (32.1) for further information on these plans.

In order to offset the net loss for the year, € 33,700k was drawn from additional paid-in capital in favor of retained earnings of Kontron AG in the 2013 fiscal year.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

In addition, this reserve as of December 31, 2013 included exchange rate effects from discontinued operations. In the course of deconsolidating the discontinued operations, this reserve was derecognized in the 2014 fiscal year.

29. COMMITMENTS AND CONTINGENCIES

As of the December 31, 2014 reporting date, the Kontron Group had no commitments or contingencies.

30. OTHER FINANCIAL OBLIGATIONS

Besides liabilities, provisions and contingent liabilities, the Group has other financial obligations, in particular from rental and lease agreements for buildings, machinery, office furniture and other fixtures. Total other financial obligations break down as follows:

OTHER FINANCIAL OBLIGATIONS 2014

Table 078

IN €K	Due in less than one year	Due in one to five years	Due in more than five years	**2014 Total**
Obligations from operating leases	5,046	9,973	11,654	26,673
Other rental obligations	1,742	1,400	5	3,147
Other obligations	280	364	91	735
	7,068	**11,737**	**11,750**	**30,555**

OTHER FINANCIAL OBLIGATIONS 2013

Table 079

IN €K	Due in less than one year	Due in one to five years	Due in more than five years	2013 Total
Obligations from operating leases	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**

Order commitments for the supply of goods are within the scope of normal business activities.

Obligations from operating leases

The obligations from operating leases comprise future rental expenses for the properties at the Augsburg location. The agreement is valid until 2024.

Moreover, the Group has concluded lease agreements for various motor vehicles, plants and software licenses. These leases have an average life of between three and seven years. These lease agreements do not contain renewal or bargain-purchase options. The lease agreements did not impose any restrictions on the lessee.

The following lease payments were recognized as an expense in the reporting period:

LEASE PAYMENTS *Table 080*

IN €K	2014	2013
MINIMUM LEASE PAYMENTS FROM OPERATING LEASES	4,479	7,444

As part of the sale-and-leaseback transactions, SAP licenses totaling € 14,519k were sold in previous years to a leasing company and, at the same time, the company entered into lease agreements with the lease company for these SAP licenses. In the 2014 fiscal year, the agreements were extended until the end of 2015.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows presents the source and utilization of cash flows in the 2013 and 2014 fiscal years. In accordance with IAS 7 Statements of Cash Flows a distinction is made in the statement of cash flows between cash flows from operating activities and cash flows from investing and financing activities. In contrast to the consolidated statement of income, the statement of cash flows does not provide a separate presentation of discontinued operations. The amounts reported thus include both cash flows from continuing operations as well as those from discontinued operations.

The cash and cash equivalents presented in the statement of cash flows contain cash and cash equivalents shown in the statement of financial position, i. e., cash in hand, checks and bank balances which can be disposed of within three months of the time of contribution.

Cash flows from investing activities and financing activities are derived from the actual cash payments, while cash flows from operating activities are calculated indirectly from net income for the year. When performing the indirect calculation, changes in items of the statement of financial position considered in connection with operating activities are adjusted to eliminate exchange rate effects and changes in the consolidated group. For this reason, it is not possible to reconcile the changes in the relevant items of the statement of financial position with the corresponding figures evident from the published consolidated statement of financial position.

Investing activities comprise additions to property, plant and equipment and financial assets, as well as additions to capitalized development costs.

In the statement of cash flows, cash and cash equivalents as of December 31, 2013 diverge from the figure in the statement of financial position on account of the cash and cash equivalents of the discontinued operations, which have been included as held-for-sale assets in the statement of financial position. Further information in this context can be found in the disclosures on discontinued operations (note (8)) and cash and cash equivalents (note (9)).

OTHER DISCLOSURES IN THE NOTES

32. SHARE-BASED PAYMENTS

32.1. Stock option plans – stock options

In the 2007 fiscal year, stock option plans were set up for the Management Board, executives and employees with a maximum term of five years; any outstanding options lapsed as of December 31, 2013. These equity-settled share-based payment transactions resulted in income of € 55k at Kontron AG in 2013.

32.2. Performance share unit plans

Under the 2011 and 2012 performance share unit plans (2011 and 2012 PSU plans), performance share units (PSUs) were granted to members of the Management Board and employees of Kontron AG and its subsidiaries in January 2011 and 2012. These PSUs grant their holders a right to a cash settlement equal to the average share price, which is determined over a period of 30 calendar days prior to the respective payment date. There is no entitlement to Kontron AG shares with respect to the PSUs granted. The PSU plan generally makes it possible to grant additional stock options to certain employees and Management Board members through 2014.

In order to exercise the PSUs granted, certain conditions must be met:

- 20 % of the PSUs granted are vested over a period of four years from the grant date based on the fact that the beneficiaries remained employees at the company over this period.

- 80 % of the PSUs granted are subject to performance conditions being fulfilled as follows:

  2011 PSU plan: In order to be entitled to 80 % of the PSUs granted, the performance condition stipulates that for the year in which the PSUs were granted revenues must grow by 13 % and the EBIT margin (adjusted for special items) must reach at least 8.8 %. If these performance targets are not achieved, only a correspondingly smaller portion of the PSUs granted will vest. If revenues grow less than 9 % and the EBIT margin is below 6 %, the entitlement to 80 % of the PSUs granted is forfeited entirely.

  2012 PSU plan: In order to be entitled to 80 % of the PSUs granted, the performance condition stipulates that for the year in which the PSUs were granted revenues must reach an amount of € 600 million, the EBIT margin (adjusted for special items) must reach at least 8 % and the working capital ratio may not exceed 24 %. If these performance targets are not achieved, only a correspondingly smaller portion of the PSUs granted will vest. If revenues are below € 560 million, the EBIT margin is below 7 % and the working capital ratio exceeds 27 %, the entitlement to 80 % of the PSUs granted is forfeited entirely.

  The PSUs for which a performance condition was defined are also subject to a waiting period of three years.

After the waiting period, the beneficiaries receive a cash settlement corresponding to their vested PSUs equal to the average share price of Kontron AG, which is determined over a period of 30 calendar days prior to the respective payment date. The settlement amount may not exceed the double amount of the grant value per PSU which results from the average share price over a period of 30 calendar days prior to the respective grant date of the PSUs.

No new PSUs were granted in the 2014 and 2013 fiscal years.

As the term of the 2011 performance share unit plan ended as of December 31, 2014 and the fact that the majority of entitled employees have already left the company, the company has decided against recalculating the provision or recognizing additional disclosures on this plan.

PERFORMANCE SHARE UNIT PLAN

Table 081

PCES	
Grant date	01/03/2012
Outstanding PSUs taking into account the achievement of performance targets as of January 01, 2014	18,600
PSUs granted for each plan in the 2014 fiscal year	0
PSUs exercised for each plan in the 2014 fiscal year	0
PSUs forfeited for each plan in the 2014 fiscal year	3,160
Outstanding PSUs as of December 31, 2014	15,440

The granted performance share units are classified and measured as cash-settled share-based payments. Fair value of the liability to be recognized from the PSU plan was measured using a binomial option pricing model.

Measurement as of December 31, 2014 was based on the following model inputs:

PSU MODEL INPUTS

Table 082

Share price on the measurement date	€ 5.01
Remaining term of the PSUs	1 year
Expected dividend	0.00 %
Risk-free interest rate for the term	0.33 %
Expected volatility for the term	23 %
Expected beneficiary turnover for the term	3 %
Fair value of PSU	€ 5.01

Estimates reflect the future expected volatility based on the historical volatility extrapolated over an annual period. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The amounts recognized for the PSU plans in the consolidated financial statements for the 2014 fiscal year break down as follows:

PSU AMOUNTS RECOGNIZED *Table 083*

IN €K	2014	2013
Liability as of the reporting date	120	96
Expenses / income for the period	23	– 27

The amounts recognized in the statement of income are allocated to the corresponding functions.

32.3. Performance options plan

Under the performance option plans (POP), performance options were granted to members of the Management Board and employees of Kontron AG and its subsidiaries in the 2013 and 2014 fiscal years. In both fiscal years, performance options were granted in the form of basis performance options and premium performance options, which vary in the issue price. These performance options grant their holders a right to a cash settlement equal to the difference between the average share price over a period of 20 trade days after the respective exercise date and the exercise price. There is no entitlement to Kontron AG shares. The POP makes it possible to grant additional stock options to certain employees and Management Board members through 2016.

The following conditions were defined for the performance options granted in the 2013 fiscal year:

- The exercise price for the basis performance options corresponds to the unweighted average price of the Kontron share in the month of December prior to the grant.
- The exercise price of the premium performance options corresponds to 150 % of the exercise price of the basis performance options.
- Taking into account performance targets and blackout periods, the options can be exercised in a period of six months after a vesting period of one year and an additional waiting period of three years.
- Blackout periods are required by the Kontron “Insider Trading Policy” regulations. The exercise period is extended by the duration of the respective blackout period, although the constructive exercise period may not exceed six months.

- The following performance targets have been defined with respect to revenues and EBIT:
  - 70 % of the options granted are vested if the defined revenues target of € 547 million is reached for the 2013 fiscal year. If revenues are below € 383 million in the 2013 fiscal year, 80 % of the entitlement to the options granted is forfeited entirely.
  - An additional 30 % of the options granted are vested when the defined EBIT target (EBIT adjusted for special items, e. g., restructuring cost) of € 10 million is reached for the 2013 fiscal year. If EBIT is below € 3 million, 30 % of the entitlement to the options granted is forfeited entirely.
  - The way the performance targets are designed allows options to be vested in an interval of 0 % to a maximum of 125 % of the options originally granted.
- In addition, the payment of each option is capped at 400 % of the basis strike price.

The following conditions were defined for the performance options granted in the 2014 fiscal year:

- The exercise price for the basis performance options corresponds to the unweighted average price of the Kontron share in the month of December prior to the grant.
- The exercise price of the premium performance options corresponds to 150 % of the exercise price of the basis performance options.
- Taking into account blackout periods, the options can be exercised in a period of six months after a vesting period of one year and an additional waiting period of three years.
- Blackout periods are required by the Kontron "Insider Trading Policy" regulations. The exercise period is extended by the duration of the respective blackout period, although the constructive exercise period may not exceed six months.
- Fulfilling additional requirements regarding the individual targets being reached as a prerequisite for options to be granted was excluded by Supervisory Board resolution of July 24, 2014.
- In addition, the payment of each option is capped at 400 % of the basis strike price.

PERFORMANCE OPTIONS PLANS

Table 084

	2014 performance options plan		2013 performance options plan	
SHARES	Basis performance options	Premium performance options	Basis performance options	Premium performance options
Grant date	01/02/2014	01/02/2014	01/02/2013	01/02/2013
Outstanding performance options as of January 01, 2014	0	0	710,000	200,000
Performance options granted in the 2014 fiscal year	1,000,000	1,000,000	0	0
Performance options forfeited in the 2014 fiscal year	0	0	0	0
Outstanding performance options as of December 31, 2014	1,000,000	1,000,000	710,000	200,000
Outstanding performance options taking into account the achievement of performance targets as of December 31, 2014	1,000,000	1,000,000	569,842	140,439

The performance options are classified and measured as cash-settled share-based payments. Fair value of the liability to be recognized from the performance option plan was measured using a binomial option pricing model.

Measurement as of December 31, 2014 was based on the following model inputs:

MODEL INPUTS PERFORMANCE OPTIONS

Table 085

	2014 performance options plan		2013 performance options plan	
	Basis Performance Options	Premium performance options	Basis performance options	Premium performance options
Share price on the measurement date	€ 5.01	€ 5.01	€ 5.01	€ 5.01
Exercise price of the performance options	€ 5.37	€ 8.06	€ 3.86	€ 5.79
Remaining term of the performance options	4.33 years	4.33 years	3.33 years	3.33 years
Expected dividend	0.00 %	0.00 %	0.00 %	0.00 %
Risk-free interest rate for the term	0.22 %	0.22 %	0.18 %	0.18 %
Expected volatility for the term	34 %	34 %	34 %	34 %
Expected beneficiary turnover for the term	5 %	5 %	5 %	5 %
Fair value of performance option	€ 1.27	€ 1.27	€ 1.74	€ 0.95

Estimates reflect the future expected volatility based on the historical volatility extrapolated over an annual period. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The company recognized expenses of € 601k for the performance option plan and non-current liabilities of € 774k in the 2014 fiscal year. The expenses are allocated to the respective function.

33. EARNINGS PER SHARE

Basic earnings per share is determined pursuant to IAS 33 *Earnings per Share* by dividing the profit attributable to equity holders of Kontron AG by the weighted average number of shares outstanding during the fiscal year.

Diluted earnings per share is determined using the net income for the period adjusted for all changes in expenses and income that would result from a conversion of outstanding stock options. The number of shares is adjusted for all changes in the number of outstanding shares that would result from a conversion of outstanding stock options.

In the 2013 fiscal year, the outstanding stock options did not give rise to a dilutive effect, as their intrinsic value was negative during the reporting period. As of the reporting date, no stock options were outstanding due to the discontinuation of the stock option program as of December 31, 2013.

EARNINGS PER SHARE

Table 086

IN €K	2014	2013
NET INCOME / LOSS ATTRIBUTABLE TO EQUITY HOLDERS		
Continuing operations	–6,357	–23,949
Discontinued operations	97	–7,275
INCOME / LOSS ATTRIBUTABLE TO EQUITY HOLDERS FOR BASIC EARNINGS	**–6,260**	**–31,224**
Effect of shares with potentially dilutive effects:		
Share-based payments (after taking into account tax effects)	0	0
INCOME / LOSS ADJUSTED FOR THE EFFECT OF DILUTION	**–6,260**	**–31,224**
SHARES K		
WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES		
Basic	55,571	55,571
Effect of shares with potentially dilutive effects from stock options	0	0
ADJUSTED FOR THE EFFECT OF DILUTION	**55,571**	**55,571**

To calculate the basic and diluted earnings per share amounts for the discontinued operation (note (8)), the weighted average number of outstanding shares and the net income / loss attributable to equity holders from discontinued operations for both the basic and diluted amounts is as per the table above.

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

34.1. Financial instruments

Set out below is a comparison of the carrying amounts and fair value of the Group's financial instruments that are carried in the consolidated financial statements.

FINANCIAL INSTRUMENTS *Table 087*

	Category	Carrying amount		Fair value	
IN €K	IAS 39*	**2014**	2013	**2014**	2013
Financial assets					
Cash and cash equivalents	LaR	15,637	26,755	15,637	26,755
Trade receivables	LaR	115,083	88,619	115,083	88,619
Other financial assets	LaR	9,828	8,011	9,828	8,011
TOTAL LOANS AND RECEIVABLES		**140,548**	**123,385**	**140,548**	**123,385**
Available-for-sale financial assets	AfS	146	146	146	146
Derivative financial instruments	HfT	1	293	1	293
Held-to-maturity investments	HtM	43	44	43	44
TOTAL FINANCIAL ASSETS		**140,738**	**123,868**	**140,738**	**123,868**
Financial liabilities					
Interest-bearing loans	FLAC	36,037	35,129	36,037	35,129
Trade payables	FLAC	73,928	64,897	73,928	64,897
Derivative financial instruments	HfT	303	20	303	20
Other financial liabilities	FLAC	20,256	16,915	20,256	16,915
TOTAL FINANCIAL LIABILITIES		**130,524**	**116,961**	**130,524**	**116,961**

* LaR: Loans and receivables
AfS: Available-for-sale
HtM: Held-to-maturity
HfT: Held-for-trading
FLAC: Financial liabilities at amortized cost

The levels of the fair value hierarchy are defined by IFRS 7 as follows:

Level 1: Market prices quoted on active markets for identical assets or liabilities

Level 2: Other information than quoted market prices that can be directly (e. g., prices) or indirectly (e. g., derived from prices) observed

Level 3: Information relating to assets and liabilities that is not based on observable market data

The derivative financial instruments held by the Group consist of forward exchange contracts as well as foreign exchange swaps and qualify for classification in level 2. The fair value of derivative financial instruments is calculated as the forward rates as of the reporting date and the results are then presented at the discounted present value.

Net gains / losses from financial instruments

Table 088

	From interest	From subsequent measurement			Net income / loss	
IN €K		Currency translation	Marked-to-market	Impairment	**2014**	2013
Loans and receivables	8	582	0	– 1,547	– 957	– 3,552
Held-to-maturity investments	0	0	0	0	0	– 1
Derivative financial instruments	0	0	– 298	0	– 298	– 85
Financial liabilities	– 1,632	159	0	0	– 1,473	1,534
	– 1,624	**741**	**– 298**	**– 1,547**	**– 2,728**	**– 2,104**

Interest is recorded in the financial result. The other components of the net income / loss as well as the results from the measurement of forward exchange contracts are reported in the operating result.

34.2. Hedging policy and risk management

The Group's principal financial liabilities, other than derivatives, comprise bank loans and overdraft facilities, financial guarantees, trade payables and operating leases. The main purpose of these financial liabilities is to finance the Group's operations. The Group has various financial assets such as trade receivables, cash and short-term deposits that derive directly from its operations.

The Group also holds derivative financial instruments for the purpose of hedging foreign currency risks resulting from the Group's operations and sources of financing.

The Group did not trade in derivatives in the 2014 and 2013 fiscal years, and will also not do so in the future.

The Group's main risks comprise market risks (consisting of foreign currency, interest rate and pricing risks), liquidity risks and credit risks.

The Group's management agrees on policies for managing each of these risks which are summarized below.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when the revenues and / or expenses of an operating unit are denominated in a different currency to that unit's functional currency) as well as changes in the fair value of items denominated in foreign currencies as a result of changes in the relevant exchange rates.

Due to its international orientation, the Kontron Group is exposed to a foreign currency risk (transaction risk) in relation to various foreign currencies. Consequently, the Group's foreign currency hedging strategy focuses on the general hedging of amounts denominated in foreign currencies at the time an obligation denominated in a foreign currency arises by netting cash inflows and outflows in foreign currencies. As a global company, Kontron generates revenues and procures materials in US dollars and euros. The resulting currency effects offset each other over time to some extent. Any remaining differences from the booking of receivables and / or liabilities are hedged using short-term forward contracts. At the time that the financial statements were prepared, Kontron decided to eliminate or mitigate the risk arising from the difference between income and spending in foreign currencies in connection with planned transactions (which are highly likely to arise based on the Group's planning) using various hedging instruments in order to further optimize its hedging strategy. Foreign currency risks arising for Kontron AG in connection with the issuing of group financing to subsidiaries in their local currencies and / or liabilities to subsidiaries in connection with the Group's cash management activities are also hedged using forward exchange contracts.

Receivables and liabilities in the same currency are netted before any remaining fractional amounts are hedged.

Foreign currency hedging transactions are only entered into with banks with good credit ratings by the central Treasury department, and passed on to the subsidiaries if necessary by means of intercompany forward exchange contracts. Foreign exchange swaps in which the central Treasury department either purchases a foreign currency at the spot rate in return for euros with an agreement to sell it back at a later date at a particular exchange rate (or vice versa) are also concluded for the purpose of liquidity management and in order to optimize the Group's financial result.

The forward exchange contracts concluded in the 2014 fiscal year are not classified as hedges to secure cash flows, fair value or a net investment, and are measured at fair value through profit or loss. The period for which forward exchange contracts are entered into corresponds to the period in which foreign currency transaction risks are expected to occur (generally between one and twelve months). The volume of the forward exchange contracts varies depending on the volume of the anticipated sales and purchases in foreign currencies, the volume of the amounts remaining after netting receivables and liabilities denominated in foreign currencies, and fluctuations in the exchange rates.

The forward exchange contracts in place as of the reporting date have a total nominal value of € 14,651k (prior year: € 29,244k) and a fair value of € – 302k (prior year: € – 3k). Of this amount, outstanding forward exchange contracts with a positive market value accounted for € 1k (prior year: € 34k). As the Kontron Group only concludes forward exchange contracts with banks with good credit ratings, and concludes them with multiple banks in order to diversify the risk, the resulting credit risk can be classified as exceptionally low.

The Group's main transaction risks stem from changes in the USD / EUR exchange rate.

The following table demonstrates the sensitivity of the Group's net income / loss before tax (due to changes in the fair value of monetary assets and liabilities) and equity to a potential change in the exchange rate between the US dollar and the euro of ± 10 %. All other variables remain constant. The Group's exposure to exchange rate changes for other currencies is lower, which is why it has not presented a more extensive sensitivity analysis.

SENSITIVITY TO CHANGES IN EXCHANGE RATES

Table 089

	Change in USD rate	Effect on income / loss before tax and equity in €k
2014	+ 10 %	– 790
	– 10 %	966
2013	+ 10 %	– 216
	– 10 %	264

The following table demonstrates the sensitivity of the Group's income / loss to marking of the forward exchange contracts in place as of December 31, 2014 to market. The impact on earnings is presented based on a hypothetical change in the value of the euro with respect to the foreign currency of 5 % and 10 % respectively.

SENSITIVITY OF FORWARD EXCHANGE CONTRACTS

Table 090

Change in value of euro	Effect on income / loss before tax in €k	
	2014	2013
+ 5 %	440	1,107
+ 10 %	840	2,113
– 5 %	– 485	– 1,223
– 10 %	– 1,025	– 2,583

Interest rate risks

All financial liabilities held as of the reporting date are subject to variable interest. A 0.5 % p. a. increase in the Group's financing costs as of the reporting date would reduce its financial result by € 182k assuming a constant volume of financing in the full 2014 fiscal year. The Group's risk from potential interest rate increases can therefore be classified as low. The risk of changes in interest rates is analyzed on a regular basis by the central Treasury department.

Liquidity risk

The Kontron Group safeguards its liquidity and financial flexibility by forecasting liquidity on the basis of a fixed planning horizon. In addition to the "indirect" method based on the statement of financial position, this also takes the form of a rolling three-month forecast using the "direct" method. The conclusion of a revolving credit facility with a current volume of € 119,070k and a remaining term of more than two years gives the Group sufficient liquidity. The group companies are supplied with cash and cash equivalents as necessary by means of their inclusion in the Group's central cash management system. As part of this system, the central Treasury department makes internal lines of credit available to the subsidiaries. There are also some smaller, bilateral lines of credit available within the Group that can be utilized individually following consultation with the central Treasury department. Please refer to note (19) "Financial liabilities" for further details.

The following table shows the maturities of the Group's financial liabilities as of December 31, 2014 based on contractual, undiscounted payments.

MATURITY OF LIABILITIES AS OF 12/31/2014 *Table 091*

IN €K	On demand	Less than 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
Interest-bearing loans	2	3	0	35,938	0	35,943
Trade payables	33,452	39,293	878	305	0	73,928
Other financial liabilities	4,049	8,531	6,674	1,609	263	21,126
Interest	0	155	475	1,451	0	2,081
TOTAL	**37,503**	**47,982**	**8,027**	**39,303**	**263**	**133,078**

MATURITY OF LIABILITIES AS OF 12/31/2013 *Table 092*

IN €K	On demand	Less than 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**

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily in connection with defaults on trade receivables).

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to credit risk management. The individual counterparty credit limits are set accordingly. Outstanding receivables from customers are monitored on a regular basis. Depending on the nature and volume of the business in question, credit information is obtained or historical data regarding the business relationship to date (including payment patterns) is used to minimize the credit risk and avoid defaults on payment.

Kontron has a diversified customer base consisting of several thousand customers. The ten biggest customers make up about 37 % of the Group's total revenues, and the largest still accounts for under 10 % of total revenues. In most cases, the Group's relationships with its customers go back several years.

Another factor reducing the level of risk is the fact that the Group's customers are based in different countries, belong to different sectors and operate in markets that are largely independent of each other. The financial crisis raised the credit risk for receivables in the eurozone to some extent, which prompted Kontron to introduce a new global credit limit policy in October 2011. In connection with the introduction of the new policy, the existing credit limits were reviewed and the provision for credit risks was adjusted if necessary.

The need for valuation allowances is analyzed for each major customer on every reporting date, and a general valuation allowance is recognized for all other receivables from customers based on the maturity profile of the receivables.

Regardless of the collateral provided, the carrying amount of the financial assets indicates the maximum credit risk in the event that business partners do not meet their contractual payment obligations. The corresponding comments can be found in notes (11) and (12).

Capital management

The primary objective of the Group's capital management is to ensure that Kontron maintains a strong credit rating and equity ratio in order to support its business operations. A higher equity ratio generally means better creditworthiness and financial stability on the part of the company, and a reduced dependency of the company on external lenders. All of the individual equity components qualify as equity for the purposes of capital management.

EQUITY RATIO *Table 093*

IN €K	2014	2013
Equity	252,698	246,944
Total assets	421,820	444,634
EQUITY RATIO	**59.9 %**	**55.5 %**

As part of the credit facility that was concluded in the 2012 fiscal year and amended in the 2014 fiscal year, the company must comply with a minimum equity ratio in addition to other financial indicators. These were complied with in full in the 2014 fiscal year. Further information on this can be found in note (19).

The Group manages its capital structure and makes adjustments in response to changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

No changes were made to the objectives, policies and processes as of December 31, 2014 and December 31, 2013.

35. SEGMENT INFORMATION

In accordance with IFRS 8 (Operating Segments), external segment reporting reflects group-wide business management and internal financial reporting. Following the conversion of internal financial reporting in the fourth quarter of 2014, the operational management of the Kontron Group is performed based on the three global business units Industrial, Communications and Avionics / Transportation / Defense in which the business activities were combined based on similarity of products and services as well as the application range for customers. Up to and including the third quarter of 2014 the business activities of the Kontron Group were organized to regional segments EMEA, North America and Emerging Markets. Kontron AG (Holding) and Kontron ECT design s. r. o. were combined in "Other segments", as these companies do not have any operating activities, do not generate revenues or their business activities are immaterial to financial indicators that are submitted to the company's chief operating decision makers.

Transfer prices between operating segments are determined at arm's length.

SEGMENT INFORMATION 2014

Table 094

IN €K	Industrial	Communications	Avionics / Transportation / Defense	Other	Consolidated financial statements
REVENUES	**205,442**	**110,952**	**140,405**	**0**	**456,799**
OPERATING RESULT (EBIT)	**14,188**	**6,859**	**18,392**	**– 44,511**	**– 5,072**
TRADE RECEIVABLES	**98,938**	**19,961**	**31,214**	**0**	**150,113**

Segment Other includes intercompany items that are eliminated as well as income or expenses that are not directly allocable to the segments, in particular restructuring cost in the amount of € 13,866k. The remaining amount mainly refers to cost for support functions such as human resources, information technology and finance.

The new internal financial reporting includes trade receivables prior to the recognition of allowances as an accounting-related indicator.

The conversion of the internal reporting to the new business management system by business unit that took place in the 2014 fiscal year could not be applied retroactively to the 2013 fiscal year. As a result, there is no comparative information available for segment reporting according to the new structure. Instead, segment information is presented again according to the previous structure (by region) for both the 2014 fiscal year and the comparative year.

SEGMENT INFORMATION BY REGION 2014

Table 095

IN €K	EMEA	North America	Emerging Markets	Other segments	Consoli-dation	Consolidated financial statements
REVENUES						
External customers	257,510	172,628	26,661	0	0	456,799
With other segments	39,870	36,751	5,847	0	– 82,468	0
TOTAL REVENUES	**297,380**	**209,379**	**32,508**	**0**	**– 82,468**	**456,799**
INCOME / LOSS						
Depreciation and amortization	10,681	7,387	385	2,206	0	20,659
Impairment losses	1,813	1,786	0	0	0	3,599
EBIT	9,449	– 907	3,491	– 16,933	– 172	– 5,072
Financial result	– 879	– 246	– 209	– 1,554	1,050	– 1,838
Income taxes	– 4,225	544	– 669	5,133	– 266	517
NET INCOME / LOSS	**4,345**	**– 609**	**2,613**	**– 13,355**	**611**	**– 6,394**
WORKING CAPITAL	**85,338**	**37,440**	**9,443**	**– 6,092**	**– 846**	**125,283**
LIABILITIES						**35,943**

SEGMENT INFORMATION BY REGION 2013

Table 096

IN €K	EMEA	North America	Emerging Markets	Other segments	Consoli-dation	Consolidated financial statements
REVENUES						
External customers	218,325	204,748	22,180	0	0	445,253
With other segments	41,482	21,870	9,773	0	– 73,125	0
TOTAL REVENUES	**259,807**	**226,618**	**31,953**	**0**	**– 73,125**	**445,253**
INCOME / LOSS						
Depreciation and amortization	13,013	7,487	388	1,251	0	22,139
Impairment losses	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 taxes	2,180	409	– 215	3,538	675	6,587
NET INCOME / LOSS	**– 8,666**	**– 682**	**– 1,804**	**– 45,139**	**32,301**	**– 23,990**
WORKING CAPITAL	**63,478**	**41,628**	**5,245**	**– 2,723**	**– 801**	**106,827**
LIABILITIES						**35,129**

The segment information in the annual report 2013 incorrectly included effects from discontinued operations. This was corrected in this year's presentation.

Explanation of segment information by region:
Intersegment revenues are eliminated on consolidation.

The working capital segment is calculated using segment inventories (without prepayments made or receivables from construction contracts) plus segment trade receivables less segment trade payables (without prepayments received).

Liabilities include short-term and long-term bank liabilities. The company has opted not to present by segment as bank liabilities are managed centrally by the Treasury department.

Consolidation includes intercompany items such as income or expenses that are eliminated and not directly allocable to the segments.

Segment information about geographical areas:

SEGMENT INFORMATION ABOUT GEOGRAPHICAL AREAS 2014

Table 097

IN €K	Germany	Rest of world
REVENUES EXTERNAL CUSTOMERS	73,636	383,163
thereof USA		119,128
thereof China		70,494
NON-CURRENT ASSETS	43,567	50,697
thereof USA		34,498
thereof Canada		8,330

SEGMENT INFORMATION ABOUT GEOGRAPHICAL AREAS 2013

Table 098

IN €K	Germany	Rest of world
REVENUES EXTERNAL CUSTOMERS	82,400	362,853
thereof USA		141,830
thereof China		60,835
NON-CURRENT ASSETS	45,460	51,961
thereof USA		32,155
thereof Canada		9,594

Revenues are distributed to segments based on the registered offices of the customers. Non-current assets do not contain financial instruments or deferred tax assets.

36. RELATED PARTY DISCLOSURES (RELATED PARTIES AS DEFINED BY IAS 24)

Related parties in the meaning of IAS 24 are persons or entities that can be influenced by the reporting entity or that can influence the entity.

At year-end there were no outstanding balances due to related parties.

Related parties

Table 099

IN €K	2014	2013
SUPERVISORY BOARD		
Consulting fees	0	23

Disclosures on the Supervisory Board and the Management Board are illustrated in note 38.

37. FEES OF THE AUDITOR

Expenses recognized for audit fees of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft totaled € 715k in the reporting year and break down into audit services of € 607k, other assurance services of € 9k and tax services of € 99k.

38. DISCLOSURES ON THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

The total remuneration of the Management Board and the Supervisory Board members comprises fixed and variable components. The variable salary components are based on the results generated by the company and its economic situation.

Remuneration breaks down as follows:

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD *Table 100*

	Remuneration 2014		Remuneration 2013	
IN €K	fixed*	variable	fixed*	variable
Rolf Schwirz	679	500	670	500
Michael Boy (since June 16, 2014)	218	82	0	0
Andreas Plikat	276	150	265	150
Total	**1,173**	**732**	**935**	**650**
Supervisory Board	322	0	281	0

* incl. non-pecuniary benefit of other incentives

The remuneration presented above is exclusively current. There are no non-current remuneration components apart from the share-based payments presented below.

The following amounts were recorded for share-based payments of the Management Board and the Supervisory Board members:

SHARE-BASED PAYMENTS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Table 101

	2014		2013	
IN €K	PSU plans	POP plan	PSU plans	POP plan
Rolf Schwirz	0	236	0	95
Michael Boy (since June 16, 2014)	0	27	0	0
Andreas Plikat	8	79	10	31
Total	**8**	**342**	**10**	**126**
Supervisory Board	0	0	0	0

The members of the Management Board and the Supervisory Board were not granted share-based compensation in the form of share options in the reporting year or the prior year.

The Management Board and the Supervisory Board members received the following performance options as part of the performance option plan (non-current remuneration component) in the reporting year:

PERFORMANCE OPTIONS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Table 102

	Number of performance options	
SHARES	Basis performance options	Premium performance options
Rolf Schwirz	200,000	100,000
Michael Boy (since June 16, 2014)	100,000	0
Andreas Plikat	100,000	0
Total	**400,000**	**100,000**
Supervisory Board	0	0

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

Member of the Management Board Mr. Andreas Plikat also has the right under a change-of-control arrangement to terminate his service agreement prematurely in the event of a takeover. Correspondingly, the Management Board member is entitled to continue receiving salary payments up to the regular end of the term of the Management Board member’s contract. In this case, the Management Board member receives a severance payment not exceeding the sum of total remuneration for two years.

Member of the Management Board Mr. Michael Boy also has the right under a change-of-control arrangement to terminate his service agreement prematurely in the event of a takeover. The contractual rights to receive remuneration remain in place until the termination of service agreements. In this case, the Management Board member receives a severance payment not exceeding the sum of total remuneration for two years.

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

Member of the Management Board Mr. Rolf Schwirz has the right to terminate his service agreement prematurely in the event of a dismissal in the first 24 months of his term of service. In this case, the Management Board member receives a single payment equivalent to two years’ total remuneration and 50 % of remuneration for the period up to the end of the term in excess of the 24-month period.

In the reporting year, there were no pension obligations due to Management Board or Supervisory Board members or former Management Board or Supervisory Board members.

Management Board and Supervisory Board shares and share options

Table 103

SHARES	Shares	Share options
SUPERVISORY BOARD		
Rainer Erlat	0	0
Peter Bauer	0	0
Sten Daugaard	0	0
Martin Bertinchamp	30,500	0
Harald Joachim Joos (since August 13, 2014)	0	0
Dr. Harald Schrimpf	2,500	0
Lars Singbartl (until June 30, 2014)	0	0
MANAGEMENT BOARD		
Rolf Schwirz	25,000	0
Michael Boy (since June 16, 2014)	0	0
Andreas Plikat	13,000	0

APPOINTMENTS IN OTHER OVERSIGHT BOARDS HELD BY MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Table 104

Management Board	
ROLF SCHWIRZ Chairman of the Management Board	
MICHAEL BOY Board Member Corporate Finance Member in oversight boards: Advisory Council of Firma Hengstenberg GmbH & CO. KG, Esslingen, Germany Provincial Advisory Council of Commerzbank Süd / Südwest, Munich, Germany Advisory Council of Firma Perkura GmbH, Nuremberg, Germany	since June 16, 2014 until July 31, 2014
ANDREAS PLIKAT Board Member Corporate Development and Technology	

Table 104

Supervisory Board	
RAINER ERLAT Chairman of the Supervisory Board Partner of redpartners GmbH, Berlin, Germany Member in oversight boards: EMC International Ltd., Cork, Ireland	
PETER BAUER Deputy Chairman of the Supervisory Board Freelance business consultant Member in oversight boards: OSRAM Licht AG, Munich, Germany OSRAM GmbH, Munich, Germany Infineon Technologies AG, Neubiberg, Germany	 since February 12, 2015
STEN DAUGAARD Freelance business consultant Member in oversight boards: Thomas Cook AG, Oberursel, Germany	
HARALD JOACHIM JOOS Senior Advisor Warburg Pincus Deutschland GmbH Member in oversight boards: Berliner Volksbank e.G., Berlin, Germany Deutsche Bank Düsseldorf, Germany Fraunhofer Gesellschaft Berlin, Germany Hertha BSC GmbH, Berlin, Germany Oystar Holding GmbH, Karlsruhe, Germany Ultima GmbH, Luxembourg, Luxembourg	since August 13, 2014 until February 28, 2015
MARTIN BERTINCHAMP Chairman of the management of COMPO GmbH & Co. KG Member in oversight boards: Rothenberger Werkzeuge AG, Frankfurt Huber Packaging GmbH, Öhringen	
DR. HARALD SCHRIMPF Chairman of the management board of PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Berlin, Germany	
LARS SINGBARTL Investment director	until June 30, 2014

39. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of Kontron AG authorized the consolidated financial statements for presentation to the Supervisory Board on March 13, 2015.

The Supervisory Board is responsible for reviewing and ratifying the consolidated financial statements.

No further changes are possible once the Supervisory Board has reviewed and ratified them.

40. AFFILIATES AND CONSOLIDATED COMPANIES OF THE KONTRON GROUP AS OF DECEMBER 31, 2014

Table 105

	Share in capital (%)	Local currency (LC)	Equity* (LC in k)	Net income / loss for the year* (LC in k)
KONTRON EUROPE GMBH, AUGSBURG (FORMERLY: KAUFBEUREN)	**100**	**EUR**	**103,583**	**8,821**
Indirectly via Kontron Europe GmbH				
Kontron ECT design s.r.o., Pilsen, Czech Republic	100	CZK	2,558	1,925
Kontron UK Ltd., Chichester, UK	100	GBP	2,365	339
Kontron Modular Computers S.A.S., Toulon, France	100	EUR	13,015	416
Kontron Technology A / S, Hørsholm, Denmark	100	DKK	984	– 5,458
Kontron East Europe Sp. z o.o., Warsaw, Poland	97.5	PLN	7,967	– 12,421
Kontron Modular Computers AG, Cham, Switzerland	100	CHF	3,471	14
KONTRON MANAGEMENT GMBH, AUGSBURG (FORMERLY: KONTRON VERWALTUNGS GMBH, KAUFBEUREN)	**100**	**EUR**	**– 142**	**– 159**
KONTRON COMPACT COMPUTERS AG I.L., LUTERBACH, SWITZERLAND	**96.6**	**CHF**	**– 19,359**	**– 566**
KONTRON AMERICA INC., SAN DIEGO, USA	**100**	**USD**	**55,841**	**– 4,240**
KONTRON CANADA INC., BOISBRIAND, CANADA	**100**	**USD**	**42,665**	**2,848**
KONTRON ASIA PACIFIC DESIGN SDN. BHD., PENANG, MALAYSIA	**100**	**MYR**	**– 69,502**	**2,456**
KONTRON (BEIJING) TECHNOLOGY CO. LTD., BEIJING, CHINA	**100**	**CNY**	**81,481**	**8,168**
Indirectly via Kontron (Beijing) Technology Co. Ltd.				
Kontron Hongkong Technology Co. Ltd., Hong Kong, China	100	CNY	367	250
KONTRON AUSTRALIA PTY LTD., SYDNEY, AUSTRALIA	**90**	**AUD**	**177**	**– 28**
KONTRON TECHNOLOGY INDIA PVT. LTD., MUMBAI, INDIA	**55**	**INR**	**12,054**	**10,000**

* Information as of December 31, 2014

Disclosures on equity and net income / loss have been derived from the financial statements of subsidiaries that were prepared for consolidation purposes (HB II figures).

In the 2014 fiscal year, the subsidiary Kontron Europe GmbH made use of the exemption clause according to Sec. 264 (3) HGB.

CLOSING RATES DECEMBER 31, 2014

Table 106

Closing rate	12/31/2014	Closing rate	12/31/2014
AUD	1.48	INR	76.72
CHF	1.20	MYR	4.25
CNY	7.54	PLN	4.27
CZK	27.74	RUB	72.34
DKK	7.45	USD	1.21
GBP	0.78	TWD	38.49

41. SUBSEQUENT EVENTS

At the beginning of 2015, further restructuring measures were approved and their implementation has been initiated. These involve adjustments to the workforce and the closure of one foreign operation. The associated restructuring cost amounts to less than € 1 million.

42. DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The Management Board and the Supervisory Board of Kontron AG issued a declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG [“Aktiengesetz”: German Stock Corporations Act] on December 10, 2014. The declaration was made permanently available to the shareholders on the homepage.

Augsburg, March 13, 2015

Kontron AG
The Management Board

Rolf Schwirz **Michael Boy** **Andreas Plikat**

AUDIT OPINION

"We have audited the consolidated financial statements prepared by Kontron AG, Augsburg, (formerly 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 January 01, 2014 to December 31, 2014. 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, March 23, 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Christ
Wirtschaftsprüfer
[German Public Auditor]

Hold
Wirtschaftsprüferin
[German Public Auditor]

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Augsburg, March 13, 2015

Kontron AG
The Management Board

Rolf Schwirz **Michael Boy** **Andreas Plikat**

FURTHER INFORMATION

GLOSSARY

Application Software solution or program that performs certain functions.

APAC The Asia Pacific region. For Kontron this includes the entities in China, Malaysia, India, and Australia.

Book-to-bill ratio An indicator used in business to express the ratio between the order intake to the sales revenue of a certain period. It is an important indicator of how dynamic a sector is.

COM Express® Computer-on-Module (COM). A standard defined by PICMG for use in various segments. It always needs a customer-specific carrier board that has been adapted to the mechanical and periphery specifications of the individual system.

Commoditization The process of increasingly rapid technical and qualitative standardization.

Computer-on-Modules Collective term for a number of different CPU module standards.

Debt ratio The ratio of debt to total debt and equity capital

ECT Embedded Computer Technology describes hard- und software integrated into a progressed technical context. ECT performs specific tasks, such as controlling, steering or regulating functions or can perform special forms of data-processing or transmission. ECT systems are made up of a precisely coordinated combination of hardware and software that is generally developed for the specific applications it is tasked with.

EMEA (European, Middle East and Africaneconomic region) This region comprises the economies of Europe, comprisingWestern and Eastern Europe, the Middle East and Africa . For Kontron this includes its entities in Germany, France, the Czech Republic, Poland, Denmark, and the United Kingdom.

EMS Electronic Manufacturing Services.

Intel® Atom™ Processor Low cost energy-efficient processor for netbooks and mobile devices.

Intel® Core™ Processor Family A new generation of processor technologies which allow two or more autonomous processor cores on one chip and therefore offer significantly more processing power for the same space and power consumption as comparable single core processors.

Interoperability Ability for systems to operate together with as little frictional loss as possible.

IoT (Internet of Things) relates to the convergence of information technology (e. g. administration) and operational technology (e. g. plant and equipment). IoT also describes the convergence of hardware and software based solutions which open up a range of completely new services. The added value lies in optimizing the entire life cycle of products, systems or assets. Examples include tracking and localizing assets, optimizing logistics processes and issuing warnings about critical processes, e. g. security analytics.

KBox Compact industrial PCs that are optimized for certain applications, like automation, transport and infotainment. Due to the different housing options, all Box PCs in the KBox family can be used for a wide variety of applications. Because they do not have a fan, KBox PCs are being increasingly used in fields where maintenance cannot be easily performed. The Box PCs in the KBox family meet the highest quality standards for demanding applications.

M2M (Machine-to-Machine) Key hardware and software-based technologies that allow intelligent, distributed and networked systems to communicate on the basis of a common communication infrastructure and resources. This exchange of information generally relates to production facilities in factories, fleets, energy generation and distribution, oil and gas production, etc. Typical applications include remote maintenance of machines and systems to reduce operational costs or improve productivity. The term OT (operational technology) is often associated with M2M.

Mobile computing The ability for a computer to be operated on the go, generally wireless and in the process communicate with other stationary or mobile end devices. For example, data can be transmitted via mobile phone networks or wireless local area networks (WLAN). While most end-users understand mobile computing as the use of cellphones, laptops and tablets, in embedded computing the term also refers to computers in vehicles and self-propelled machines. This places high demands on vibration resistance and the range of permissible operating temperatures. Most of these installations have wireless capability such as WLAN or cellphone connectivity.

OEM (Original Equipment Manufacturer) are purchases of hardware components that a supplier or hardware manufacturer has produced. OEMs then assemble these components to create their own products and market these solutions under their own name.

Platform concept Consistent use of a computing platform enables developers to use tested modules of hardware and software and system technology to produce products in a range of forms and families. Under the platform concept, a system is broken down into modules during the planning stage already to harmonize, develop and test potential product families in order to attain the best possible cost-efficiency and product stability.

Rackmount PC Scalable industrial PCs that can be expanded by inserting additional circuit boards into a rack, used mostly in industrial automation, defense and transport.

Rackmount Switch An industrial Ethernet switch, used in 19 inch industrial systems as distribution points for Ethernet copper and fiber optic cables in industry, communication and defense technology.

R&D (research and development) at Kontron refers to the R&D department (formerly known at Kontron as the "IBT" Innovation & Base Technology department).

SMARC Kontron develops many standards which have a global influence on embedded computer platform development. SMARC (Smart Mobility ARCitectur) is one of these standards and is the first specified form factor of SGET (Standardization Group for Embedded Technologies e. V.). SMARC allows the realization of particularly small electronic computer-on-module designs with very low electricity consumption.

SYMKLOUD is a rack-mounted server which offers a very high number of cores per rack for the communications sector. The increasing use of video services and the outsourcing of a growing volume of data to cloud solutions is fueling demand for scalable energy efficient computers. SYMKLOUD is tailored specifically to these applications as the number of CPUs and storage capacity can be scaled to create the optimal platform.

TRACe B304 Industrie-PC is a fan-less computer that has been optimized for use in trains. It offers the required certification (e. g. EN50155) and interfaces. Typical fields of application include onboard use of the internet and video monitoring.

Sources: Wikipedia, ITWissen Online and Gablers Wirtschaftslexikon Online, Duden. Kontron website: www.kontron.com

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GRAPHS AND TABLES

THE KONTRON GROUP IN A MULTI-YEAR OVERVIEW

Table 107

		2009	2010	2011	2012 [1]	2013 [1]	**2014**
RESULTS OF OPERATIONS							
Revenues	€ million	468.9	509.5	589.6	466.9	445.3	456.8
EBITDA [2]	€ million	42.3	14.0	55.7	7.5	– 0.5	19.2
EBIT [3]	€ million	30.1	– 5.8	34.1	– 24.7	– 29.0	– 5.1
EBT [4]	€ million	29.6	– 8.2	32.6	– 26.5	– 30.6	– 6.9
Income / loss from continuing operations	€ million	21.9	– 13.4	22.9	– 26.1	– 24.0	– 6.4
Earnings per share (continuing operations)	€	0.41	– 0.24	0.39	– 0.46	– 0.43	– 0.11
PROFITABILITY							
EBIT margin [5]	%	6.4	– 1.1	5.8	– 5.3	– 6.5	– 1.1
EBT margin [5]	%	6.3	– 1.6	5.5	– 5.7	– 6.9	– 1.5
Return on equity [6]	%	6.6	– 4.2	6.9	– 9.1	– 9.7	– 2.5
Return on investment (ROI) [7]	%	6.4	– 1.6	6.2	– 5.8	– 6.9	– 1.6
STATEMENT OF FINANCIAL POSITION							
Total assets	€ million	461.3	515.6	523.5	460.4	444.6	421.8
Equity	€ million	332.9	320.8	333.6	286.7	246.9	252.7
Financial debt	€ million	24.6	46.3	37.3	14.5	35.4	36.1
Equity ratio [8]	%	72.2	62.2	63.7	62.3	55.5	59.9
CASH FLOW [9]							
Cash flow from operating activities	€ million	23.9	16.2	31.6	46.2	2.0	1.7
Cash flow from investing activities	€ million	– 28.9	– 48.5	– 29.3	– 18.9	– 20.0	– 15.4
Cash flow from financing activities	€ million	32.4	6.4	– 22.4	– 38.0	23.0	– 2.9
EMPLOYEES							
Number of employees		2,487	2,892	3,057	1,574	1,479	1,342
Revenues per employee	€k	188.5	176.2	192.9	296.6	301.1	340.4

1 Continuing operations
2 EBITDA is defined as EBIT before depreciation and amortization
3 EBIT is defined as earnings before financial income and taxes
4 EBT is defined as earnings before taxes
5 Margins refer to revenues
6 Return on equity = Income / loss from continuing operations / Equity
7 Return on Investment (ROI) = EBT / Total assets
8 Equity ratio = Equity / Total assets
9 No breakdown of continuing and discontinued operations is made in the statement of cash flows

FINANCIAL CALENDAR

Table 108

March 25, 2015	Publication of the 2014 Annual Report
March 25, 2015	Annual Results Press Conference
May 06, 2015	Publication of Q1/2015 Quarterly Report
June 11, 2015	Annual General Meeting of Shareholders
July 30, 2015	Publication of Q2/2015 Quarterly Report
October 29, 2015	Publication of Q3/2015 Quarterly Report

Our annual report and our quarterly reports can be found on our website www.kontron.com/investor from publication date. Any eventual date changes are also announced on our website in good time.

This annual report was published on March 25, 2015. It is available in German and in English. The German version is authoritative.

The management report contains statements relating to the future that are based on current assumptions and estimates of the Management Board concerning future development. Although we are of the opinion that the assumptions and estimates are realistic and correct, they are subject to certain risks and uncertainties that may cause actual future results to diverge materially from the assumptions and estimates. Factors that may result in a discrepancy include changes in the overall economic, business, financial and competitive situation, exchange and interest rate fluctuations as well as changes to the business strategy. We cannot guarantee that the future development and actual future results will coincide with the assumptions and estimates expressed in this annual report. Assumptions and estimates presented in this report will not be updated.

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