Reliability in Innovation

2012 Kontron Group Annual Report

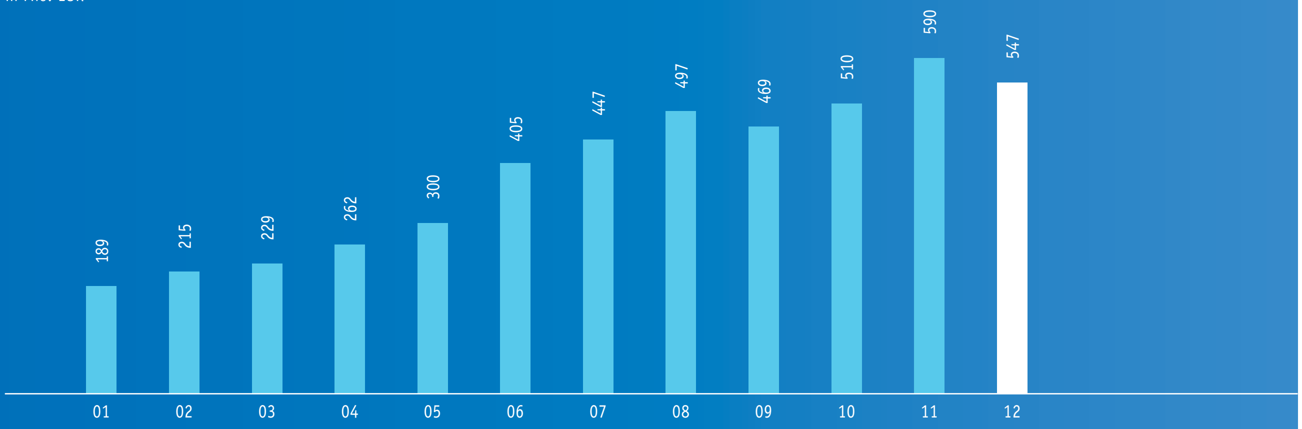
Kontron in figures

		2012	2011
Results of operations and profitability data			
Revenues	Mio. EUR	547.0	589.6
EBITDA[1]	Mio. EUR	11.4	55.7
EBITDA-Margin[2]	%	2.1	9.4
EBIT[3]	Mio. EUR	-32.5	34.1
EBIT[3] (adjusted for special items)[4]	Mio. EUR	0.2	38.1
EBIT-Margin[2] (adjusted for special items)[4]	%	0.04	6.5
EBT	Mio. EUR	-34.5	32.6
Net income	Mio. EUR	-33.6	22.9
Earnings per share	EUR	-0.59	0.39
Balance sheet			
Balance sheet total	Mio. EUR	460.4	523.5
Equity	Mio. EUR	286.8	333.6
Equity ratio	%	62.3	63.7
Finance debt	Mio. EUR	14.5	37.3
Cash Flow			
Cash flow from operating activities	Mio. EUR	46.2	31.6
Personnel			
Number of personnel (December, 31)		2,208	3,057
Revenues per employee	EUR	247,715	192,859

[1] EBITDA is defined as EBIT before depreciation and amortization.
[2] The margins pertain to revenues respectively.
[3] EBIT is defined as earnings before financial income and taxes.
[4] The special items in 2011 comprise non-recurrent costs in connection with the disposal of production capacities in Malaysia. The special items in 2012 include in particular write-downs of goodwill, inventories, SAP software and development projects capitalized as well as restructuring costs, severance payments and consultancy fees in connection with "Shape". More information is available on page 56.

Sales Growth 2001 - 2012

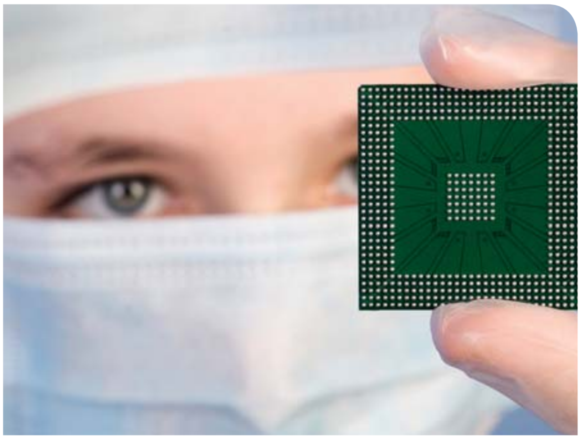
in Mio. EUR



TO THE SHAREHOLDERS

Contents

Reliability in Innovation



FINANCIAL STATEMENT

FURTHER INFORMATION

Rolf Schwirz
Chief Executive Officer

Reliability in innovation

We will continue to apply ourselves to developing innovative solutions for our customers in the future with enthusiasm and elan, and sustainably develop the company. Exciting challenges are awaiting us!

Ladies and Gentlemen and our Shareholders,

The year 2012 was a difficult one for Kontron in a challenging environment. Ongoing discussions about stability in the eurozone and the unresolved debt situation in Europe and in the USA caused uncertainty about the future developments of the economy. Order volumes from the public sector so important for our business – and increasingly from industry as well – were impacted. This situation is compounded by fiercer competition. As a result, the revenues mix has changed in comparison with the preceding years, and the gross margin fell by a good 4 %.

The development of the key figures in the reporting year is first and foremost a reflection of the continued sound financial basis for the growth of our company in the dynamic market environment for embedded computer technology. At the same time, however, operating performance was unsatisfactory in 2012. Kontron fell far short of its original guidance. What does this mean in figures? Revenues stood at EUR 547.0 million (-7.2 %) and earnings before interest and tax (EBIT), including special items of EUR -32.7 million, posted EUR -32.5 million. Our starting position for the future is nonetheless very promising. Our equity ratio stands at 62.3 %, operating cash flow of EUR 46.2 million is clearly in the black, and the net cash position amounts to EUR 13.2 million.

The first measures of our "Shape" optimization program were adopted in 2012. Sharpening our business model, stepping up customer focus and global activities and enhancing the efficiency of our organization and processes are key objectives. We will be concentrating on strengthening our development competence in selected global business units. This will allow technologies – once developed – to be used in similar application environments more swiftly and with less outlay. In addition, we plan to reinforce our presence in a number of regional growth markets, in China for example. Here, for instance, we intend to expand the local development capacities we already have as well as to build up special product lines that cater more specifically to the needs of customers in this country.

In future, we aim to focus on selected areas of value creation, and emphasize our strengths as a solution provider. This is the reason why we disposed of activities in 2012 that were not suited to our core business. These measures included the sale of our production site for standard components in Malaysia at the start of 2012, and the disposal of our AP Parpro aircraft component manufacturing in Mexico in the summer of 2012, as well as of our Czech holding Merz s.r.o. at the end of 2012. The 18.8 % share price performance downturn in 2012 was just as disappointing us as it was for our shareholders. However, we view the uptrend in the Kontron share price since December 2012 as an indication that we are on the right track with our "Shape" optimization program. Consequently, the year 2013 will be a year of change and transformation during which a newly-focused Kontron will at minimum be returned to the profit level seen in recent years in the medium term.

Challenging tasks for which we are well equipped lie ahead of us. On behalf of the entire Management Board, I would like to thank our business partners and investors for the trust they have placed in us. Our thanks also go to our employee team, for their enormous dedication in backing our corporate strategy, for mastering challenges day in day out, and for seizing the manifold market opportunities. We will continue to apply ourselves to developing innovative solutions for our customers in the future with enthusiasm and elan, and sustainably develop the company. Exciting challenges are awaiting us!

Eching, in March 2013

Sincerely,

Rolf Schwirz
Chief Executive Officer

In established markets, the long-term success of a company depends on its ability to continuously improve its processes and products. Especially in industrial automation it is decisive to harness the most intelligent solutions to outpace competitors. And this is where our open systems for industrial control and monitoring play a key role. Medical technology is no different – ever rising performance levels are imperative. Intelligent medical care devices and the consistent trend towards mobile units create new and convenient ways of delivering patient care.

IMPROVING PERFORMANCE

Improving Performance AUTOMATION

Frank Reitter, Development, Heidelberger Druckmaschinen AG

As a global technology leader in the print media industry, working with partners who have the same philosophy of high quality as ourselves is especially crucial. We have relied on Kontron's innovative technology in our printing presses for over 15 years. The ability to develop solutions with a long service life that are geared to our individual specifications is highly important to us. This is why we opt for Kontron when it comes to our operating computers that are close to the heart of our products.

Customized Box PC

Improving Performance
MEDICAL TECHNOLOGY

Michael Erben,
Head of Development at Leica Biosystems GmbH

At Leica Biosystems we concentrate on providing solutions for our partners in the field of anatomical pathology that ensure optimum reliability in cancer diagnosis. There is simply no room for error in this sensitive area. High quality, accurate sampling and productivity – these are the key requirements of our solutions. We make the same demands on our technology partners. Kontron matches us perfectly with its modular concepts and excellent, in-depth industry knowledge. The flexibility of the specific baseboard allows us to deploy state-of-the-art technology at all times without having to adapt the design. In this way, we save time and cut costs, while providing our customers with innovative solutions characterized by long service lives.

Computer-on-Module for custom-specific baseboard design

Interview with the Management Board

Rolf Schwirz, Chief Executive Officer and Dr. Jürgen Kaiser-Gerwens, Chief Financial Officer of Kontron AG, in conversation about dynamics, innovation strength and reliability.

Rolf Schwirz
Management Board Chairman of Kontron AG

Dr. Jürgen Kaiser-Gerwens
Chief Financial Officer of Kontron AG

How did the company perform in the financial year 2012?

Rolf Schwirz _ Since I started working with Kontron in December 2012, I am in the very favorable situation of having an external perspective of Kontron's year 2012. For someone outside the company, it comes as no surprise whatsoever that a technology enterprise such as Kontron that is exposed to the influence of public-sector investment projects was unable to decouple from the sovereign debt and euro crisis. Identifying the qualities and prerequisites through an in-depth analysis was therefore extremely important, also in terms of my decision to take over as Chief Executive Officer. The questions I needed to ask myself were: Was the unsatisfactory development in 2012 solely due to the environment? Are the prerequisites still in place for future growth? What is Kontron's competitive position? How secure is the future of the company, particularly as regards innovation strength and customer relationships? This is where Kontron is most certainly in a sound starting position. I also saw organizational weak points which needed to be eliminated swiftly, an example being the dominant importance of the individual national companies.

Dr. Jürgen Kaiser-Gerwens _ Revenues and above all the profit trend were unsatisfactory in 2012. The changed conditions in the environment also prompted us to review our competitive position. We have already decided on the first measures designed to focus our business model more intensively and optimize processes, with more measures to follow. Among other things, one-off effects in connection with our "Shape" optimization program were on the cards.

Rolf Schwirz _ I found it very positive to see that, despite the many imminent changes and a challenging competitive environment, the development quality in research and development is outstanding. Our R&D team counts around 1,000 members of staff. Their strong development competence is our major competitive advantage. This is an aspect that is also repeatedly emphasized by our customers.

What do you hope to achieve through your "Shape" optimization program?

Rolf Schwirz _ Kontron is characterized by very good employees who bring their strong creativity and enormous commitment to bear on developing innovative products for our customers. Through "Shape" we intend to build up business units that operate across the globe. This will put us in a better position to release more potential in the growing embedded computing market. In addition, the Research & Development and Supply Chain business units are to be put under uniform management, which will enable them to operate more efficiently than was the case in the past. For instance, our developers will be able to cooperate better in fundamental technologies and, once technologies have been developed, place them successfully in the market in applications with similar profiles with less outlay. Furthermore, a Supply Chain organization with global operations will be able to provide our customers more swiftly with our products and reduce our working capital.

Kontron sold three business activities in the recent year.
What are the reasons?

Dr. Jürgen Kaiser-Gerwens _ That is correct. We sold our standard component production site in Malaysia and our aircraft components manufacturing in Mexico. In addition, we disposed of a non-strategic holding in the Czech Republic. Our intention is to concentrate solely on our core competence and not devote our efforts to non-core activities. Kontron's competence resides in the development of innovative solutions and not in production – other companies with which we cooperate closely do this a lot better.

Rolf Schwirz _ We operate in an extremely dynamic market environment. The requirements placed on our products are always changing. At the same time, embedded computer technology is being deployed in increasingly diverse applications. Underpinned by our long-standing know-how and the proven reliability of our products, we want to concentrate on specifically defined areas of value creation. This necessitates the ability to respond swiftly, which is the only way that we can successfully and proactively shape our market. And that is our declared goal. In this context, we are moving increasingly in the direction of a solutions provider with a comprehensive portfolio of application-specific technologies.

So dynamics also play a major role?

Rolf Schwirz _ Our customers expect tailored solutions that cater to their specific needs and create competitive advantages for them. Examples of such advantages may be lighter weight, important for aviation or the transport sector, as this helps to cut kerosene and fuel consumption, or special functions which enhance the user's comfort or security and that are only possible through our technologies. To leverage these advantages in the market, however, our customers need to be quick – and so do we.

Dr. Jürgen Kaiser-Gerwens _ An optimized organization, backed by more efficient processes, will give us additional flexibility and speed without any detriment to high product quality.

Where are the growth opportunities for Kontron?

Rolf Schwirz _ Basically, the markets in which we are already active hold growth opportunities. Speaking in global terms, there is enough scope for us to grow and reinforce our competitive position. The trends that concern us and our customers are the use of increasingly intelligent and more user-friendly applications with additional functions, the growing interdependency of different components, so-called M2M communication, specifically the autonomous linking of machines, and cloud computing for industrial applications. We command the requisite technological basis to benefit from these trends. It's now up to us to exploit these prerequisites and generate sustainable growth for the company again.

Dr. Jürgen Kaiser-Gerwens _ We want to step up our investments in high-yield market segments and promising regional growth markets. For example, in China and Malaysia where we intend to forge ahead with our development capacities and even develop and sell specific product lines for the local markets. One of the initial outcomes of our activities is the market launch of the first "Rackmount PC" developed entirely in China for the Asian market.

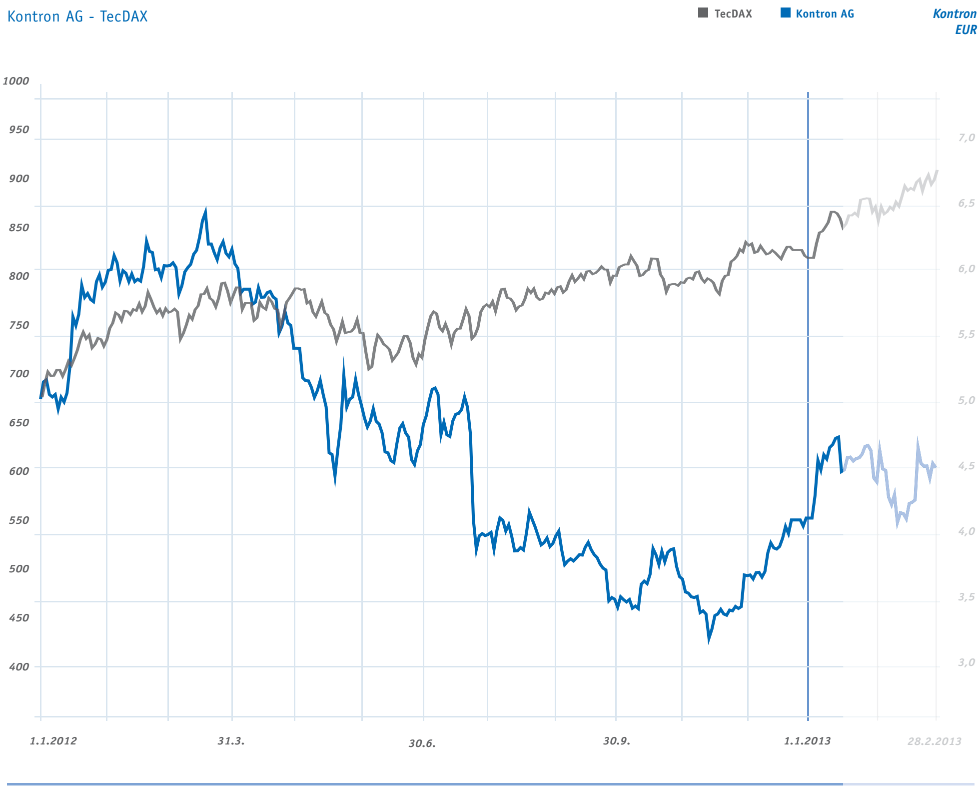
Mr. Schwirz, Dr. Kaiser-Gerwens, thank you for the interview.

The Kontron share

Capital market environment

The development of the capital markets in the reporting year 2012 remained impacted by the sovereign debt crisis in Europe and in the USA, as well as by ongoing discussions about further financial bailouts of beleaguered euro countries. Although the fears of market participants of a breakup of the eurozone were perceptibly allayed in the first quarter, this did not last. Negative news about the ongoing implementation of austerity measures and weaker-than-expected economic indicators again caused huge uncertainty in the market. Only with the unexpectedly clear outcome of the EU summit in June, in conjunction with clear statements by the ECB of doing everything necessary to preserve the euro, did a sustained trend reversal set in. This was underpinned at the start of September by the intention declared by the ECB of unlimited upside in buying government bonds from member states. In the final quarter, a growing shift in the approach of institutional investors that, given the low level of return on bonds, encouraged investment in the stock market triggered a dynamic upturn.

Share price 01.01.2012 - 28.02.2013



The DAX rose to an interim high of 7,158 points on March 16. Starting from its lowest point of 5,969 points on June 5, the DAX entered a steep uptrend against the backdrop of great volatility and peaked at 7,672 points on December 20. Its year-end level stood only a little lower at 7,612. Germany's most important stock index had therefore climbed by 29.1 % in total by the end of the year. The performance of the TecDAX was similar over the course of the year, although it did not benefit to quite the same extent from the year-end rally. Seen overall, the TecDAX had risen to 830 points by the end of the year, which is an increase of 21.2 %.

Performance of the Kontron share

Following a good start to the reporting year, with the share peaking on March 19 at EUR 6.55, its performance as the year progressed was naturally determined by the company's operating development that fell short of expectations. The share price fell to its lowest level of EUR 3.16 on November 13, marking a decline of 37.5 % measured against its closing price in 2011. Toward the end of the year, the share price climbed sharply again and gained +30 % compared with its lowest point for the year. The markets positive response to the optimization program "Shape" may have been behind this development.

The share closed the year at EUR 4.11, a significant improvement against its low for the year, but nonetheless not on par with the market trend of 18.8 %.

The Share in figures

	2012	2011
Number of shares	55,683,024	55,683,024
Year-end closing price	4.11 EUR	5.06 EUR
High	6.55 EUR	9.38 EUR
Low	3.16 EUR	4.80 EUR
Annual performance (excl. dividend)	-18.8 %	-36.7 %
Annual performance (incl. dividend)	-14.8 %	-34.2 %
Market capitalization on 31/12	228.86 Mio EUR	281.76 Mio EUR
Trading volume	40.0 millions of shares	66.0 millions of shares
Earnings per share	5.15 EUR	5.99 EUR
Equity per share	-0.59 EUR	0.39 EUR
Operating cash flow per share	0.83 EUR	0.57 EUR
Dividend per share	0.04 EUR	0.20 EUR

Stock exchange listing and turnover

The Kontron share is listed on the regulated market in Frankfurt and fulfills the transparency requirements of Deutsche Börse's Prime Standard. It is also traded over the counter in the regional stock exchanges in Berlin, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart. Kontron ranks among the 30 largest listed technology companies and consequently remains listed on the TecDAX, as before.

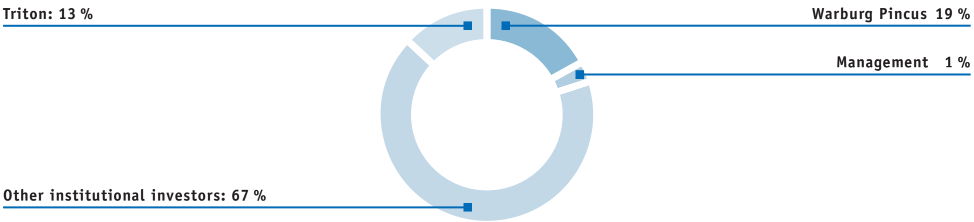
The stock exchange turnover totaled 40.0 million shares (previous year: 66.0 million shares). Taking account of the number of stock exchange days, the average trading volume stood at 157,623 shares a day (previous year: 256,708 shares). This figure corresponds to a decline of 38.6 %, attributable in the main to the lower volume of shares in free float due to the investment of a new major shareholder. The share recorded its highest turnover of 5.0 million in January 2012, and its weakest month, with 2.1 million shares being traded, was in June 2012.

Shareholder structure

In addition to Warburg Pincus, a private equity company that continues to hold a stake of 18.62 %, Triton, an investment company, joined the group of investors as another major shareholder in 2012. On May 23, Triton announced that it had bought a total of 12.87 % of the Kontron shares, which reduced free float to 68.51 %. The capital stock of Kontron AG consists of 55,683,024 shares (previous year: 55,683,024 shares).

Shareholder structure

December 31, 2012



Directors' dealings

In the financial year ended, a total of 15,000 shares (previous year: 42,175 shares) in Kontron AG were bought by members of the Management Board or the Supervisory Board. The shares held in the company by members of the Management and Supervisory boards stood at an unchanged 1.1 % on December 31, 2012.

Earnings per share

Earnings per share fell from EUR 0.39 to EUR -0.59. Earnings per share are calculated by dividing the net income due to the shareholders of Kontron AG by the weighted average number of shares in circulation during the financial year.

Dividend

The dividend policy depends on the development of Kontron AG's business. The policy aims to ensure an equitable solution with regards to both improving the company's financial strength and distributing a dividend to the shareholders. Against the backdrop of the high operating loss and the challenges that lie ahead, the Management Board and the Supervisory Board propose that dividend of EUR 0.04 (previous year: EUR 0.20) be paid for the financial year 2012.

Analyst coverage

The Kontron share was covered by 11 analysts (previous year: 15) in 2012. In the analysts' company reports published in the fourth quarter, the recommendations were as follows: three recommended buying the Kontron share, five opted for neutral, and only one analyst concluded that the share would underperform the market.

Investor Relations

Ongoing dialog with all capital market participants, especially with institutional and private investors as well as analysts, form the focal point of Kontron AG's investor relations work. Its purpose is to provide an up-to-date, reliable picture of the company's prospects through comprehensive and transparent information on the development of operations and current market opportunities.

The Management Board and the Investor Relations team held a number of one-on-one discussions with institutional investors and analysts in the financial year 2012. In addition, the Management Board participated in five road shows at national and international level and presented the 2012 mid-year figures on the occasion of a DVFA analysts conference in Frankfurt.

Alongside participation in the Shareholders' Meeting, important sources of information for private investors as well as other interested parties consist of detailed information on all aspects of the Kontron share and on the current development of the company posted on the website at:

www.kontron.de/unternehmen/investor-relations

It sometimes takes a second look before shared concerns are recognized. Even so, it is perfectly obvious what defense technology, aviation and rail travel all depend on – reliability in extreme environments. It is always crucial to be clear about the special responsibility and the essential safety standards associated with each application. It is only by taking such a conscientious approach that we can be sure of providing our customers with commensurate solutions and platforms in these sensitive fields.

GUARANTEEING RELIABILITY

021 - 027

Guaranteeing Reliability
DEFENSE

Frederic Lorscheider, Vice President Radar and Electronic Warfare Competence Center at Thales Systèmes Aéroportés

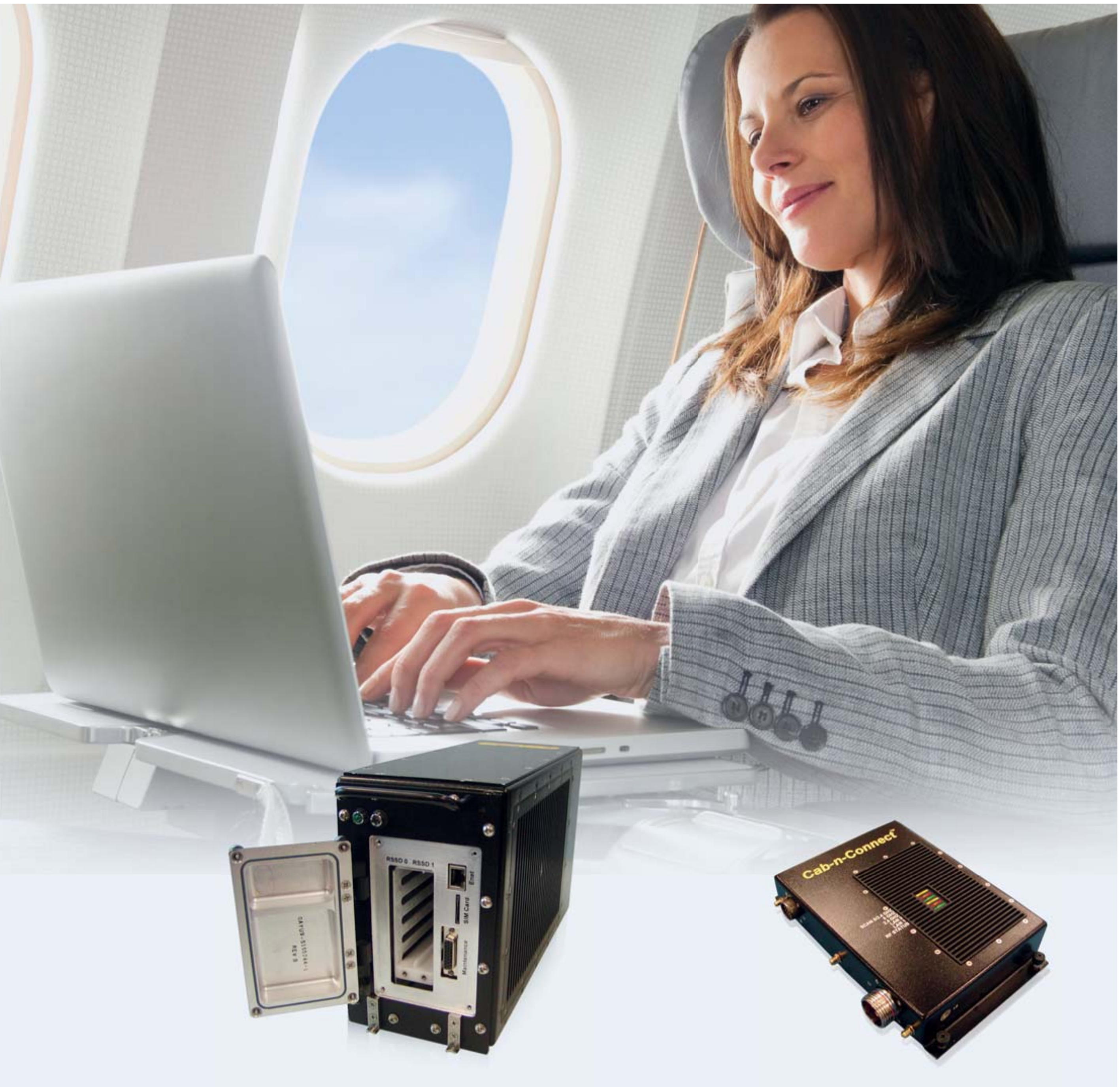
Our customers make their investment decisions with the same care we exercise in selecting our suppliers of individual components. Our products for military applications can be relied upon to maintain their functionality in extreme situations and under harsh conditions. Kontron has been providing us with realtime solutions for our Radar and Electronic Warfare Systems for more than 20 years.

6U VME

Guaranteeing Reliability
AVIONICS

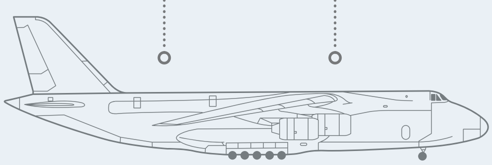
Jim Costello, Vice President, Engineering, Row 44

Row 44 is setting new standards in in-flight entertainment. With high-speed connectivity and a multitude of entertainment options, Row 44 gives airlines everything they need for a branded, customizable in-flight entertainment experience for their passengers. In relying on Kontron, we have chosen a partner who not only fulfills the rugged demands and certifications required for flight, but also provides critical avionics infrastructure components comprised of servers, modem integration, and WiFi access points through a single source. Row 44 will continue to utilize the best available technologies to support its services - our customers deserve it.



ACE Flight™ 600 Airborne Server

Cab-n-Connect Wireless Access Point



Guaranteeing Reliability
RAIL TRAVEL

Thomas Jansson, Product Manager INTERFLO Wayside Systems, Bombardier Transportation, Rail Control Systems

Very few sectors are as strictly regulated as public transport. Our rail vehicles and signaling systems undergo meticulous inspection and testing before being certified. We make it a condition that our suppliers, too, possess International Railway Industry Standard (IRIS) certification. When a company additionally offers enthusiasm and problem-solving skills, we feel we are in safe hands – as we do with Kontron.

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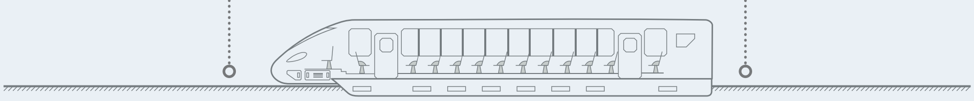

GROUP MANAGEMENT REPORT

028 - 092

Group Management Report 2012

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Group Management Report 2012

1. Business and Economic Environment
1.1 Business activities and organization

Strong position in the embedded computer technology market

Kontron is a globally active developer and manufacturer of embedded computer technology (ECT). The company fields extensive customer offerings, covering the range of a leading edge product portfolio, from standard products all the way through to innovative system solutions. Drawing on in-depth expert competence in technology development, Kontron ranks among the ECT market leaders. The company's activities focus on the development, sales and support of computer boards through to complete, application-ready system solutions.

Embedded computer technology is used in technical applications to implement monitoring, steering or controlling functions, as well as for special forms of data processing and transfer. The multifaceted nature of ECT application potential is matched by the diverse demands made on products: Kontron products must satisfy the requisite market relevant certifications and meet detailed customer specifications, as well as ensuring availability and technological stability over the entire product life cycle of the application. The aspects of reliability, security, robustness and extended service life are particularly critical in placing its products successfully on the markets. The development of increasingly compact and energy saving solutions enables the use ECT in a dynamic high-growth field of technological applications.

Three operating segments

The operations of the Kontron Group are divided into three regions for the purpose of management, control and success monitoring: EMEA (Europe excluding Russia, the Middle East and Africa), North America and the Emerging Markets (including Russia). Economic growth in these regions varies, necessitating individual sales and product strategies.

In addition to regional segmentation, Kontron has combined and allocated the products and system solutions it sells into the three categories of Embedded Computer Modules, Embedded Computer Systems and Embedded Computer Solutions. The key differentiating factor between the categories is the share of value creation with a given application. Embedded computer modules are basic technologies that can be used in a wide variety of applications without further adjustments. Based on modules, embedded computer systems as complete devices already incorporate customer specific adjustments. The scope of the latter, with regard to specific customer applications in connection with a high share of software, is most extensive and sophisticated in embedded computer solutions.

Concentration on high-growth markets

In the development and sale of its innovative ECT solutions, Kontron's products and services have concentrated on seven market segments to date. These segments are characterized either by the special requirements they place on ECT products and promising market growth potential or by bright future prospects. Specifically, these are the markets for industrial automation, medical technology, telecommunications, security & defense, transport, as well as energy and infotainment.

As part of our "Shape" optimization program (more detailed information can be found in section 1.6 “Corporate Strategy”), we plan to bundle the market segments displaying similar technological characteristics and market conditions under four strategic units. This realignment will affect segment reporting that will, in all probability, reflect the four strategic units from January 1, 2014 onwards. The explanations on business and strategy developments in the following sections is already in line with this new structure. Consequently, activities have been combined under the segments as follows: Industry comprises the markets for industrial automation and medical technology, Communication encompasses the telecommunications market, Military/Avionics/Rail combines security & defense, civil aviation and rail transport, while Multimarket covers the segments of road vehicles/transport, infotainment, oil & gas and indirect distribution channels.

Global presence

With its subsidiaries and sales offices, Kontron commands a global presence. Along with company headquarters in Eching near Munich and its subsidiaries, the company maintains branches in 15 countries, notably in Germany, the USA, Canada, Russia, China, France, the UK, India, and Australia. Proximity to customers minimizes development and delivery times, while catering to specific regional market requirements in direct interaction with customers.

1.2 Legal structure of the company

Transparent Group structures

Kontron AG is the parent company of the Kontron Group. As the holding company, it heads up the Group centrally and performs conventional centralized corporate functions. These functions include in particular the tasks under Controlling, Risk Management, Group Accounting, Internal Audit, Legal & Compliance, Treasury, Human Resources, IT, Marketing, Corporate Communication and Investor Relations. The parent company holds direct or indirect participations in 22 companies (previous year: 27 companies), all of which were included and fully consolidated in the consolidated financial statements. The subsidiaries are managed and controlled via the regions and assume operational responsibility. Under the vertical group structure envisaged in the future, the significance of the individual subsidiaries for the respective local market is set to decline and make way for global responsibility for the respective areas of competence.

Changes in the corporate legal structure

There was a change in the corporate legal structure of the Kontron Group in the reporting year particularly by the scaling back of production capacities from the disposal of the production of standard components in Malaysia and the sale of AP Parpro Inc., an American company. Both production sites specialized in basic solutions and niche markets that no longer formed part of Kontron's strategic focus. In the financial year 2012, six companies left the Group, two were sold, three were combined with other companies, and one company ceased to operate. Kontron included one company for the first time in the consolidated group.

The main changes at a glance:

- » With legal effect as per January 1, 2012, the three companies Kontron Modular Computers GmbH, Kontron Business GmbH & Co. KG and Kontron Embedded Modules GmbH were combined with Kontron Europe GmbH (formerly: Kontron embedded computers GmbH) headquartered in Kaufbeuren. During a parallel phase of reorganization, an initial step entailed aligning, harmonizing and improving processes.
- » Following the disposal of the module and board manufacturing facilities of Kontron Manufacturing Services Sdn Bhd based in Malaysia on January 18, 2012, to Plexus Corp., the company was renamed as Kontron Asia Pacific Design Sdn Bhd. Its activities will focus in future on Research and Development and Supply Chain.
- » Kontron (Beijing) Technology Co. Ltd., the Group's Chinese subsidiary, established Kontron Hongkong Technology Co. Ltd. as a wholly-owned new subsidiary in June 2012.
- » With effect from July 31, 2012, Kontron America Inc. sold all the shares in AP Parpro Inc. as part of a management buyout to the management of AP Parpro Inc. The business activities of AP Parpro Inc. consisted mainly in the manufacturing of wire harnesses, and did not therefore belong to the Kontron Group’s core business.
- » December 31, 2012 marked the sale by Kontron Modular Computers AG of its 70 % stake in the Czech company Merz s.r.o. by way of a share deal to the minority shareholder of Merz s.r.o. Among other products, Merz develops applications software for the automotive industry, an activity that no longer belongs to the strategic core business of the Kontron Group.

Takeover law disclosures
Disclosures pursuant to Sections 289 para. 4, 315 para. 4 of the German Commercial Code (HGB) and Explanatory Report

Composition of subscribed capital, voting rights and transfer of shares
Kontron AG's share capital totaled EUR 55,683,024 on December 31, 2012. The share capital is divided into 55,683,024 no-par value bearer shares with a pro-rata amount in the share capital of EUR 1.00 per share. All shares carry the same rights and obligations. One share confers one vote in the Shareholders' General Meeting.

The exercising of voting rights and the transfer of shares are not subject to any restrictions and are possible within the scope of statutory provisions and the company's Articles of Association. The company's Management Board is not aware of any agreements between shareholders that restrict voting rights or the transferability of shares.

Shareholdings exceeding 10 % of voting rights
The largest shareholder continues to be Warburg Pincus, the private equity company, that, according to its last voting rights thresholds announcement dated March 18, 2011, holds a total of 18.62 % (corresponding to 10,369,000 voting rights) of the shares in Kontron AG through Luxembourg-based WP International II S.à.r.L. In Triton, an investment company, another shareholder with more than 10 % of the voting rights in the company joined the group of investors in the reporting year.

According to an announcement dated May 23, 2012, Triton holds 12.87 % in total (corresponding to 7,166,500 voting rights) in the share capital of Kontron AG via various companies, especially Komondor S.à.r.l.

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

The appointing and dismissing of members of the Management Board is regulated by the provisions set out under Sections 84 and 85 of the German Stock Corporation Act (AktG). The provisions are specified under Article 8 of Kontron AG's Articles of Association. Under this article, the company's Management Board must consist of at least two persons. Any Management Board member number in excess of this is determined by the Supervisory Board that may also appoint a Chairman (spokesman) and are Vice Chairman (deputy spokesman) at Management Board level. In addition, the Supervisory Board may also appoint deputy members to the Management Board. In 2012, the Supervisory Board appointed three new members to the Management Board, two memers have laid down their mandate.

Changes to the Articles of Association are decided by way of resolution passed by the shareholders at the Shareholders' General Meeting. In accordance with the option under Section 179 of the German Stock Corporation Act, Article 26 of Kontron AG's Articles of Association specifies that resolutions are passed by the Shareholders' General Meeting by way of a simple majority of the votes cast and, in as much as the share capital majority is required, by a simple majority of the share capital represented when the resolution is passed provided that the law or the Articles of Association do not mandatorily stipulate otherwise. The requirement for a simple majority shall also apply – to the extent permitted under the law – to amendments to the Articles of Association and capital measures. Under Article 18 (4) of Kontron AG's Articles of Association, the Supervisory Board is entitled to make changes to the Articles of Association that only pertain to their wording. The Shareholders' General Meeting on June 6, 2012, did not decide any changes to the Articles of Association.

Authorizations of the Management Board to issue or repurchase shares

The Management Board of Kontron AG has been authorized to issue shares as follows:

In accordance with a resolution passed by the Shareholders' General Meeting of June 7, 2011, the Management Board is authorized, subject to the consent of the Supervisory Board, to raise the company's share capital on or before June 6, 2016, once or several times, by a total of up to EUR 27,841,512.00 through issuing up to 27,841,512 new ordinary bearer shares against cash and/or non-cash capital contributions (Authorized Capital 2011). In principle, the shareholders are entitled to subscribe to the new shares. This right can be excluded under the provisions of Article 4 (3) of the Articles of Association if approved by the Supervisory Board. The Management Board has not yet made use of the authorization to increase the share capital from approved capital.

Similarly, by way of resolution passed by the Shareholders' General Meeting on June 7, 2011, the Management Board is authorized, subject to the consent of the Supervisory Board, to issue convertible or bonds with option rights, profit participation rights or profit participation bonds, or a combination of these instruments (collectively "bonds") in a total nominal amount of up to EUR 200,000,000.00 and, included in the bonds, conversion or option rights up to 16,876,662 no-par value bearer shares in a pro-rata amount in the share capital totaling EUR 16,876,622.00. The resolution on authorization provides in principle for shareholder subscription rights to the bonds. Subject to the consent of the Supervisory Board, these rights can, under certain circumstances that are cited under Agenda Item 10 of the resolution passed by the Shareholders' General Meeting, be excluded. The share capital is conditionally increased by up to EUR 16,876,622.00 through the issuing of up to 16,876,662 new no-par value bearer shares (Contingent Capital 2011) in order to grant shares to the holders of convertible or option rights attached to convertible bonds and bonds with warrants, profit participation rights or profit participation bonds, or a combination of these instruments, if they exercise their rights to fulfill their convertible or option rights or for the settlement of their conversion obligations The new shares are to be issued according to the conversion or warrant price determined under the authorization. To date, the Management Board has not made use of the authorization to issue convertible or bonds with warrants, participation rights or profit participation bonds nor to increase the share capital from authorized capital.

Moreover, the company's share capital is currently still subject to a conditional increase of up to EUR 1,104,850.00 through the issuing of up to 1,104,850 new no-par value bearer shares (Conditional Capital 2003 I). The conditional capital increase is exclusively for the purpose of settling option rights issued under the 2003 Share Option Plan. By way of resolution passed by the Shareholders' General Meeting on June 9, 2010, the term of the issued share options not yet exercised has been extended until December 31, 2013. Share options from the 2003 Share Option Plan have partly lapsed, been settled partly in cash or satisfied partly through treasury shares held in the portfolio of the company. There were still 299,500 share options outstanding on the reporting date.

Finally, the company's share capital has been conditionally raised by up to EUR 1,500,000.00 through the issuing of up to 1,500,000 new no-par value bearer shares (Contingent Capital 2007 I). The conditional capital increase will be carried out only to the extent that holders of option rights issued under the 2007 Share Option Plan exercise them. By way of resolution passed by the Shareholders' General Meeting of June 9, 2010, the duration of the share options issued as part of the Share Option Plan 2007 and not yet exercised was extended until December 31, 2013. Share options under this Share Option Plan have partly lapsed. As per the reporting date, there were therefore 943,094 share options still outstanding.

Kontron AG's Management Board has been authorized to purchase treasury shares as follows:

The Shareholders' General Meeting on June 9, 2010, authorized the company to purchase treasury shares in a volume of up to 10 % of the share capital on or before June 8, 2015. The purchase of treasury shares can be effected via the stock exchange or through a public bid addressed to all shareholders of the company. The use of the treasury shares purchased on the basis of the aforementioned authorization includes all legally permissible purposes, in particular offers to third parties in connection with the acquisition of companies, or participating interests in companies, or the retiring of shares. Permissible purposes are described in detail under Agenda Item 7 approved by the Shareholders' General Meeting. Within the scope of earlier authorizations, the company's portfolio comprised a total of 111,976 treasury shares on the reporting date.

The company has not yet made use of the authorization granted by the Shareholders' General Meeting on June 9, 2010, to purchase treasury shares.

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

Kontron AG's revolving credit facility, arranged in April 2012, provides for a termination right of the lenders in the event that Kontron AG becomes a subsidiary of another enterprise or if a person or a group of persons acting jointly purchase(s) a minimum of 50 % of the shares or the voting rights – either directly or indirectly – in Kontron AG. In this case, all amounts outstanding will be due and payable with immediate effect. Furthermore, in the event of a takeover, the following compensation agreements exist for individual Management Board members. The agreements provide for the continued payment of Management Board members’ salaries in the event of premature termination of their service to the company owing to a takeover offer. The specific regulations agreed for one Management Board member include the continued payment of his salary for up to two years of service, limited to the term of the contract agreed. One Management Board member is to continue to receive his salary through to the regular expiry of the Management Board contract, capped at three years' remuneration, and one Management Board member through to the regular expiry of the Management Board contract, capped at two full years' remuneration. Another Management Board member has the right to terminate his service to the company prematurely in the event of a takeover while retaining his remuneration entitlement through to the expiry of the period of notice, at maximum, however, through to the end of the regular contractual term of service of 48 months. Upon expiry of the period of notice, this Management Board member will receive severance payment amounting to a full year's remuneration.

1.3 Management and control

In accordance with German stock corporation law, Kontron AG has a dual system of management and control consisting of the Management Board and the Supervisory Board.

During the reporting period, the Management Board comprised seven members in total, and a maximum of six of these members at the same time. The following Management Board members withdrew in 2012: Mr. Ulrich Gehrmann, the former Chief Executive Office, laid down his Management Board mandates effective December 31, 2012, and Mr. Dirk Finstel (Research & Development), who laid down his mandate on October 24, 2012, left the company effective December 31, 2012. In order to ensure a seamless transition, the Supervisory Board appointed Mr. Rolf Schwirz to the Management Board, effective December 1, 2012, and to the position of Chief Executive Officer as from January 1, 2013. Moreover, the Supervisory Board appointed Mr. Christopher Burke, who laid down his Supervisory Board mandate on August 31, 2012, for a term of office on the Management Board of six months, effective September 1, 2012, until February 28, 2013. The Supervisory Board appointed Mr. Andreas Plikat to the Management Board, also with effect from September 1, 2012.

Composition of the Management Board as of December 31, 2012

	Responsibilities
Ulrich Gehrmann (withdrawal on 31/12/2012)	Chief Executive Officer (CEO)
Rolf Schwirz	
Thomas Sparrvik	Vice Chairman of the Management Board CEO of Kontron America and Asia-Pacific Sales, Marketing
Dr. Jürgen Kaiser-Gerwens	Chief Financial Officer (CFO)
Andreas Plikat	Chief Operating Officer (COO) Global Supply Chain, Quality Assurance, IT
Christopher Burke	Chief Strategy Officer (CSO) Business Development, M&A

There was one change on Kontron AG's Supervisory Board in 2012. As mentioned above, Mr. Christopher Burke laid down his mandate in order to support the Management Board as Chief Strategy Officer in the implementation of the "Shape" optimization program. At the end of the reporting year, the Supervisory Board consisted of five members.

1.4 Statement on Corporate Governance and Corporate Governance Report

The Statement on Corporate Governance pursuant to the provisions laid down under Section 289a of the German Commercial Code (HGB) has been posted on the company's website at www.kontron.com. It includes the Declaration pursuant to Section 161 of the German Stock Corporation Act (AktG), (Declaration of Conformity), and a description of the working practices of the Management Board and the Supervisory Board. The Corporate Governance Report is permanently accessible on the company's own website at www.kontron.com, together with the Statement on Corporate Governance.

1.5 Principles of the remuneration system and remuneration report

Principles of the remuneration system in accordance with Sections 289 para. 2 item 5, 315 para. 2 item 4 of the German Commercial Code (HGB)
The remuneration system for members of Kontron AG's Management Board and the remuneration of the individual Management Board members have been determined by the Supervisory Board and regularly reviewed in the financial year elapsed as well. The remuneration system consists of fixed and variable components, and thus includes an incentive effect for the successful and sustainable development of the company.

The criteria for determining the remuneration of the Management Board of Kontron AG are based on the tasks and performance of the individual Management Board members, the size, global orientation and financial position of the company, in consideration of the amount and structure of management board remuneration of peer companies both in Germany and abroad. The following explanations provide more detailed information on the principles of the remuneration system.

Remuneration report
This report espouses the recommendations of the version of the German Corporate Governance Code (GCGC) dated May 15, 2012. It explains the principles governing the remuneration of the members of the Management Board and Supervisory Board of Kontron AG as well as the amount of salary paid to the individual members of the Management and Supervisory Boards.

Management Board remuneration report
The Supervisory Board is responsible for determining the remuneration of the Management Board. The criteria for determining the remuneration of the Management Board of Kontron AG are based on the tasks and performance of the individual Management Board members, the size, global orientation and financial position of the company, in consideration of the amount and structure of management board remuneration of peer companies both in Germany and abroad. In accordance with the requirements of German stock corporation law and the recommendations of the German Corporate Governance Code, the remuneration structure is geared toward the sustainable development of the company. The remuneration of the members of the Management Board consists of fixed and variable components as well as incentive components. It is constituted by the following individual key components:

Fixed remuneration corresponds to the basic annual salary that is paid in equal monthly installments after deduction of statutory withholdings.

The variable performance-related remuneration that is linked to the company's success is paid in the form of a bonus and depends on the degree to which prior agreed targets have been achieved. The targets of the individual Management Board members are determined once a year in advance by the Chairman of the Supervisory Board. The starting point is the setting of a target bonus that can be over- or underperformed. In the financial year 2012, performance-related remuneration depended on the sales growth, the operating result (EBIT) of the Kontron AG Group, the working capital, and the targets pertaining to the individual Management Board members' specific functions. Variable remuneration linked to the degree to which targets are met is capped and, in addition, depends on minimum target achievement.

These principles were not applied to Management Board member Christopher Burke in the reporting period. Mr. Burke was appointed by the Supervisory Board to the Management Board for a term of six months. He took up this Management Board mandate alongside other mandates exercised outside Kontron. In order to ensure commensurate remuneration, the compensation paid to Mr. Burke was calculated on the basis of daily flat rates.

The Management Board members received the following remuneration in the financial year 2012:

in TEUR			Basic remuneration	Performance-related remuneration**	Total remuneration
Management Board	**Salary**	**Other***	**Severence**	**Bonuses**	**Total**
Ulrich Gehrmann (withdrawal on 31/12/2012)	365	27	1,850	280	2,522
Thomas Sparrvik	260	8	0	82	350
Dr. Jürgen Kaiser-Gerwens	240	31	0	84	355
Dirk Finstel (until 24/10/2012)	217	10	925	0	1,152
Rolf Schwirz (since 01/12/2012)	50	1	0	0	51
Andreas Plikat (since 01/09/2012)	73	7	0	23	103
Christopher Burke (until 31/08/2012 on the Supervisory Board; since 01/09/2012 on the Management Board)	112	2	0	0	114
Total	**1,317**	**86**	**2,775**	**469**	**4,647**

* Remuneration components listed in the "Other" column comprise benefits in kind relating to the provision of company cars, additional payments for private pension plans and for a second residence, as well as payments for mobile telephones and notebooks used for work purposes.

** Excluding remuneration components of the share option plans and the Performance Share Unit Plan

Kontron AG share options under the 2003 Share Option Plan (in the modified version of September 2004) and that of 2007 constitute the variable remuneration component with long-term incentive effect and risk character for the Management Board.

Under the 2003 Share Option Plan, a maximum of 3,000,000 share options ("total volume") can be issued during the period of the Share Option Plan on or before December 31, 2007 to members of the Management Board of Kontron AG, members of the management bodies of Group companies and employees of Kontron AG and its Group companies. A total of 522,000 share options have been issued to members of the Management Board of Kontron AG.

Under the 2007 Share Option Plan, a total of 1,500,000 share options ("total volume") were issued during the period covered by the plan through to December 31, 2011 to members of the Management Board of Kontron AG and to employees of Kontron AG and its Group companies. Of this volume, of 376,889 share options in total have been issued to members of the Management Board of Kontron AG.

Both plans have been fully utilized. At the year-end date, a total of 50,000 share options were outstanding from the 2003 Share Option Plan and 101,111 from the 2007 Share Option Plan for the members of the Management Board. There are no other share option plans or other management participation programs.

Expenses totaling TEUR 10 were attributable to members of the Management Board from share-based remuneration (2003 and 2007 Share Option Plan) in 2012 (further details can be found in the Notes to the Consolidated Financial Statements of Kontron AG).

The 2003 and 2007 Share Option Plans are essentially structured as follows:

» No more than 50 % of the total volume may be issued per calendar year.

» Share options may be offered four times a year on a date to be specified and may only be exercised after the expiry of a waiting period. The qualifying period begins on the date of issue and, for 50 % of the share options issued to shareholders eligible for subscription, ends at the beginning of the first exercise period after two years and one week after the issue date, and for the remaining 50 % of share options issued to subscription beneficiaries, at the start of the first exercise period following the expiry of four years following the issue date.

» Share options may only be exercised against payment of a strike price that amounts to 115 % of the stock exchange average price, in other words, the arithmetic average of the closing auction prices for one Kontron share in Xetra trading (or the functionally comparable successor system to the Xetra system) on five consecutive stock exchange trading days in a row directly prior to the issue date. Each purchase of shares on the basis of the relevant share price results in an increase in value calculated after deduction of the relevant strike price.

In 2012, the members of the Management Board did not receive any share options, and no share options were exercised by members of the Management Board.

In place of the former share options, the members of the Management Board received commitments entailing virtual share options as a long-term remuneration component under a Performance Share Unit Plan 2012 (PSU plan 2012) in the financial year 2012. The final value of these share options depends on the sustainability of the company's development. This sustainability is reflected by the revenues growth (20 %), the EBIT margin (30 %), a working capital ratio (30 %) and what is known as a retention component (20 %). Cash payment is made only at the end of four years, i.e. for the first time in 2016, in the amount of the average share price of Kontron AG over a period of 30 calendar days prior to the disbursement date.

In financial year 2012, the Management Board members received the following original commitments and the actually alloted volumes under the 2012 Performance Share Unit Plan:

Management Board	Number of PSUs originally alloted	Allotment volume at the time of awarding (100 %) in TEUR	Number of PSUs with regards to target achievement	Allotment volume with regards to target achievement (40%) in EUR
Ulrich Gehrmann*	59,100	300	23,640	104
Thomas Sparrvik	29,600	150	11,840	9
Dr. Jürgen Kaiser-Gerwens	21,700	110	8,680	7
Dirk Finstel**	0	0	0	0
Rolf Schwirz	0	0	0	0
Andreas Plikat	15,750	80	6,300	5
Christopher Burke	0	0	0	0
Total	**160,650**	**815**	**50,460**	**125**

* Under the settlement agreement concluded, payment of the vested commitments under the Performance Share Unit Plans 2011 and 2012 can be requested at the end of any quarter in 2013.

** Under the settlement agreement concluded, all commitments under the Performance Share Unit Plans 2011 and 2012 are deemed compensated.

A total of 226,050 Performance Share Units with an allotment volume when awarded (100 %) of TEUR 1,165 were issued to the members of the Management Board and to employees of Kontron AG and its group companies.

The provision formed in the financial year 2012 for payment of the long-term remuneration components under the Performance Share Unit Plans 2011 and 2012 includes the following amounts for the members of the Management Board:

in TEUR	
Performance Share Unit Plan 2011	**99**
Performance Share Unit Plan 2012	**142**

Further details on the structure of the Performance Share Unit Plan 2012 are included in the notes to the consolidated financial statements of Kontron AG.

Pension and benefit commitments of the Management Board in the financial year 2012

No commitments have been made in respect of contractually fixed amounts for company pensions for the members of the Management Board. For this reason, no pension provisions were required as at December 31, 2012.

Additional payments to private pension plans in the financial year 2012 amounted to TEUR 6 for Mr. Ulrich Gehrmann, TEUR 3 for Dr. Jürgen Kaiser-Gerwens, TEUR 5 for Mr. Dirk Finstel, TEUR 1 for Mr. Rolf Schwirz, and TEUR 2 for Mr. Andreas Plikat.

Ancillary payments and other commitments to the Management Board in the financial year 2012

» Apart from the remuneration components listed in the "Other" column, Management Board members receive no ancillary payments.

» In the event of the early termination of his term of service, Management Board member Thomas Sparrvik has received a guarantee that his salary will be paid for up to two years of service, with a maximum limited to the agreed termination date of his contract.

» In the event of a takeover, Management Board members Dr. Jürgen Kaiser-Gerwens and Andreas Plikat are entitled to terminate their employment contract prematurely in the context of a change-of-control agreement. Accordingly, a guarantee has been given for continued payment of the salary of the Management Board members through to the expiry of their employment contracts, limited, however, to three years' remuneration. In this case, Andreas Plikat would receive severance capped at a remuneration of two full years.

» Under a change-of-control agreement, CEO Rolf Schwirz is entitled to terminate his contract prematurely in the event of a takeover. The contractual entitlement to remuneration remains unaffected until the end of the period of notice, at the latest, however, upon expiry of the regular contractual term of 48 months. At the end of the period of notice, the Management Board member is accorded severance amounting to one full year's remuneration.

» Caps on severance payments have been agreed with Management Board members Rolf Schwirz and Andreas Plikat in accordance with the German Corporate Governance Code. Under these agreements, payments made to Management Board members in the event of premature termination of Board member activities may not exceed two full years' remuneration or the overall remuneration for the residual term of the employment contract.

» If his appointment as Chief Executive Officer is rescinded within the first 24 months, Rolf Schwirz has the right to terminate his employment contract prematurely. In this case, the Chief Executive Officer will receive a one-off payment of two years' full remuneration as well as 50 % of the remuneration paid through to the end of the remaining term that exceeds a period of 24 months.

» Members of the Management Board were not granted any loans by the company.

» The company has taken out a D&O (Directors & Officers) insurance policy for the Management Board. In an insurance event, the Management Board will pay a deductible of 10 % of the loss up to an amount of one and a half times the fixed annual remuneration.

» The members of the Management Board have not been promised or granted any benefits by third parties as a result of their Management Board activities.

Supervisory Board remuneration report

The remuneration of the Supervisory Board is based on the size of the company, the duties and responsibilities of the members of the Supervisory Board, as well as the financial position and performance of the company. The remuneration of the Supervisory Board is regulated under Article 20 of the Articles of Association. Accordingly, each member of the Supervisory Board receives fixed remuneration of TEUR 34 per financial year (Article 20 (1) of the Articles of Association) as well as the reimbursement of outlays incurred through the discharge of their duties.

The Chairman of the Supervisory Board receives additional remuneration of TEUR 32 per financial year (Article 20 (2) of the Articles of Association). The Chairman of the Audit Committee receives additional remuneration of TEUR 16 per financial year, and the other members of the Audit Committee TEUR 4 (Article 20 (3) of the Articles of Association). The members of the Personnel / Nomination Committee receive remuneration of TEUR 4 per financial year (Article 20 (4) of the Articles of Association). If a Supervisory Board member is only in office for part of the financial year, that member receives one-twelfth of the remuneration for each month commenced (Article 20 (5) of the Articles of Association).

In the interest of the company, the members of the Supervisory Board are included by a third party liability insurance policy arranged by the company, that, where existing, will provide cover in a suitable amount for executive and supervisory bodies and certain managers. The premiums are paid by the company (Article 20 (7) of the Articles of Association).

In addition, the members of the Supervisory Board are compensated for any value added tax amounts that may be incurred in respect of the reimbursement of expenses and their Supervisory Board remuneration provided that they are entitled to invoice the company separately for value added tax (Article 20 (6) of the Articles of Association).

The Supervisory Board members received the following remuneration in the financial year 2012:

Supervisory Board member in TEUR	Non-performance-related remuneration	Performance-related remuneration*	Total remuneration
Helmut Krings* (Chairman)	70	0	70
Hugh Nevin	42	0	42
David Malmberg	38	0	38
Lars Singbartl	38	0	38
Mathias Hlubek	54	0	54
Christopher Burke (on the Supervisory Board until 31/08/2012)	23	0	23
Total	**265**	**0**	**265**

* No performance-related remuneration for the financial years 2011 and 2012.

» The members of the Supervisory Board were not accorded any loans by the company.

» The company has taken out a D&O insurance policy for the members of the Supervisory Board. As explained in the Management Board and Supervisory Board Compliance Statement dated December 17, 2010, this policy does not currently provide for a deductible as the Management and Supervisory boards of Kontron AG are fundamentally not of the opinion that the motivation and responsibility with which the Supervisory Board members discharge their duties would be improved by such a deductible.

» Supervisory Board Member David Malmberg also received a consultancy fee of TEUR 22. Supervisory Board Member Christopher Burke also received a consultancy fee of TEUR 32.

» No other remuneration, in particular for consultancy and mediation services of members of the Supervisory Board, were paid or agreed.

1.6 Corporate strategy

Kontron's corporate strategy is geared to enabling its customers to create sustainable competitive advantage through ECT solutions. At the heart of the strategy are the four factors of innovation, quality, reliability and speed. Kontron follows the maxim of equipping the applications of its customers, which include high-profile original equipment manufacturers (OEM), system integrators and application providers, with more user-friendly functionalities through incorporating Kontron products and solutions, thereby making a significant contribution to its customers' innovation success.

Excellent positioning in the global ECT market
Aligned to serve the global ECT market, Kontron enjoys an excellent position with its focus on specific globally strategic market segments, such as industrial automation, medical technology, telecommunications, security & defense, transport as well energy and infotainment. This diversification lessens the company's dependence on certain trends and risks in the individual subsectors. With the growing interdependence in the development of new ECT solutions, success in leveraging the positive effects of technology and application transfer is increasingly tangible, as is the use of solutions once they have been developed in adjacent markets in applications with similar requirements.

Kontron covers large parts of the value creation chain. The objective is to increasingly align Kontron to selected links in the value chain and to demonstrate its strengths as a provider of application-ready platform solutions with a broader standard system portfolio and exploit them more consistently in the market. As the fundaments underpinning this objective, the company's development activities are to be expanded and its innovation strength reinforced. The two segments of Embedded Computer Systems and Embedded Computer Solutions are generally to be given a greater weighting measured against the revenues, and consequently also against earnings, whereas standard modules and components in the Embedded Computer Modules Segment will account for a lower proportion in revenues.

Innovation is, however, not only a value driver for Kontron – driven by an increasingly wide variety of functions, accompanied by highly compact solutions, new areas of application are opening up for ECT and releasing innovation potential for the providers of technical applications themselves. Moreover, innovative embedded computer technology constitutes a significant add-on in terms of user comfort and information flow, while allowing considerable scope for cost cutting. Kontron enables its customers to concentrate solely on their own core business, as they can rely on Kontron's exceptional innovation prowess and high quality standards.

Full-line product and services portfolio

The product and service portfolio comprises a spectrum of different products and services that can be selected by customers on a freely scalable basis and can therefore be perfectly adjusted to suit the individual requirements and specifications of the applications. Among other products, Kontron offers a wide selection of boards and mezzanine cards, computer-on-modules (COMs), carrier boards, HMI systems or rackmount computers, industrial chassis and panel PCs. The portfolio favors products that are distinguished by a design that has been tailored to specific customer requirements, or that have been entirely developed by Kontron as an individual solution for the customer. The extensive portfolio of services covering Kontron solutions has been structured in a similarly flexible way to allow optimal support to be defined, together with customers, and offered in this area as well. In the case of customized solutions, Kontron also provides services addressing all issues concerning the application and its operation. Examples of this are, for instance, providing cutting-edge technical information, driver, BIOS and operating system updates, as well as swift and competent problem solving for up and running operations.

Clearer focusing of the business model through "Shape"

In mid-2012, Kontron launched its "Shape" optimization program with the aim of focusing its own business model more sharply. The business focus on local legal organization units is to be replaced by business units operating worldwide, on the one hand, and by the functional segments of Supply Chain and Research and Development operating on a global scale, on the other. Business units spanning the globe will be able to serve customers more swiftly and effectively and release new customer potential. Supply Chain and Research and Development managed globally will allow the processes to be optimized and efficiency enhanced. In future, the Industry Segment will comprise the market for industrial automation and medical technology, Communication will serve the telecommunications market, Military/Avionics/Rail Segment will cover the markets for security & defense, civil aviation and rail transport, and the Multimarket Segment will be dedicated to the markets for road vehicles/transport, oil & gas, and infotainment.

All in all, Kontron is to evolve into an application-oriented development and engineering specialist with a leading standard product portfolio. The first signs of success are already evident in the setting up of new visualization product lines in the application fields of multi-touch and widescreen technology, as well as the latest CPU technologies on ARM-based platforms. The global market presence that Kontron has already achieved in its sales and services is to be promoted in established growth regions through building up and expanding development capacities on site.

Adopting this approach, with swift development and production, will enable innovative products and solutions specially tailored to regional peculiarities to be offered to customers. The first steps in this direction have already been taken. An example of this approach is the first rackmount PC entirely developed in China especially for the Asian market.

The individual measures under the "Shape" optimization program are designed to promote clear strategic focus and accelerate the company's speed, as well as seizing market opportunities in core business areas more consistently and developing new and attractive fields of ECT applications. Given today's status, all key measures are likely to have been concluded in the first half of 2013.

1.7 Management and control of the company

For the purpose of managing and controlling the company, Kontron deploys a system consisting of various financial and non-financial ratios and parameters that allow a picture of the current state of operations and conclusions to be drawn on the future development. The management and control system incorporates both short-term and long-term considerations.

Kontron AG's Management Board is responsible for the overall planning and realization of long-term corporate goals. The primary goal of corporate development consists in sustainably raising the enterprise value through profitable growth. The annual long-term planning is oriented toward market studies, competition analyses, and developments in the procurement markets, technological developments, the current course of business and the most recent run-rates of the respective operating entities.

Long-term planning is supplemented by an operational annual planning for the individual operating entities.

In the context of operational planning, the managers of the individual operating entities and those responsible for the sales regions decide on their assumptions and expectations for the forecasting period. Subsequently, the Management Board and Controlling conduct plausibility reviews of the premises and the planning with those responsible, in order to achieve an aggregate overall plan across all segments.

The key parameters for control used in this process include revenues, revenues growth, the gross margin, the operating costs, EBIT, working capital and the associated ratios on inventory turnover and debtor days. In addition, sales-oriented parameters, such as order intake, orders on hand and design wins, are key control variables used in operational planning.

The operational goals and tasks resulting from the planning that is finally approved are communicated by the employees responsible in the respective companies and, among other considerations, form the basis for the individual goals agreed with the employees.

The review of fixed targets is carried out by way of detailed target-performance analyses in the context of monthly reports that serve both the Management Board and the Supervisory Board as well as competent managers as an important source of information on current developments. Information from Finance, Sales, Research & Development and Operations is also taken into consideration. Gap analyses show the key factors for outperforming or undercutting the targets and enable measures to be initiated promptly in the case of significant deviations. In addition, weekly and monthly reports on the financial position are prepared from the standpoint of Treasury.

These reports indicate the development of important parameters, such as bank borrowings, liquidity, net cash, hedging transactions, guarantees and credit line utilization. Currency Team meetings are held to discuss hedging transactions, among other matters.

The monthly report is supplemented by information from monthly risk management, so that the company can respond at an early stage to changes in the risks and opportunities. As part of this process, each company and functional area outlines the risks in both qualitative and quantitative terms.

All in all, the company has therefore set in place management and control as well as accounting systems that map all the facets of short- and long-term management and control and presents a transparent picture of business development on a monthly basis.

Kontron's IT environment consists of various sub-systems. SAP is used in Germany, Denmark, Canada, the USA and Malaysia. For historical reasons, these systems are only partly harmonized. All other national companies work with their own ERP (Enterprise Resource Planning) systems.

Depending on the functional area, other important control systems are also deployed. Sales uses "Sales Force.com" and its own bespoke "Kontron Forecasting and Planning Tool". Research & Development uses "Focal Point", a system developed in-house, as a key component in managing the respective projects and activities. In order to coordinate the global R&D activities more effectively, the "Microsoft Project Server" system was introduced on a global scale at the end of 2012. Supply Chain was using its own "Global Pricing Engine" system at year-end 2012 to manage the operational process of orders placed with the contract manufacturers. The "elKom" system is deployed in Finance for the purpose of consolidation, and "TM5" is used for all relevant Treasury activities. Furthermore, Microsoft "Excel" is used as a key reporting tool in the Kontron Group.

Trend of key performance indicators

		2012	2011
Revenues	Mio. EUR	547.0	589.6
Gross Margin	Mio. EUR	130.5	166.1
EBIT	Mio. EUR	-32.5	34.1
Working Capital[1]	Mio. EUR	124.0	153.2
Inventory Turnover[2]	Days	75	70
Equity ratio	%	62.3	63.7
Net Cash-Position	Mio. EUR	13.2	1.2
Number of employees (31/12/2012)		2,208	3,057

[1] Working Capital = trade receivables – impairment + inventory (excluding prepayments on account and receivables from construction contracts) – trade payables (excluding prepayments received)

[2] Inventory turnover = inventories/cost of materials (prior to consolidation)*365

1.8 Economic environment

Macroeconomic trends
According to preliminary figures and estimates of leading economic research institutes, the global economy achieved overall growth of around 3 % measured against real gross domestic product (GDP). In the second half of the year, it lost a great deal of momentum, with a notable slowdown in the development in almost all important economic regions. In the wake of catching-up effects induced by the financial crisis, persistent anxiety about the stability of Europe's banking system in particular, as well as the solvency of beleaguered European countries beset by the crisis were the main cause of uncertainty worldwide on the part of investors, consumers and producers. At the same time, there was a change in the flow of capital, with capital being increasingly withdrawn from emerging markets and reinvested in purportedly stable countries, such as Germany, Japan and the USA.

Economic recovery in the USA in 2012 lacked the momentum of earlier upswings, with GDP settling around 2.2 % compared with the previous year. The growth in private consumption – as the mainstay of America's economy in the past – was somewhat above average. Although the real estate market stabilized to a certain extent again, consumer uncertainty was not dispelled, fanned by the necessary ongoing fiscal consolidation and the problems emerging in the fourth quarter concerning the future budgetary policy of the American government.

The most important Asian countries continued to report respectable growth in 2012, with their economic output likely to have grown by 6.0 % overall. China's economic performance expanded at a slower rate than in the preceding years to 7.9 %. This economic region with its dynamic growth nonetheless felt the effects of the clouding global economic situation and the associated demand slowdown emanating from the USA and Europe.

The debt crisis' strong impact on the development of the European economic area continued unabated. It can therefore be assumed that this will remain the case in the coming five years. Only a few countries were able to decouple from the recessionary trend, and global economic output declined to 0.5 % on the basis of data available in the euro zone. Above all the southern European countries that are hard hit by the high level of sovereign debt suffered a decline in gross domestic product of up to 6.2 %.

The German economy was also unable to decouple from the slowdown in momentum. According to preliminary calculations, real GDP expanded by 0.7 % as against the year before (3.0 %) which significantly outperformed the general trend in the euro area. Considerable stimulus for the robust development emanated first and foremost from foreign trading. Exports rose on by 4.1 % on a price-adjusted basis (previous year: 7.8 %), as opposed to imports that climbed by a mere 2.3 % (previous year: 7.4 %). This corresponds to a contribution of around 1.1 percentage points to overall GDP growth. The uncertainty in the market is, however, reflected by capital expenditure. Although private consumption spending rose by 0.8 % (previous year: 1.7 %) on the back of the higher number of persons in gainful employment, and government spending was also 1.0 % higher than a year ago, gross fixed capital formation was down substantially by 2.1 % (previous year: +6.2 %).

Developments in the ECT market

The return of the ECT market to normal levels held steady in the reporting year as well. With a high growth rate, based on the company's own estimates, in the mid- to high single-digit range, the volume expanded at a presentable rate. The ECT market was, however, not quite able to follow on from its dynamic development in recent years when double-digit growth rates were achieved in part.

Demand was driven primarily by new application areas for modern ECT solutions. Moreover, it may be advantageous in financial terms for a customer to scale back its existing engineering capacities and opt increasingly for sourcing products from external innovative manufacturers. To reduce the time to market, customers are making more extensive use of existing external know-how instead of initiating protracted in-house developments. In addition, the ECT market benefited from the unbroken trend toward energy- and space-saving solutions. The so-called Internet of Things (IOT) and new multi-core processors distinguished by their greater performance were another major driver for the ECT market in 2012.

Developments in the strategically relevant sub-sectors

Industry displayed two fundamentally opposing trends in 2012. Whereas the market for industrial automation was clearly affected by the ailing investment environment, the market for medical technology remained buoyant. The ECT customers in the market for industrial automation adopted an extremely cautious stance in the year under review, partly shelving plans investments, and acting in a more cost-sensitive way. In the short term, this caused revenues to decline. However, the uninterrupted trend toward more outsourcing of development services should, in conjunction with catching up effects, have an impact on a significantly improved order book, at least in the medium term. Kontron is convinced of more market potential in this business and is investing in expanding the product family in a targeted manner.

At SPS/IPC/Drives, Europe's leading trade fair for electric automation, the company presented three new product families in OmniClient and MicroClient that underscore the important PC and HMI (Human-Machine Interface) segment for production control systems and machine operation. Both new system solutions offer innovative widescreen displays featuring glass fronts and the multi-touch technology familiar from smart phones and tablet PCs. Together with the first products in the ARM (Advanced RISC Machines Architecture) segment delivering maximum energy efficiency and graphics performance coupled with particularly low energy dissipation, and QorlQ modules enabling very high computing capacities as well as an impressive long-term availability of more than 10 years, Kontron is well positioned in the industrial automation business and an attractive partner to existing and new customers. In technological terms, the trend towards the use of standard interfaces held steady in 2012, determined first and foremost by the particularly high quality standards imposed by customers who attribute extremely high importance to reliability in combination with long-term availability.

The development of the medical technology market was thoroughly robust. Unaffected by the macroeconomic developments, the well-known demographic effects and the growing global population continued to have a positive impact in the reporting year as well, with the result that growth was generated despite the lower volume of investment by the public sector. As one of the leading ECT providers, Kontron profits here from the trend away from stationary large devices toward the increasing use of small, mobile devices. The development of this new generation of flexible medical technology devices is promoted above all by cutting-edge, energy-saving multimedia technologies such as ARM. Five new products based on this state-of-the-art, energy-efficient ARM technology, were launched by Kontron in the market in 2012, thereby setting in place the technological platform enabling the company to benefit from current trends in the market for medical technology in the future. The increasing deployment of intelligent medical supply systems also offers further potential for deepening value creation.

The market for energy solutions developed well for Kontron. Especially in Russia and in the German-speaking region, this trend is set to persist.

In the communications business, the market for telecommunications solutions remained under pressure all over the world. Network operators are still battling the challenge of mastering the increasingly large data traffic volume in their networks and of generating the respective earnings through business with customers to cover their high infrastructure investments. Whereas the data volume and the associated bandwidth requirements necessitated by the growing use of smart phones and web applications and the ongoing convergence toward an All-IP-network in increasingly faster cycles is growing at a swift pace, network operators are increasingly losing control over subscriber-based content. At the same time, the importance of new, high-growth so-called over-the-top providers that pursue a similar approach to Apple, Google or Amazon, is on the rise.

Nonetheless, these difficult market conditions also harbor opportunities. Many of the largest providers of network equipment are themselves in difficult situations, so that small and flexible companies can benefit in this business. This enables Kontron to win additional projects, as in the case of application-ready platform solutions, for example. As part of the newly proclaimed "Internet of Things" paradigm, the number of devices linked to the Internet, from end-customer use through to machine-to-machine communication (M2M), is likely – according to estimates by research institutes – to have soared to 50 billion by the year 2020, and to double every five years thereafter. This rapid growth is naturally accompanied by a drastic increase in data volume presenting new challenges for the infrastructure of the network operators. The only solution for coping with this gigantic mass of data is the implementation of more intelligent and efficient ways of processing, handling and storing data. Kontron is poised to benefit from these requirements with its innovative product portfolio in the infrastructure as well as the M2M solutions business.

In the combined Military/Avionics/Rail Segment, reticence exercised by public administrations in awarding contracts was felt in the security & defense market. In principle, however, governments are likely to uphold their long-term plans for investments in high-tech and electronic armaments, although these programs may have a longer time horizon than originally planned.

The two sub-markets of civil aviation and regional rail transport stood out in the reporting year with their partly high growth rates. International airline companies are pursuing an expensive investment policy in civil aviation with a view to offering its passengers media and communication services on board. Interest centers around technologies such as CWAP for wireless entertainment and communication in flight in combination with innovative server solutions. Kontron is fielding a product portfolio ideally and specifically suited to these sophisticated requirements and has a good track record through initial projects successfully realized in this field. As a result, the company is excellently positioned to benefit from further development in this market.

The trend toward modernization and higher investment levels in cutting-edge railway technology is holding steady in the rail transport market, although a number of investments by public-sector customers were shelved or canceled altogether. Cutting-edge systems rely increasingly on ECT solutions that have to be exactly calibrated to accommodate the individual requirements. Kontron profits here through its technological know-how and the requisite proven certifications, evidence of which has to be provided as a prerequisite for operating successfully in this regimented market.

The Multimarket Segment encompasses the market for road vehicles/transport, oil & gas, entertainment as well as distribution, among others. The higher volume of refurbishment projects and the ongoing trend toward easy fleet management and autonomous conveying systems are the growth drivers behind the use of intelligent ECT solutions in the transport market.

To cater for the increasingly more sophisticated demands of the market participants, these systems require ever more complex ECT solutions that are based increasingly on individual development activities. This trend tallies with Kontron's intensifying its focus on highly specialized and customized solutions while, at the same time, contributing to enhancing the value-added share.

The rather more problematic order situation in the last two years in the gaming machines business persisted in the reporting year 2012. In the long-term, however, demand for stationary large machines is set to decline, while growth in portable games that can be played on smart phones or tablets will accelerate significantly. The classic casino slot machines that take coins, Kontron's traditional strengths in this business, are being increasingly crowded out, and unrelentingly huge pressure from strong competition by low-wage countries in Asia will change the market. In the infotainment market, Kontron serves the Point of Interest (POI) and Point of Sale (POS) business, alongside gaming, both of which display similar trends. Enormous competitive pressure from Asia in particular has created a difficult environment. Customer requirements placed on POI and POS applications are becoming increasingly more demanding, particularly in terms of the number of different operating components and functions required. Drawing on its versatile offerings of intelligent solutions, Kontron intends to benefit from the growing complexity and, based on its long-standing experience, has the requisite know-how for implementing individual requirements swiftly and cost effectively.

2. Business situation
2.1 Overall statements by the Management Board

The financial year 2012 was determined by a reticent approach to order placing in the public sector that is so important for Kontron, persistent pressure on margins, a poorer margin mix, as well as measures to focus the business model. Despite these difficult general conditions, the company succeeded in achieving the target corridor envisaged by generating revenues of EUR 547.0 million. Earnings before interest and tax stood at EUR -32.5 million, impacted mainly by two aspects: on the one hand by a lower gross profit margin, and on the other by non-recurrent effects. Excluding the non-recurrent effects described in section 2.3 "Results of operations", earnings before interest and tax amounted to EUR 0.2 million. This unsatisfactory result, which fell short of the company's own guidance and market participants' expectations, was the reason for the "Shape" optimization program. The first stage under this program is to optimize and globalize Kontron's structures. The second stage entails a review of the business segment strategies. Restructuring measures, such as the closure of the loss-making company in Switzerland and shutting down a site in the USA, were initiated back in 2012. Despite the poor operating performance, key financial ratios are positive.

An equity ratio of 62.3 %, a positive operating cash flow of EUR 46.2 million, and a net cash position of EUR 13.2 million constitute a sound financial basis for future development.

2.2 Significant events

Launching of the "Shape" optimization program

The objectives of the "Shape" optimization program are to focus the company's business model and restructure its internal organization and processes to make them more efficient. The program centers around restructuring local legal entities in business units operating worldwide, as well as on combining the two functional segments of Supply Chain and Research and Development into teams operating on a global scale. The main measures are to have been concluded before the end of the first six months of 2013, and implementation is proceeding as planned. More information on "Shape" is included in the section on 1.6 "Corporate strategy".

Necessary impairment of goodwill

The regular review conducted on the premises relevant for the measurement of goodwill in the context of an impairment test showed that non-recurrent non-cash write-downs in a volume totaling EUR 19.3 million had become necessary. The figures recognized for RT Soft, ubitronix and the North American subsidiaries were affected by this measure.

Additional non-recurrent effects burden the operating result

In the reporting year, other non-recurrent effects were incurred that impacted the result of the Kontron Group, in addition to the write-downs necessary on goodwill. Among other items, this included costs owing to valuation effects and costs arising from restructuring and reorganization. An overview of the non-recurrent effects incurred in 2012 is included in section 2.3 "Results of operations".

Focusing the business model results in changes in the consolidated group

The changes carried out within the consolidated group already reflect the first measures initiated and implemented to focus the business model. Kontron scaled back its production capacities through the disposal of its Malaysian production site for standard components and of AP Parpro Inc., an American company specialized in the production of wire harnesses. Furthermore, the company divested the Czech company Merz s.r.o., a developer of application software that did not belong to its core business. In addition, Kontron combined the three domestic companies operating independently to date into Kontron Europe GmbH in order to streamline internal processes. An overview with the details on the changes implemented in the consolidated group is included under the section entitled "1.2 Legal structure of the company".

Personnel changes at Management Board level

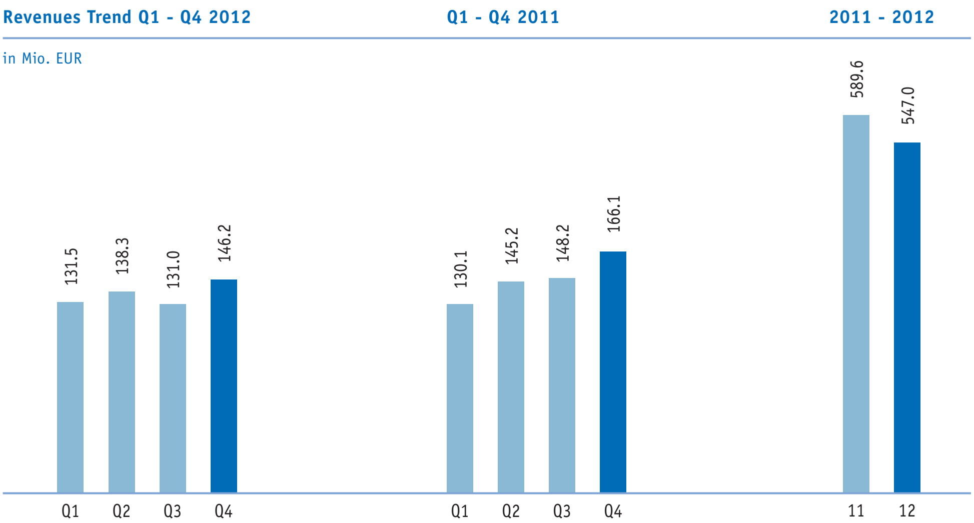
In the reporting year, the Supervisory Board arranged for a total of three appointments to the Management Board; two Management Board members left the company. As Mr. Ulrich Gehrmann, the former Chief Executive Officer, left the company at the end of the year and Management Board member Mr. Dirk Finstel laid down his mandate on October 24, 2012, the Supervisory Board appointed Mr. Rolf Schwirz, Mr. Andreas Plikat and Mr. Christopher Burke as new members to the Management Board. More detailed information on the personnel changes at Management Board level can be found in 1.3 "Management and control".

2.3 Results of operations

Explanations on the development of revenue

In the financial year 2012, Kontron was unable to maintain the record level achieved in the previous year and generated revenues of EUR 547.0 million (previous year: EUR 589.6 million). This corresponds to a decline of 7.2 % that was principally attributable to the slowdown in orders placed by the public sector over the course of the year and to a decline in the investment propensity of customers from industry. The previous year's 2011 revenues included a contribution of EUR 28.7 million from the activities in Malaysia, Mexico and the Czech Republic sold in 2012. In the reporting year 2012, the disposal of these activities contributed EUR 9.8 million in total to revenues.

This trend is also reflected in revenue development over the course of the year. In the first quarter of 2012, Kontron generated revenues of EUR 131.5 million, thereby even exceeding the year-earlier figure by EUR 1.4 million. The second quarter was already seeing the first effects of the slowdown in customer demand (-4.8 %), which had a tangible effect on the development of revenues in the third (-11.6 %) and fourth (-12.0 %) quarters. The regional market segments of Emerging Markets and North America that were able to virtually maintain their revenues level remained relatively robust. By contrast, the EMEA market segment suffered a significant decline. A look at the sub-markets that the company serves also shows a disparate trend in the year under review. Revenues in the energy segment developed well in comparison with the year before. Medical technology, security & defense remained stable as opposed to industrial automation, telecommunications and infotainment, where revenues fell against the backdrop of a difficult market environment.



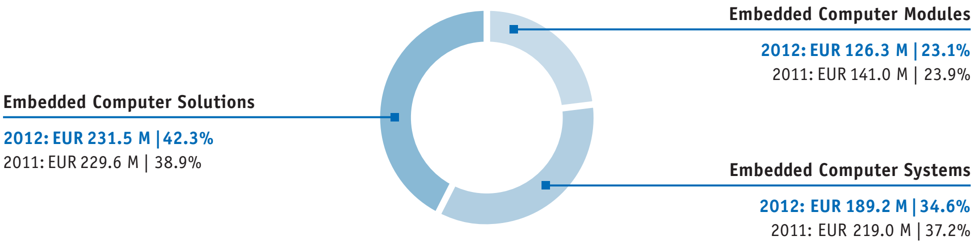
The distribution of revenues between the individual segments shows that the proportion of business generated by Embedded Computer Solutions has risen by 3.4 percentage points, to the detriment of the two other segments. All in all, the segment advanced by EUR 2.0 million. Of the revenues achieved, 42.3 % was accounted for by the Embedded Computer Solutions Segment, 34.6 % by the Embedded Computer Systems Segment, and 23.1 % by the Embedded Computer Modules Segment.

The regional development of revenues is mainly affected by changes in the consolidated group from the disposal of AP Parpro Inc. (North America) and the Malaysian production site (emerging markets).

Kontron generated revenues as follows: EUR 225.2 million in the EMEA region, corresponding to 41.2 % of total revenues, EUR 217.5 million in North America, the equivalent of 39.8 % of total revenues, and EUR 104.2 million in the emerging markets, which is 19.0 % of total revenues.

Revenues by product segment

in Mio. EUR



Explanations on the earnings trend

Earnings before interest and tax were burdened by special events and items in 2012. The following overview shows the main positions, with more information included in the notes (explanations) on the individual items of the income statement and the balance sheet.

Special events/items in the financial year 2012

in Mio. EUR	12/31/2012	12/31/2011
Significant valuation effects		
Goodwill impairment[1]	-19.3	0
Inventory write-downs[2]	-2.7	0
Unscheduled write-downs on internally generated development projects	-1.2	0
Write-downs on other receivables	0	-0.8
Reorganization		
Severance payments	-4.4	-1.3
Harmonization of IT systems	-1.9	1.3
Costs incurred by global strategy consultancy for the Shape project	-2.1	0
Restructuring costs		
Kontron Compact Computers AG, Schweiz[3]	-2.3	0
Closure of the British Columbia site (part of the legal entity Kontron America Inc.)	-1.0	0
Disposal effects of subsidiaries[4]	-0.4	0.3
Sale of the production site, Malaysia[5]	1.0	-5.1
Other effects		
Adjustment for AP Labs earn-outs, Call Option ubitronix	-0.1	1.7
Repayment of excise duties	1.6	0
Total	**-32.7**	**-4.0**

[1] Accounted for as follows: EUR 9.6 million by North America, EUR 5.0 million by the RT Soft Group, and EUR 4.7 million by ubitronix.

[2] The amount comprises write-downs of EUR 1.3 million necessitated by a new directive on hazardous substances in electronic components ("lead-free directive") and write-downs of EUR 1.4 million due to customer cancellations of orders.

[3] The total sum of restructuring costs in an amount of EUR 4.6 million is reduced by income from the release of pension provisions of EUR 2.3 million.

[4] The disposal of Merz s.r.o. resulted in a loss of EUR 0.5 million, the disposal of AP Parpro Inc. in proceeds of EUR 0.1 million.

[5] Gains of EUR 2.3 million have been realized from the disposal of the production facilities. A countereffect was constituted by take-back obligations of EUR 1.3 million for inventory from sales contracts.

The cost of goods sold stood at EUR 416.5 million in the reporting year, which corresponds to a decline of 1.7 % (previous year: EUR 423.5 million). This disproportionate development measured against sales is attributable to the inclusion of write-downs of inventories amounting to EUR 1.3 million owing to an EU directive on the Restriction of Hazardous Substances in Electronic Components (RoH's 2) and to customer cancellations of orders worth EUR 1.4 million in the telecommunications market.

In addition, unscheduled write-downs of EUR 1.2 million on capitalized development projects due to product discontinuations were necessary. Upon elimination of the special effects, the absolute cost of goods sold had fallen by 2.6 % below the year-earlier level.

The material costs, including inventory write-downs, dropped by 2.6 % to EUR 338.0 million (previous year: EUR 347.1 million). The disposal of production capacities in Malaysia and Mexico resulted in an appreciable decline of 30.4 % in other production costs to EUR 30.2 million (previous year: EUR 43.4 million). The write-downs on capitalized development projects climbed 34.0 % to EUR 13.0 million (previous year: EUR 9.7 million). Product discontinuations and the downward revision of revenue expectations resulted in the change in the figure recognized for internally generated intangible assets that necessitated unscheduled write-downs to EUR 2.5 million (previous year: EUR 0.4 million) under an impairment test. The contract-related development costs amounted to EUR 35.3 million, which is a significant 51.6 % higher than the year-earlier figure (previous year: EUR 23.3 million). The impact of long-term, high-volume customer orders in the eastern European companies was evident in this figure.

Gross profit sank by 21.4 % to EUR 130.5 million (previous year: EUR 166.1 million). This development was mainly attributable to the reticent placing of orders by customers, the sustained squeeze on margins, the poorer margin mix, as well as the inclusion of the material valuation effects.

Selling and marketing costs declined by 2.4 % to EUR 48.0 million (previous year: EUR 49.2 million). In the year under review, Kontron maintained the same level of sales activities. Accordingly, the decline in selling costs and the inclusion of special items are the sole reasons for the lower level of revenues.

By contrast, general administration costs climbed significantly by 21.8 % to EUR 50.8 million (previous year: EUR 41.7 million). The main reasons behind this development are special effects in an overall volume of EUR 7.8 million that comprised, among other things, strategy consultancy fees in connection with the implementation of "Shape", write-downs on SAP software that became necessary in connection with Shape reorganization, severance payments and the restructuring measures implemented.

The research and development costs edged up 1.1 % to EUR 45.0 million (previous: EUR 44.5 million). This figure includes special effects from restructuring measures and severance payments of EUR 1.8 million. Although employee numbers remained constant in this segment, there were distortions at a regional level. Kontron cut back on capacities in Europe and North America while ramping them up in Russia. Taking account of the research and development costs, adjusted for special effects, and capitalized development projects amounting to EUR 20.0 million, the R&D ratio measured against sales stood at 8.2 % (previous year: 7.6 %).

While no impairment on goodwill was necessary in the year elapsed, a calculation carried out to establish the value in use of all entities, using updated cash flow forecasts for the period from 2013 to 2016 as part of the impairment test, resulted in write-downs totaling EUR 19.3 million.

Other operating income fell by 11.1 % to EUR 16.0 million (previous year: EUR 18.0 million). The material items included the following in particular: currency gains of EUR 14.3 million (previous: EUR 14.4 million), proceeds of EUR 1.0 million from the sale of the production site in Malaysia, as well as proceeds of EUR 0.1 million from the disposal of the subsidiary AP Parpro Inc. Other operating expenses climbed by 8.2 % to EUR 15.8 million in the reporting year (previous year: EUR 14.6 million), which includes foreign exchange losses of EUR 14.6 million (previous year: EUR 14.0 million) and a loss of EUR 0.5 million from the disposal of the subsidiary Merz s.r.o. The foreign exchange gains and losses are reported under material differences resulting over the period from the origination through to settlement of the receivables and payments due, denominated in a foreign currency, as income and expenses.

In total, the individual positions of the income statement comprise write-downs amounting to EUR 43.8 million (previous year: EUR 21.6 million), which corresponds to an increase of 102.8 %. Earnings before interest, tax, depreciation and amortization (EBITDA) fell accordingly to EUR 11.4 million (previous year: EUR 55.7 million). Adjusted for special items, EBITDA posted EUR 22.2 million (previous year: EUR 59.4 million).

Development of EBITDA in Mio. EUR

	2012*	2012	2011*
Q1	5.6	9.5	12.8
Q2	9.4	9.3	15.5
Q3	4.4	-6.5	16.0
Q4	2.8	-0.9	15.1
Total year	**22.2**	**11.4**	**59.4**

* EBITDA adjusted for special items

Earnings before interest and tax (EBIT) amounted to EUR -32.5 million in the financial year 2012 (previous year: EUR 34.1 million). Taking account of the special items, EBIT stands at EUR 0.2 million. The decline in the operating results on an adjusted basis is due particularly to the persistent pressure on margins, a poorer margin mix, as well as the decline in revenues and higher costs. The financial result stood at EUR -2.1 million (previous year: EUR -1.5 million). Finance income rose marginally to EUR 0.7 million (previous year: EUR 0.4 million), and finance expenses, determined by raising a credit facility totaling EUR 170 million, through guarantee and commitments fee and transaction costs of the credit facility, climbed to EUR 2.7 million (previous year: EUR 1.9 million).

Compared with income taxes of EUR 9.7 million levied in the previous year, tax income in the reporting year stood at EUR 0.9 million. The reason for the lower amount of tax income was primarily attributable to the tax non-deductibility of goodwill impairment and the losses of Kontron Compact Computers AG arising in the financial year 2012 that cannot be offset against tax.

The consolidated result in the reporting year declined from EUR 22.9 million to EUR -33.6 million. Of this amount, and including minority interest, EUR -32.8 is allocable to the shareholders of Kontron AG (previous year: EUR 21.9 million). Earnings per share calculated on this amount stand at EUR -0.59 (previous year: EUR 0.39).

Development of EBIT in Mio. EUR

	2012*	2012	2011*
Q1	0.3	4.2	7.5
Q2	3.9	3.8	10.2
Q3	-1.0	-13.3	10.8
Q4	-3.0	-27.2	9.6
Total year	**0.2**	**-32.5**	**38.1**

* EBITDA adjusted for special items

2.4 Financial position

Objectives and principles of financial management

Kontron's financial management system is based on centralized control and management by the global Treasury that was newly established at the end of 2011. The primary objectives of financial management consist in securing groupwide solvency on a permanent basis through efficient liquidity management and control, in steadily improving the financial strength and in minimizing currency-induced risks by deploying financial instruments.

Kontron concluded a revolving credit facility in April 2012 with a banking syndicate in which high-profile banks participated in an overall volume of EUR 170 million, made available to the company over a term of five years. Drawdowns under this credit facility will be effected by Kontron AG. The parent company will undertake to supply the subsidiaries with financing by way of loans extended internally, generally made available in the form of current account lines. Foreign subsidiaries that cannot be financed in this way owing to the prevailing currency restrictions cover their financial requirements via bilateral credit lines held at a local bank. Liability for these bilateral agreements will also be assumed by Kontron AG and will be arranged under the existing credit facility. In addition, a number of existing, bilateral credit lines were retained after the change in the system had been completed. The use of these credit lines is closely coordinated with the global Treasury on a case-by-case basis for short-term financing on a current account basis. Surplus liquidity is invested at conditions customary in the market directly at banks. The emphasis is on availability at short notice and a high level of security, which dominate the aspect of maximizing earnings. This approach guarantees the greatest possible flexibility at all times.

Explanations on the cash flow from operating activities

The cash flow from operating activities rose to EUR 46.2 million, up by EUR 14.6 million in the financial year 2012 (previous year: EUR 31.6 million). This increase is impacted by countereffects. Negative effects on the development of cash flow from operating activities included the negative result for the period and a higher outflow of funds for interest paid. This was offset by cash inflow and positive effects from a significant improvement in working capital and the lower level of income taxes paid. Working capital declined in line with budget in the reporting year, namely by a total of EUR 29.2 million to EUR 124.0 million (previous year: EUR 153.2 million). Cash inflow for trade receivables amounted to EUR 11.2 million (previous year: EUR -6.8 million), the reduction in inventory, determined first and foremost by the sale of assets in Malaysia, contributed EUR 23.8 million (previous year: EUR -15.6 million) to the positive development.

Explanations on the cash flow from investment activities

Cash outflow from investment activities fell to EUR 21.4 million, down by EUR 7.9 million, in comparison with the previous year. The decline is especially attributable to proceeds from the sale of property, plant and equipment of EUR 4.8 million (previous year: EUR 0.0 million) in connection with the disposal of production capacities in Malaysia and proceeds from the sale of subsidiaries amounting to EUR 6.1 million (previous year: EUR 0.7 million). By contrast, the volume of cash outflow for the purchase of property, plant and equipment and intangible assets rose by EUR 1.6 million.

Explanations on the cash flow from financing activities

The cash flow from financing activities dropped by EUR 13.1 million to EUR -35.5 million. This change was prompted primarily by the redemption of non-current financial liabilities in an amount of EUR 13.3 million (previous year: EUR 1.8 million). In the year under review, Kontron took out long-term loans of EUR 13.8 million; in 2011, this figure was EUR 12.3 million. The decrease in current account credit accounted for an outflow of EUR 3.7 million (previous year: cash inflow of EUR 19.4 million); by contrast, Kontron's total short-term bank borrowings stood at EUR 19.4 million (previous year: EUR 14.0 million).

Explanations on net indebtedness and leverage

As per December 31, 2012, cash and cash equivalents in the group stood at EUR 27.5 million, which is EUR 10.7 million lower than on the year-earlier reporting date. The net cash position increased owing to the reduction in long-term bank borrowings of EUR 22.7 million to EUR 13.2 million in the financial year 2012 as against the previous year (EUR 1.2 million).

Leverage stood at 60.5 % and was thus 3.6 percentage points higher than the year-earlier level of 56.9 %, which reflects the disproportionate reduction in borrowing in relation to the decline in equity. This is due especially to the results in 2012 and the associated development of equity.

Key figures – financial position

Key figure	Definition	2012	2011	Change
Net Cash-Position	Cash in hand and bank balances, less bank borrowings	13.2 Mio. EUR	1.2 Mio. EUR	+12 Mio. EUR
Leverage	Debt/equity	60.5%	56.9%	+3,6 percentage points
Working Capital	Trade receivables – impairment + inventories (excluding prepayments on account and receivables from construction contracts) – trade payables (excluding prepayments received)	124.0 Mio. EUR	153.2 Mio. EUR	-29.2 Mio. EUR
Cash flow per share	Operating cash flow/number of shares issued	0.83 EUR	0.57 EUR	+0.26 EUR
Capex ratio	Investments in property, plant and equipment (intangible assets + fixed assets)/consolidated revenues	5.4%	4.8%	+0.6 percentage points

2.5 Net assets

Decline in total assets

The total assets of the Kontron Group stood at EUR 460.4 million on December 31, 2012 (previous year: EUR 523.5 million), which corresponds to a decline of EUR 63.1 million, the equivalent of 12.1 %, as against the previous year's reporting date. Current assets fell by EUR 50.6 million and non-current assets by EUR 12.5 million, due in the main to the disposal of the production site in Malaysia and the American company AP Parpro Inc., the lower volume of business as well as goodwill impairment necessitated by an impairment test. Current liabilities fell substantially by EUR 14.9 million, non-current liabilities by EUR 1.5 million and equity by EUR 46.8 million. This development was primarily determined by the repayment of bank borrowings and the lower level of revenue reserves.

Explanations on current and non-current assets

Cash and cash equivalents declined to EUR 27.5 million owing in particular to the repayment of borrowings (previous year: EUR 38.2 million).

Inventories dropped by EUR 11.5 million to EUR 100.0 million. Of this amount, EUR 2.7 million (previous year: EUR 0.0 million) are accounted for by write-downs on inventories held in electronic components that became necessary owing to the EU directive "Restrictions on the Use of Certain Hazardous Substances" (RoH's 2) that entered into force from January 1, 2013 onward and which provides for extensive prohibitions on materials used in electric and electronic devices introduced in stages. Other reasons for the lower level of inventories consist in the disposal of AP Parpro Inc., the sale of working-capital intensive production in Malaysia and the lower volume of business generated in the reporting year.

The development of trade receivables mirrored the revenue's trend, declining by EUR 13.6 million, the equivalent of 11.0 %, to EUR 110.0 million.

Tax assets amounted to EUR 2.9 million on December 31, 2012 and were virtually unchanged (previous year: EUR 2.8 million).

The other current receivables and assets advanced by EUR 4.0 million to EUR 18.2 million, due mainly to the increase in value added tax receivables.

Assets held for sale in the previous year worth EUR 18.8 million fell to EUR 0 owing to the disposal of major parts of the Malaysian Kontron Design Manufacturing Services Sdn Bhd completed at the start of 2012.

Property, plant and equipment rose marginally to EUR 22.4 million, up by EUR 1.7 million. Factors contributing to this development included in particular investments necessary in the refurbishment of the almost 40-year old company headquarters in Eching near Munich.

Other intangible assets remained virtually unchanged at EUR 68.6 million (previous year: EUR 68.8 million). Additions of EUR 22.7 million were offset by disposals and write-downs totaling EUR 22.7 million.

Of the write-downs, EUR 16.1 million were accounted for by scheduled and EUR 5.6 million by unscheduled depreciation and amortization, of which EUR 2.5 million on self-generated intangible assets, EUR 1.1 million on SAP software, and EUR 2.0 million on intangible assets capitalized in connection with the ubitronix acquisition.

The impairment tests carried out on goodwill resulted in an impairment of EUR 19.3 million (previous year: EUR 0). The sum total is composed of the following write-downs: EUR 5.0 million on the RT Soft Group cash generating unit, EUR 4.7 million for ubitronix, and EUR 9.6 million for North America. In the case of the write-down on ubitronix, the fact that EUR 2.7 million was accounted for by goodwill and EUR 2.0 million by capitalized intangible assets upon acquisition should be noted.

Explanations on current and non-current liabilities
Trade payables stood at EUR 87.6 million and were thus virtually unchanged year on year (previous year: EUR 86.7 million).

The substantial redemption of current and non-current bank borrowings resulted in a reduction totaling EUR 22.7 million to EUR 14.3 million in liabilities owed to banks (previous year: EUR 37.0 million). Of this volume, EUR 0.5 million was accounted for by current (previous year: EUR 23.8 million) and EUR 13.8 million by non-current bank borrowings (previous year: EUR 13.2 million).

Provisions climbed first and foremost on the back of the increase in provisions for litigation and the considerable restructuring measures for the closure of Kontron Compact Computers AG that all together amounted to EUR 2.9 million. On the reporting date, Kontron formed current provisions within the group of EUR 7.2 million (previous year: EUR 4.9 million) and non-current provisions amounting to EUR 4.1 million (previous year: EUR 3.4 million).

Pension provisions declined by EUR 1.6 million to EUR 1.1 million (previous year: EUR 2.7 million). The decision to close Kontron Compact Computers AG resulted in the release of pension provisions, compared with an increase in provisions in other companies mainly owing to changes in calculation parameters.

The rise to EUR 28.9 million, up by EUR 5.2 million, in other current liabilities (previous year: EUR 23.7 million) is especially attributable to the higher level of liabilities for other taxes, mainly value added tax, and the take-back obligation from inventories. Tax liabilities dropped by EUR 3.0 million to EUR 3.2 million (previous year: EUR 6.2 million) owing to the changed earnings situation.

Explanations on equity

As per December 31, 2012, equity had fallen by EUR 46.8 million to EUR 286.8 million. Revenue reserves in particular dropped by EUR 44.5 million, which was accounted for as follows: EUR 32.8 million for the negative results for the period as well as EUR 11.1 million for dividend distribution for the financial year 2011. Against the backdrop of an appreciable decline in total assets, the equity ratio stood at 62.3 % (previous year: 63.7 %), thus remaining relatively stable.

Key figures – net assets

Key figure	Definition	2012	2011	Change
Equity ratio	Equity/total assets	62.3%	63.7%	-1.4 percentage points
Inventory turnover rate	inventories/cost of material (prior to consolidation)*365	75 Days	70 Days	+5 Days
Days of Sale Outstanding (DSO)	Trade receivables/consolidated revenues*360 days	72 Days	76 Days	-4 Days

Smart phones, cloud computing and media digitalization are the main drivers behind the dynamic growth in data volume that telecommunications corporations operating in a difficult competition environment must address with advanced network structures. We are fielding a broad bandwidth of standardized components, platforms and services, enabling us to deliver an ideal product portfolio geared to satisfying the individual requirements of different markets and providing our customers with superior degrees of flexibility.

DELIVERING FLEXIBILITY

Delivering Flexibility
COMMUNICATION

Bruce Lawler, Chief Marketing Officer at Kodiak

Kodiak Networks develops enterprise productivity applications like Push-to-Talk that run on 4G LTE, 4G, 3G, and Wi-Fi networks. One of the challenges in delivering solutions to Service Providers like AT&T and Bell Mobility is to provide a carrier grade platform with scalability and high availability. The ATCA hardware infrastructure provides a broad range of configuration options using standard-based hardware components and platforms. By working closely with the Kontron integration team,Kodiak Networks was able to successfully bring a complex product to market quickly with reduced development and deployment costs.

ATCA Platform

There are practically no limits to the applications that embedded computer technology (ECT) can be used for. When the task is to design existing processes for greater user convenience and implement additional functions or services into existing applications, ECT is often the means of choice. The technology offers so many different growth opportunities that we harness through our stringent product policies. This includes our activities in electronic systems and kiosks (point of interest and point of sale), gaming machines as well as vehicle engineering.

BENEFITING FROM VARIETY

068 - 073

Benefiting from Variety
POINT OF SALES

Martin Niedermeier, Head of Operations at Skidata AG

Our car park ticketing machines, manufactured in their entirety by Kontron, are deployed all over the world in a huge variety of different environments. Intuitive operation, high-level reliability and round-the-clock availability are crucial for our customers' success – and therefore our success as well. We make stringent demands on our suppliers because, after all, our customers rightly expect solutions geared to their particular needs. Thanks to its advanced product and manufacturing flexibility and its capacity for producing individual configurations at short notice, Kontron enables us to act as a reliable partner for our customers, entirely justifying the supplier award we have bestowed on the company.

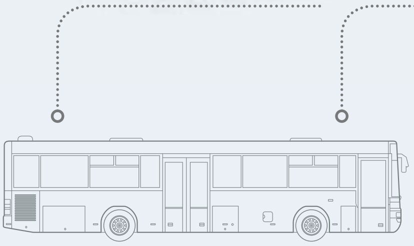

P
SKIDATA
SKIDATA

Benefiting from Variety
IN-VEHICLE

Mr Jean-Marc VANDENBROUCKE, Administrateur Général at Société Régionale Wallonne du Transport

A modern local transport system of the type we operate in the Walloon region faces the challenge of managing various means of transportation within a central electronic system. And the related tasks are multifaceted – spanning passenger information and announcements, location positioning using vehicle diagnostics and all the way through to ticketing. With its open custom design approach, the Kontron solution enables future requirements to be integrated into our vehicle management system, thereby giving us a comfortable degree of investment security. Kontron's many years of experience, and its ability to deliver not only the board computer but also peripheral equipment, proved decisive for our decisions.

Venturo



3. Non-financial performance indicators
3.1 Employees

Sale of production capacities reduces the number of employees

As per December 31, 2012, the number of employees working for Kontron worldwide stood at 2,208 (previous year: 3,057), 48 of whom were trainees. The disposal of personnel-intensive production capacities, particularly in module manufacturing, reduced the number of employees by 849 persons (-27.8 %). At the same time, employee figures reflect the stronger strategic alignment focused on R&D.

The disposals of the Malaysian production site for standard components and the American company AP Parpro Inc. with its production facilities in Mexico, as well as the closure of board production by Swiss Kontron Compact Computers AG (KCC), caused the numbers of employees engaged in production to fall by a total of 766 persons to 432. As in the year before, 973 employees were working in research and development, the Department that is of significant importance for the company's sustainable success. The decline in Administration & IT is mainly due to the sale of production capacities of the Malaysian subsidiary in both cases. This is also the main reason for the trend in Sales & Marketing that was also affected by restructuring the sales organization in the EMEA region (Europe excluding Russia, the near East and Africa) as well as by the combination of three domestic subsidiaries.

Employees by functional area

	2012	2011	Change
Production	432	1,198	-766
Research & Development (R&D)	973	973	0
Sales & Marketing	433	477	-44
Administration & IT	370	409	-39
Group	**2,208**	**3,057**	**-849**

Employee figures as of the reporting date on December 31 (headcount)

At year-end 2012, Kontron employed a workforce comprising 644 employees (29 %) in Germany and 1,564 employees (71 %) abroad. The regional trend of employee figures is determined especially by the aforementioned disposal of subsidiaries and production closures. In Asia, the Kontron team was reduced by a total of 588 employees. Net of the effect from the sale of the Malaysian production capacities for standard components, employee figures in this region would have remained virtually unchanged overall (+1 person). Personnel reduction in North America numbered 261 employees, 254 of whom were employed by AP Parpro Inc., the company that was sold. Employee numbers in the EMEA region fell by a total of 70 persons due to the combination of functional areas following the merging of three German companies, restructuring initiated at the Swiss subsidiary, and the disposal of Merz s.r.o.

As per December 31, 2012, 47 employees were still formally employed by the Swiss company. These employees will have left the company for the most part by the end of the first quarter.

In Russia, an additional 70 employees were hired, primarily in research and development, owing to the increase in larger projects.

Employees by region

	2012	2011	Change
EMEA (excluding Russia)	942	1,012	-70
Russia	619	549	+70
North America	476	737	-261
Asia	171	759	-588
Group	**2,208**	**3,057**	**-849**

Employee numbers on the reporting date of December 31 (headcount)

The increase in personnel expenses that rose by 4.7 % to EUR 136.0 million (previous year: EUR 129.9 million) was determined by two counteracting developments: On the one hand, disposals, restructuring and reorganization resulted in a reduction in employee numbers in some areas, and therefore to a substantial decrease in personnel costs. On the other, severance costs, salary increases, exchange-rate induced effects (above all Euro/USD), and the partial hiring of employees (e.g. in Russia), ultimately led to a higher level of personnel expenses despite considerably lower employee numbers.

Personnel expenses comprise expenses for social security expenses of EUR 20.5 million (previous year: EUR 19.9 million).

Developing and promoting employees
The expertise of its staff is the key to the sustainable success of a company with a strong focus on the development of innovative technology solutions. For this reason, promoting and developing our employees is one of the central tasks of our personnel work. Kontron's approach here is to opt for individual measures and measures tailored to the situation that take account of personal and company-specific requirements and goals.

Creativity and international aspects
As a technology company operating worldwide, Kontron is an attractive employer that enables its employees to gather international experience. Only if staff expand their horizons, will the company be successful in developing innovative and creative solutions for customers in the international arena, thereby sustaining its competitive edge. Supported by a system that is characterized by its flat hierarchy, employees assume responsibility at an early stage and can develop towards goals that have been agreed.

In hiring staff for positions, the sole decisive criteria are the qualifications of the applicant or employee, irrespective of their ethnic origin, age or sex. This approach guarantees that versatility within the Kontron team is promoted as an opportunity for the company's development without the necessity of special programs.

Vocational training partner in eight professions

The vocational training of young people is a cornerstone in Kontron's personnel strategy of recruiting highly qualified and motivated employees from its own ranks. All in all, Kontron carried out vocational training in its German locations for 48 young women and men in the reporting year (previous year: 47 trainees) in eight professions. These professions were concentrated on communication electronics engineers, industrial clerks and euro business specialists in particular. In addition, one trainee graduates in a dual study program in electrical engineering. The trainee ratio, defined as the number of trainees in relation to employees working in Germany, stood at 7.5 %.

3.2 Corporate responsibility

Social commitments, entrepreneurial responsibility and promoting the sciences are an important part of the way Kontron AG views itself. Taking ecological aspects into consideration has been given an important ranking here.

As a global technology company, Kontron recognized the importance of innovative products that stand out for their low energy consumption at an early stage, and proceeded to consistently build on its portfolio to include energy-saving ECT solutions – a trend that is unbroken and reinforced by the steady increase in customer demand. In the decision to include ecological aspects to an even greater extent, other aspects include the responsible use of natural resources, avoiding waste and efficient recycling solutions, all accorded the same importance, alongside financial considerations. Naturally, Kontron supports the efforts of the Carbon Disclosure Project (CDP) in making extensive information on CO2 emissions, energy and water consumption, as well as relevant environmental data, available to investors, thereby providing additional factors that underpin investment decisions. As in previous years, Kontron took part in a detailed survey and data collection. The full report can be viewed at www.cdproject.net.

Kontron's internal guidelines on corporate social responsibility are based on the SA 8000 standard, and define groupwide rules of conduct that are intended to promote an attractive working environment as well as sustainable corporate development.

Kontron promotes scientific activities through collaboration with various universities of applied sciences and universities. The scope of these endeavors encompasses in particular the long-standing cooperation with Deggendorf University of Applied Sciences and the Russian universities of Moscow State Technical University, Moscow State Aviation University, Moscow Power Energy University and the Ural State Technical University (Ekaterinburg City).

3.3 Procurement

In the year under review, the price trend of the necessary electronic parts and components was decidedly stable in comparison to the preceding years. The slowdown in momentum resulted in an easing on global supply chains, and delivery was therefore increasingly sufficient and prompt.

Kontron began to opt for global organization structures in 2012 for its purchasing and procurement. These activities are to be consistently developed and expanded under the "Shape" optimization program. The aim is to enhance the efficiency of the purchasing organization within the Group through concentrating the activities of the local procurement teams under centralized management, flanked by extensive process optimizations. The sale of the Malaysian production site to Plexus Corporation served to accelerate the former partnership with this supplier company. Both companies have signed extensive agreements that, among other things, comprise in-depth exchange of information and reconciliation in respect of quality requirements and pricing models as well as logistics. The strategic reinforcing of business activities in Asia has resulted in an expansion in the procurement organization in this region with above-average growth.

Progress made in combining activities at a global level is reflected in the development of procurement volumes with Kontron's largest suppliers. In the case of the top ten suppliers, the volume of electronic parts and components purchased climbed from 60 % to 74 % and, in respect of the top 50 suppliers, from 78 % to 84 %. This trend does not create additional dependencies. Instead it enhances the efficiency within the procurement process. All in all, the cost of materials and services outsourced fell to EUR 368.2 million in the reporting year (previous year: EUR 390.5 million). The cost of materials ratio climbed by around three percentage points to 61.8 % (previous year: 58.9 %).

The high quality aspirations that Kontron has set itself for its own processes and technology solutions must be fulfilled by its suppliers as well. This is the only way in which Kontron can ensure that its customers are provided with the best possible quality, while guaranteeing delivery capabilities in line with requirements at the same time. Beyond this, environmental and sustainability aspects and adherence to safety rules and regulations play a great role in the assessment of whether a supplier meets the high Kontron standards. For this reason, audit plans are drawn up once a year for suppliers that work together with Kontron. In the financial year ended, the EMS (Electronic Manufacturing Services) working globally for Kontron, strategic, key distributors and a number of suppliers critical for Kontron in the respective region were subjected to the respective audit.

3.4 Development and technology investments

The research and development activities are essential for a stronger alignment to customer-specific solutions and the future successful placing of innovative ECT in additional application environments. The innovative strengths and technological competence of Kontron are significant unique selling propositions in an increasingly fierce competitive arena and set the company apart from the competition, particularly in Asian countries that rely largely on standard components. For this reason, more investments are being made in technological innovations and in strengthening a more efficient development organization, the aim being to respond more flexibly in the market and establish ECT solutions already developed more swiftly in markets and applications with similar requirements. At the end of the year, more than 90 development projects were being worked on by Kontron engineers.

Approach to global development

The development teams of Kontron distributed all over the world work on a case-by-case basis on innovative solutions for global customers or on standard product. The coordination of German, western and eastern European, North American and Asian engineers is performed by the respective regional organization. This approach allows the efficient and customer-oriented deployment of staff, trends to be recognized at an early stage through intensive dialog, and their translation into intelligent ECT solutions. In the decision on the regional distribution of individual development projects, regional aspects play an increasing role, along with the qualifications of the individual employees. In the reporting year, Kontron strengthened its development capacities in Asia, for instance, with the goal of developing and selling ECT solutions tailored specifically to demands in the Asian market through close cooperation with customers on site. At a very early development stage, the competent sales force members are involved in the process, not only in the Asian market, but in principle as an integral part of the global development maxim in order to incorporate customer requirements at any time and to minimize undesirable developments.

The employee team in Research & Development comprises 973 persons and remained at a steady level in the reporting year. The long-standing close cooperation with universities and universities of applied science enables Kontron to cover most of its requirements for highly qualified employees. A total of 44 % of Kontron's workforce are engaged in Research & Development, a figure that highlights the importance of this activity for sustainable corporate development.

42 product launches in 2012

The speed underpinning the successful launch of new products in the various markets remained high, as before. All in all, Kontron developed 42 marketable products worldwide (previous year: 44 products) in the varying technology fields for utilization in the targeted core markets.

A focus area of the product launches were the new computer-on-module (COM) standards for scalable, ready-for-use solutions based on second and third generation Intel® microprocessors and on Freescale™ i.MX6. In parallel with the launch of the third Intel® Core™ processor platform, Kontron introduced a total of seven different platforms (COM-Express, 3HE CompactPCI, 6HE CompactPCI, processor AMC, 3HE VPX as well as two embedded motherboards in Mini ITX and Flex ATX format) on the markets for various applications. Compared with the previous generation, the platforms are more energy efficient, while at the same time offering around 20 % more computing power and 40 % greater computer power/watt, 30 % more graphic execution units and double the HD media and 3-D graphic processing performance. Equipped with these features, the new platforms open up attractive new application options for customers and build on functionalities while reducing running operation costs.

The energy-saving ARM technology – ARM stands for Advanced RISC Machines – became increasingly important in the year under review for both Kontron and its customers. The development of the company's own modules and boards progressed according to plan. In 2012, Kontron introduced a total of five different ARM-based platforms. These platforms included three modules based on ULP-COM specifications developed by Kontron and meanwhile approved as SMARC standards with ARM processors by NVIDIA, Freescale™ and Texas Instruments as well as two embedded motherboards, one in Mini ITX formats with NVIDIA Tegra 3 and the other in the smaller Pico ITX format (2.5") with a Texas Instruments processor. Based on these new platforms, applications with an extremely low power loss of up to around three watts that were formerly unrealizable can now be implemented. These innovative solutions find practical use primarily in rechargeable battery or battery-operated portable systems in application areas such as test or medical systems, or data capturing, as well as stationary solar-operated devices. In principle, this applies in all instances where energy costs are particularly important, also in the POS/POI business for checkout and weighing systems in supermarket, for instance. In addition, a new module based on the latest Intel® ATOM™ generation was introduced to the market in the energy-saving COM segment.

The aforementioned SMARC standard that forms the basis for three of the ARM-based platforms newly launched in the market is a global standard applicable to ARM-based COM that was approved last year by the Standardization Group for Embedded Technologies (SGET), an association of leading manufacturers in the ECT market, under the leading participation of Kontron.

Furthermore, Kontron extended its product portfolio to include new processor modules belonging to the so-called AdvancedMC™ product series based on third-generation Intel® Core™ processors, Freescale™ QorlQ processors and Cavium Octeon II processors. The main advantage of the AdvancedMC™ processor modules resides in their great flexibility that enables a broad spectrum for using cost-sensitive applications, from high-performance data planes through to control plane applications by way of individual customizing to suit existing system configurations. Development costs and the development time for customers will be minimized accordingly, resulting in applications being more swiftly implemented in the relevant markets.

Machine-to-Machine (M2M) communication is meanwhile in standard use and operates via existing mobile telephony networks in the remote maintenance of machinery, facilities management or in toll systems. At the same time, additional application fields are opening up in medical devices, production plants, elevators and energy management. Kontron made significant headway in this business in 2012. For examples, the company succeeded in obtaining PTCRB certification that is important for the American market. Furthermore, Kontron continued to develop the M2M Smart Services Developer Kit that can now support the Cumulocity M2M application platform. The latter is a cloud-based horizontal M2M platform that adopts an integrated approach to enable sensors and devices that are linked to be placed in the cloud with considerably less effort than other solutions.

An interesting new market was exploited through the development of Open Pluggable Specification (OPS)-compliant products based on third-generation Intel® Core™ processors. The products are used in the area of digital signage and enable digital information or advertising to be displayed in a versatile way on posters, signs and similar media in supermarkets, retail companies, rail stations or other public places.

In the communication market, Kontron supplemented its product portfolio for manufacturers of telephone equipment by adding further intelligent solutions, namely an AdvancedTCA Blade with two chips for the latest generation of Intel® Quad-Core processors as well as a switch and an AdvancedTCA Carrier, each equipped with 40 gigabyte Ethernet bandwidth, with the aim of accommmodating greater data throughput requirements in telecommunication networks.

Flexible application options are offered by a new, high-performance 10-Gigabit Ethernet rackmount switch with up to 32 ports. Thanks to its high shock and vibration resistance, large temperature range and high noise immunity (EMV), it is suitable for a range of different usage scenarios, from industrial automation through to civil aviation and security & defense. In its first 19" rackmount server completely developed in China, Kontron has introduced its first solution tailored to regional requirements into the market. The server can be used on a modular basis configured for industrial automation, energy or in transport systems.

In the reporting year, Kontron presented another FPGA application-ready platform for industrial automation that enables visualization and control in real time based on a unique visualized hardware, with pre-integrated industrial demo platforms. In the panel PC and HMI (Human Machine Interface) business, the two new panel PC families OMNICLIENT and MICROCLIENT III featuring 16:9 leading-edge widescreen display format and innovative multi-touch technology customary from smart phones and tablet PCs were successfully introduced into the market.

ENERGY GLOBE Award 2012
An example of the innovation strength that Kontron integrates into its ECT solutions is the intelligent load management system of Linz AG, an Austrian company specialized in energy, telecommunications, transport and municipal services. The system operates on top of the meter server system developed by Kontron subsidiary ubitronix that, in its function as a central computer, allows private households to optimize energy consumption. The response to the innovative application was overwhelming, and it was honored in the fall of 2012 by winning the coveted ENERGY GLOBE Award Upper Austria.

Key figures of Research & Development in the Kontron Group

		2012	2011
R&D staff	Number	973	973
Proportion of R&D employees in total employee team	%	44,1	31,8
R&D expenditure	Mio. EUR	45,0	44,5
R&D ratio measured against consolidated revenues	%	8,2	7,6

3.5 Brands

Within the ECT market and the markets strategically targeted, Kontron exclusively deploys the registered leading brand Kontron for the entire Original Equipment Manufacturer (OEM) business, as well as for the sale of standard products via indirect distribution channels. OEM customer applications incorporate standard, modified and customer-specific products developed by Kontron that are integrated by the customers in their products and solutions and are sold in the target markets under the brand names of the OEM customer, which means that the Kontron brand is not visible to the end customer. Outside the ECT market, Kontron only uses the brand names of ubitronix and RT Soft, following the sale of AP Parpro Inc. and Merz s.r.o. ubitronix, a brand belonging to the Austrian subsidiary ubitronix system solutions gmbh, is used for the sale of efficient communication, reading and load management products in the energy management business. The use of the RT Soft brand of our Russian company RT Soft ZAO is restricted to the region. Based in Russia, this company mainly develops and sells highly specialized soft- and hardware solutions, generally for major projects such as the optimization of Russia's energy grid.

4. Report on events subsequent to the balance sheet date

No material events have occurred since the reporting date December 31, 2012, that, in the estimation of the Management Board, could have an impact on Kontron's business.

5. Forecast
5.1 Overall statement on future development

Against the backdrop of the "Shape" optimization program now launched and the establishing of globally operating business units envisaged under the program, management anticipates a year of transition in 2013, with great challenges for the Kontron Group. At the same time, the Management Board is convinced that the company's good position in the ECT market and its highly innovative employees constitute a good basis for renewed profitable growth in the medium and long term.

The Management Board anticipates an overall development in 2013 similar to that of 2012. There are quite considerable uncertainties owing to the macroeconomic environment, which varies depending on the region, pressure on margins, and the challenges of implementing "Shape" that may have greater implications for revenues and the results. Furthermore, additional non-recurrent effects will be incurred under the "Shape" optimization program and by other measures. The process of specifying the individual measures and effects had not yet been concluded by the reporting date. Accordingly, reliable information on the volume of these additional non-recurrent effects cannot yet be provided. Once the transformation has been completed, revenues and the profit are expected to rise again in the medium term.

5.2 Risk report

Opportunities and risk management
As a globally operating company, Kontron AG is exposed to many risks and changes that also harbor opportunities for future development. The systematic recording and analysis of the opportunities and risks that arise particularly through the strong technological alignment and the pronounced international character of the company are an important component of sustainable corporate management. The objective is to recognize and seize opportunities at an early stage while, at the same time, knowing the manifold risks, assessing them and minimizing them by taking suitable measures.

As a result of its operations, Kontron AG is faced with risks and opportunities that can have both a positive and a negative effect on the company's earnings, financial position or net assets, as well as the image of the company. Entrepreneurial risks are only entered into if they are manageable and can contribute commensurately to raising the enterprise value. The prerequisites for an effective risk management is the recording of opportunities and risks as promptly and comprehensively as possible, as well as their ongoing analysis and assessment. For this reason, the risk management system has been firmly installed in all key areas of the Kontron Group and serves to achieve corporate goals, support planning and decision processes and raise the risk awareness of all employees in the company, as well as fostering the trust of stakeholders.

In the reporting year, Kontron has reviewed the opportunities and risk management system and, wherever appropriate, adjusted the scope and the level of detail of the current risk situation without any substantial changes to the existing system being necessary. In accordance with the pertinent legal provisions, the internal organization makes provision permitting the entire Kontron AG Management Board, in agreement with the Supervisory Board, to lay down guidelines for handling risks to the company and managers and manage the company in accordance with certain risk principles. The global risk manager is tasked, in close cooperation with the Management Board and general managers as well as risk managers in the local legal entity, with heading up the risk management organization within the Group and with monitoring the compliance and observance of the processes and reporting routines that have been set in place.

Opportunities and risk management process

The opportunities and risk management process installed within the Group is based on five closely interlinked steps that guarantee insight into the actual risk position at any time: identification, analysis, assessment, control and supervision, as well as reporting.

Opportunities and risks are defined as positive and negative deviations from planned corporate development. The aim of identification is to record all opportunities and risks within the respective company or operating organization unit. The identification of short-term opportunities and risks as part of operational risk management is performed on a monthly basis, while the identification of medium- and long-term opportunities and risks (strategic structural risk management) is carried out once a year. The respective company or operating organization unit bears responsibility for appointing at least one person responsible for the risks identified in order to control, monitor and provide continuous reports on the risk. This also applies to global risks and opportunities.

In the analysis of opportunities and risks, Kontron applies a quantitative approach in operational risk management through which the potential impact and probability of occurrence of an opportunity or a risk are determined and the positive or negative effects on achieving the company's goals in respect of earnings, the financial position or assets is subsequently ascertained. By contrast, strategic risk management is rooted primarily in a quantitative approach.

Building on the findings of the analysis, the employees responsible assess the individual opportunity or the individual risk. In this process, statements are made on the necessity and the priorities of risk management. In addition, based on the risk assessment, the individual risks are categorized according to their potential hazard.

In the context of risk control and monitoring, measures suitable for the targeted minimization of risks are defined over the course of time and implemented. The principal aim for risk control and monitoring is to exert a positive effect on the company's risk profile. In the choice of suitable tools, Kontron takes account of the benefits anticipated from the potential measures, in consideration of the costs associated with their implementation.

In this process, the underlying legal and regulatory requirements are always included. Ongoing risk monitoring consisting of regular controls and reviews of any risk management measures taken guarantees that the results forecast for risk minimization are achieved through the measures defined.

In the final stage of risk monitoring, an efficient and ongoing reporting on the individual opportunities and risks provides up-to-date information within the Kontron Group, thereby ensuring an overview of the actual opportunities and risk situation at all times.

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

Kontron AG ensures the accuracy of Group financial accounting with the aid of its internal accounting-related control system (ICS). This system is intended to ensure that the company complies with statutory regulations, and that both internal and external financial accounting produce reliable information with respect to the numerical mapping of business processes. To this end, an analysis of new legislation, accounting standards and other regulatory changes for their relevance for the preparation of the consolidated financial statements is carried out. This approach is intended to ensure that accounting errors are generally avoided and significant inaccurate assessments corrected in time.

The individual components of the ICS comprise organizational as well as controlling and monitoring measures that encompass all companies of the Kontron Group. They are conceived in a way that enables prompt, uniform and proper accounting for all business transactions. Accounting guidelines introduced groupwide regulate the uniform application of centrally defined principles, the homogeneous application of IFRS accounting standards, and the accounting framework that has been established and made obligatory for all Group companies. A financial statements schedule, valid for the whole Group and managed centrally, guarantees the timely and efficient execution of the accounting process. The local companies are responsible for complying with the relevant regulations and, if required, are given support by Group Accounting. The IFRS financial statements of the individual Group companies are recorded and essentially consolidated in a uniform EDP system that uses standard software. In addition, the ICS comprises plausibility checks and IT-supported validations of financial accounting data, as well as regular manual controls that are performed on a decentralized and centralized basis by those responsible and/or by the employees of Group Accounting.

The risk management system and the ICS is supplemented by Group Controlling and Group Audit. Group Audit regularly conducts controls on the accounting-relevant processes as part of the risk-oriented audit activities and submits detailed reports on the findings to the Management Board. Group Audit draws especially on upstream and downstream controls and analyses of the data reported. If necessary, Kontron sources additional expertise externally, for instance in the valuation of pension provisions.

Material areas of risk

The following description of areas of risk comprises risks that could have a significant impact from today's perspective on the achievement of corporate objectives as well as on the Group's earnings, financial position and net assets. Further influencing factors of which the company is currently unaware, or which have not yet been assessed as significant, could also exert a negative impact on business activities.

Sales risks

The future economic development has just as much impact on the investment patterns of Kontron's main customer groups, specifically the public sector and companies in the industry, as does progress in the fiscal consolidation of the European countries and the USA. Pronounced reticence was felt particularly in the second half of 2012. Consequently, contracts were either not awarded in individual market segments or postponed until the following year. Market conditions changed so greatly in distribution channels and segments of industrial automation, entertainment and the infrastructure areas of transport and communication that the market opportunities for further corporate growth tangibly deteriorated. These developments may persist and, consequently, the greatest business risk generally remains the possibility of contracts not being awarded or the loss of customers. The development of the order book position is considered a short-term indicator of future revenues. As per December 31, 2012, orders in the Kontron Group totaled EUR 342.7 million (previous year: EUR 370.8 million). The company gauges the medium- and long-term sales trend by the number of design wins, in other words new customers commissioning customer-specific development. Measured by long-standing experience, design wins generally lead to new orders and additional sales revenue in later periods. The exact time and volume cannot, however, be precisely predicted. The total number of design wins stood at 522 on December 31, 2012, and was therefore higher than a year ago (456), although the revenue volume estimated on this figure is virtually unchanged from the year-earlier level.

An additional risk factor maybe inherent in a protracted distortion in the composition of the customer structure. In the reporting year, the scope of high-margin business declined, with the result that, in addition to the general squeeze on margins from concentration on generally larger customers, the overall margin was negatively impacted by the distortion within the customer portfolio. The situation was exacerbated by fiercer competition in the ECT market, which may well continue. Kontron counteracts this development, on the one hand, through a more efficient structuring of the international supply chain and development activities and, on the other, through stepping up activities in new product development and customer acquisition. Finally, there may be a risk that Kontron does not fully leverage its global sales potential, and is therefore not optimally deploying its production and development capacities. The company counterbalances this risk through the increasingly centralized management of production and R&D activities as well as through a more global approach to its key targets markets envisaged under the "Shape" optimization program.

Technology risks
Significant technology risks can arise, among other things, from the introduction of new high-cost technologies and the acceptance of too many customized development contracts in relation to orders in progress. Moreover, there is a risk that Kontron does not identify technological developments at an early stage and, for instance, places standard products too late, or later than important competitors in the market.

The introduction of new technologies and the development of customer-specific contracts incur large investment volumes and bind extensive capacities of the development team without sales revenues generally being achieved in the short term. As a rule, return on investment (ROI) is largely generated only two to three years after maturity of the development tasks. The introduction of new technologies may in particular harbor the risk that customers' acceptance is overestimated or other reasons for delays in successful placement. This being the case, impairment may have to be carried out on capitalized development activities or on inventories connected with the individual project. Each development project is assessed using commercial and technical parameters before a decision on taking the project further is made. The development of the project is subject to a standardized monitoring routine ("development gates") so that delays can be proactively addressed. Technology trends, market developments and competitive or activities are regularly analyzed by the unit responsible at Kontron and discussed internally in order to be present in the market at an early stage with new or adjusted solutions.

Procurement risks
Kontron sources the electronic components and parts required for its ECT solutions from independent suppliers that manufacture in a number of different regions, particularly in Malaysia, China and Germany. Among others, there may be a risk that suppliers default, that the parts delivered do not meet quality standards or are not delivered on time and that, consequently, Kontron cannot fulfill its contracts. Kontron draws on a historically matured network of high-profile suppliers, several of which have collaborated closely with the company partly for many years. The company ensures that its own demands on quality are met through the systematic planning and conducting of audits on supplier companies. In addition to delivery bottlenecks, phases of swift economic upswing may trigger price increases for a number of components that can not always be passed on to the customer. In order to reduce this risk, Kontron maintains a flexible scope of inventories and manages stocks stringently with a view to potential distortions at short notice.

In addition, fluctuations in demand, the dynamic pace at which the technological environment develops, changes in customer requirements or other reasons may necessitate impairment of existing stocks held in electronic components. In order reduce this risk, Kontron analyzes and values inventories on an ongoing basis to assess their usefulness and takes suitable measures to keep the loss in value as low as possible. Nonetheless, the possibility of write-downs having to be made in a considerable volume can not be entirely discounted.

Debtor risks

Debtor risks are defined as potential default by one or several customers. Kontron counteracts this default risk by adopting a strategic approach based on a broad customer portfolio and various operational measures. All in all, several thousand companies and institutions belong to the customers with which long-standing relationships built on trust are maintained. Kontron generated around 33 % of its revenues in business with its ten most important customers in the reporting year. Operational measures include customer analysis and assigning internal ratings. Along with the regular reviewing of payment moral, external ratings, if available, are obtained, in addition to gain a comprehensive overview. The volume of the respective credit limit and, if necessary, the furnishing of collateral depends on the outcome of this procedure. The checking and monitoring of significant customer limits is incumbent on the local organization units. If, despite the monitoring installed, there are instances of default owing to the unexpected deterioration in the financial situation of a debtor, Kontron makes adequate provisions through forming appropriate valuation adjustments.

Regional risks

Kontron's global presence may give rise to various risks inherent in the particularities specific to their individual countries. This includes in particular special customer requirements, such as other payment terms, political and regulatory changes, general cultural differences, as well as opportunities from above-average dynamic market growth in the individual countries. Kontron intends to exploit the potential offered by the emerging markets and is present in varying degrees in all the key markets, first and foremost in Russia, Malaysia, China and India. Kontron's approach to limiting risk in these countries includes selecting local projects and customers while taking into account the returns to be generated with potentially higher risks. The business success of Kontron's Russian subsidiary depends to a considerable extent on one important customer in the energy sector. Many agreed individual projects have been contractually agreed with this customer, with the Russian subsidiary playing the role of supplier on the one hand as well as general contractor on the other. These agreements give rise to project-specific risks.

Personnel and organizational risks

The competence and commitment of employees is critical for the sustainable success of the company. The loss of key employees, particularly from General Management in a number of international companies, in Research & Development or in Sales could exert a negative impact on the future development. Moreover, there is a risk that Kontron may not succeed in identifying the most talented and motivated employees, hiring them and securing their loyalty. In order to minimize this risk, the company relies on an attractive working environment, remuneration that promotes performance, and options for individual development and further training. Nonetheless, the loss of key persons may incur risks.

Under the "Shape" optimization program, processes and structures will undergo considerable change in order to make Kontron more competitive. The associated organizational changes may temporarily lead to insecurity among the workforce.

In individual cases, this may affect the motivation of employees internally and, consequently, also the relationships with suppliers and customers externally. Moreover, this may lead to processes and workflows functioning as intended partly only after a certain start-up phase. In addition, the "Shape" optimization program may incur further non-recurrent effects for reorganization or process streamlining.

Currency risks

Currency risks arise from international activities denominated in various foreign currencies. Kontron counterbalances this risk through a currency hedging strategy that aims to generally hedge foreign currency amounts at the time when a claim denominated in a foreign currency arises or an obligation through netting counter cash flows in foreign currencies. Kontron generally settles its accounts in the two currencies of the Euro and US dollar. Kontron generates revenues, purchases material and incurs other expenses in US dollars or in currencies pegged to the US dollar. The resulting currency effects generally balance out for the most part as a rule. Kontron AG's central Treasury regularly analyses the trade receivables and liabilities booked for a number of Group companies that are subject to considerable currency risk and hedges the remaining excess amounts that are calculated though offsetting trade receivables against liabilities by using appropriate forward exchange transactions. If currency risks arise from Kontron AG granting financing to subsidiaries and/or subsidiaries depositing funds with Kontron AG, they are also hedged by way of forward exchange transactions. In individual cases, planned revenues and expenses in a foreign currency that will occur with a high probability are also hedged through concluding forward exchange contracts.

Financing and liquidity risks

In principle, the future development of the company could be hindered by financing and liquidity risks. However, Kontron enjoys a good liquidity position, sufficient financing commitments by banks to cover its financing requirements and a high equity ratio. As of December 31, 2012, the net cash position stood at EUR 13.2 million, the unutilized credit lines at EUR 110.6 million, and the equity ratio at 62.3 %. The financing commitments by banks are contingent on certain conditions (covenants). Important covenants pertain to the development of EBITDA and the amount of interest payments. Any deterioration in the course of operations and/or results narrows the financing scope based on the financing commitments by banks. Compliance with the covenants is regularly analyzed.

Legal risks

Legal risks are incurred in particular by potential guarantee claims owing to complaints, through penalties levied on customer-specific development of ECT solutions, or through penalty payments in connection with individual projects. Furthermore, in principle there are risks from the areas of product liability, competition and anti-trust law, patent law, customs and tax law, and environmental protection. These risks are limited by way of contractual management based on specific contract and business terms and conditions, reviews by an in-house legal counsel and, if necessary, legal advice from external specialists.

The liability risk from potential warranty claims is kept to a minimum through adherence to established quality and security standards, the continuous improvement of product quality, the ongoing checking of complaints and, if appropriate, insurance cover. In addition, Kontron has formed warranty provisions that total EUR 3.8 million on the reporting date of December 31, 2012. Various litigation cases and regulatory proceedings against Kontron are pending, or could become pending. None of these court cases exceed the customary scope and, from today's standpoint, will not have a material effect on the earnings, financial position and net assets of the company.

Overall statement by the Management Board on the risk position

The overall statement by the Management Board on the risk position is the result of an aggregated overview of all known risk areas that could be significant for the future earnings, financial position and net assets of the Kontron Group. At the time of reporting, Kontron AG's Management Board considers the risks identified to be manageable. From today's standpoint, Management does not see any danger to the company as a going concern. Given the measures introduced to focus the business model, in conjunction with a good equity base and net cash position, the Management Board believes that the company is in a position to seize opportunities that arise and develop adequate solutions for future challenges.

5.3 Strategy

In the "Shape" optimization program, Kontron has launched a comprehensive package of measures that will serve to focus the business model significantly. The bundling of the target markets addressed under the four global segments of Industry, Communication, Military/Avionics/Rail and Multimarket will succinctly sharpen Kontron's competitive edge in the development and sale of ECT solutions. The aim is to create the basis, with a broader portfolio of standardized products and value-added services for the individual segments, to be able to launch products more swiftly and effectively in markets with similar technical requirements and peculiarities. Flanked by the additional expansion of Kontron Ventures, Kontron will also be creating a platform for investing in innovative technologies at an early stage.

The restructuring of internal processes is designed to release additional synergies. Through combining organization units, the closure of one site in North America and one in Europe, and globally aligning the operational functions, Kontron is developing a corporate structure that will enable the company to respond more flexibly in the market and consistently seize opportunities.

In order to expand its global market position, Kontron is stepping up its investment in establishing and building on its development capacities in growth regions. A sufficient level of local know-how, together with great development and production speed, is the prerequisite for offering products tailored to regional requirements. The Chinese market will be a major focus in the future.

5.4 Macroeconomic and sectoral framework conditions

Anticipated economic development

According to initial forecasts, there will be no fundamental change in the economic environment in 2013. Predominating topics will continue to be tackling the sovereign debt crisis in the euro area, ongoing structural change in the main countries affected, fiscal consolidation in the USA, as well as an expansionary monetary and financial policy. Initial forecasts indicate that the global economy is likely to grow by 3.6 % overall measured against real gross domestic product. The disparate development between the established industrial nations and the emerging markets is set to persist. Consequently, GDP growth in the industrial nations will average 1.1 % compared with an average 6.2 % in the emerging markets.

No significant positive stimulus for economic development can be expected in the USA, neither from public sector spending nor from private consumption. Government spending is likely to fall swiftly in the process of fiscal consolidation, while private households will continue to have high debt levels and the situation on the labor market will see only minor improvement. Overall, economic growth in the USA is expected to post 1.7 %.

An expansionary economic policy in many parts of Asia will boost the domestic economy in 2013, thereby mitigating the negative effects from a continued, largely declining export business, particularly to Europe. China's real gross domestic product it is expected to grow by around 8.6 %.

In the euro area, stagnation is anticipated in 2013, although the development of the individual countries is likely to be very varied. Particularly the countries hardest hit by huge debt, such as Spain, Italy, Greece and Ireland, will have to cope with another strong contraction in economic output, as opposed to other countries that are likely to generate presentable growth against the background of the ongoing problems in neighboring countries. Especially the German economy is proving to be thoroughly robust. Foreign trade remains a mainstay of growth, albeit to a lesser extent than in the past, but receives support from a strong domestic economy, and real gross domestic product is likely to climb by around 0.9 % in 2013.

Overview of GDP forecast 2013

	Change*
Global economy	3,6%
USA	1,7%
China	8,6%
Euro area	0,0%
Germany	0,9%

* Projected change in real gross domestic product in 2013 compared with previous year; source: DIW, January 2013

Anticipated developments on the ECT markets

The consolidation of the fragmented ECT market whose effects were felt in the past two years will continue in 2013. Against the backdrop of persistently high price pressure on modules and boards, offering their customers more strongly integrated systems and application-ready platform solutions as well as add-on services is especially important to developers and manufacturers of ECT solutions. The first indicators generally suggest that the ECT market in 2013 is likely to match the development of the year before and that marginally higher growth rates may even be possible. The environment nonetheless remains challenging due to the uncertainty about the future development of the global economy.

The short- and medium-term growth drivers for the ECT market consist an accelerating shift towards outsourcing development services and in the direction of more energy-efficient solutions. Kontron AG's management assumes that a large part of the OEMs will concentrate on their core competencies in view of the growing complexity in the hard- and software development of leading-edge ECT solutions in order to remain competitive. In addition to the lower costs, OEMs will benefit from the greater speed with which products can be placed in the market. In the x86 segment and now also in ARM-based technologies, Kontron is in an excellent position to offer effective software solutions and to stand out from the competition through its honed development competence.

Above all with portable and mobile applications, also in the medical sector, there is a huge demand for energy-efficient products that are distinguished by their higher power per watt. Despite the low level of investment by the public sector, the market segment of medical technology will be one of the fastest growing sub-markets for ECT solutions in the future. Largely independent of economic development, the medical costs and investments are generally on the rise. Portable and mobile devices enable new applications, particularly for home-based care, and will accelerate the growth. In the industrial automation sector, trends in the machine tool industry will vary. Whereas only modest growth is anticipated for applications in the automotive industry, significantly higher growth rates are expected for solutions in the aviation and aerospace industry, buoyed by strong demand for new, energy-saving aircraft.

In the telecommunications market, the two topics of mobility and connectivity will remain growth drivers in 2013. The challenge for the large network operators will continue to consist in adjusting their networks to accommodate the higher data volume while generating satisfactory returns with the necessary investments in the infrastructure.

In the security & defense sector, lively interest in unmanned aerial vehicles will be one of the growth drivers. These technologically extremely sophisticated drones require massive computing capacity and have to function reliably even under extreme conditions. Furthermore, investments in modernizing the communications infrastructure are still on the cards. There is a huge need for retrofitting aircraft with cutting-edge and individual in-flight entertainment solutions that, in management's opinion, is likely to hold steady.

5.5 Revenue and earnings forecast

In the financial year 2013, the Management Board anticipates that revenues and profitability will mirror the trends seen in 2012. The market-related and sectoral environment remains difficult, with the corresponding potential feedbacks and effects on margins. Also, the measures to enhance efficiency in the company will incur one-off costs. Nonetheless, the assumption can be made that, underpinned by the company's strong market position and innovation dynamics, along with the effects of the "Shape" optimization program and other measures, revenues and the profit will rise again in the medium term.

5.6 Expected financial position

The company's financial position is sound. With a net cash position of EUR 13.2 million, an equity ratio of 62.3 % and financing commitments by banks, Kontron has the necessary basis to return to its long-standing, sustainable growth following successful completion of the "Shape" optimization program.

5.7 Dividend policy

The principle of the dividend policy is to enable the shareholders, provided the financial situation permits, to participate in an appropriate manner in the economic development of Kontron AG while, at the same time, bolstering the company's financial strength. The reporting year 2012 was brought to a close with a high operating loss. The financial year 2013 will be a year of transition, also due to the "Shape" optimization program, with huge internal and external challenges. For this reason, there will be a deviation in the financial year 2012 from the steady dividend policy practiced to date. The proposal will be put forward to pay dividend of EUR 0.04 per share. As soon as the financial situation permits, the intention is to return to the former dividend policy.

In addition to our own sales activities, we maintain selected partnerships with well-known specialists for embedded computer technology in the distribution of our innovative solutions. This gives us access to additional groups of customers and allows us to tap into a large pool of potential, particularly for our standard products. And we guarantee our partners long-term product availability as well as top-class service. Achieving more by working together – a key building block of our success.

REACHING CUSTOMERS

Reaching Customers DISTRIBUTION

Brian Armstrong, Vice President and General Manager, OEM Computing Solutions, Arrow Electronics Inc.

Kontron is a strategic embedded supplier for Arrow. Kontron's technology innovations align with Arrow's commitment to guiding innovation forward. Arrow looks forward to continuing to leverage the strong alliance with Kontron to seize mutually beneficial opportunities.

Embedded Mini-ITX Motherboard

Embedded Box PC

Reaching Customers DISTRIBUTION

Chuck Kostalnick, Senior Vice President, Avnet Embedded

As a global distributor, Avnet is committed to serving electronics companies around the world – and we have a strong focus on embedded technology. The diversity of Kontron's innovative portfolio aligns well with the breadth of market segments we serve. Our two companies share a passion and commitment to customer service which has been rewarded by the growth we have achieved and the exciting new opportunities being presented to us. We are proud to represent Kontron in the market and look forward to delivering mutually beneficial results in the years to come.

COM Express® basic

CompactPCI® System

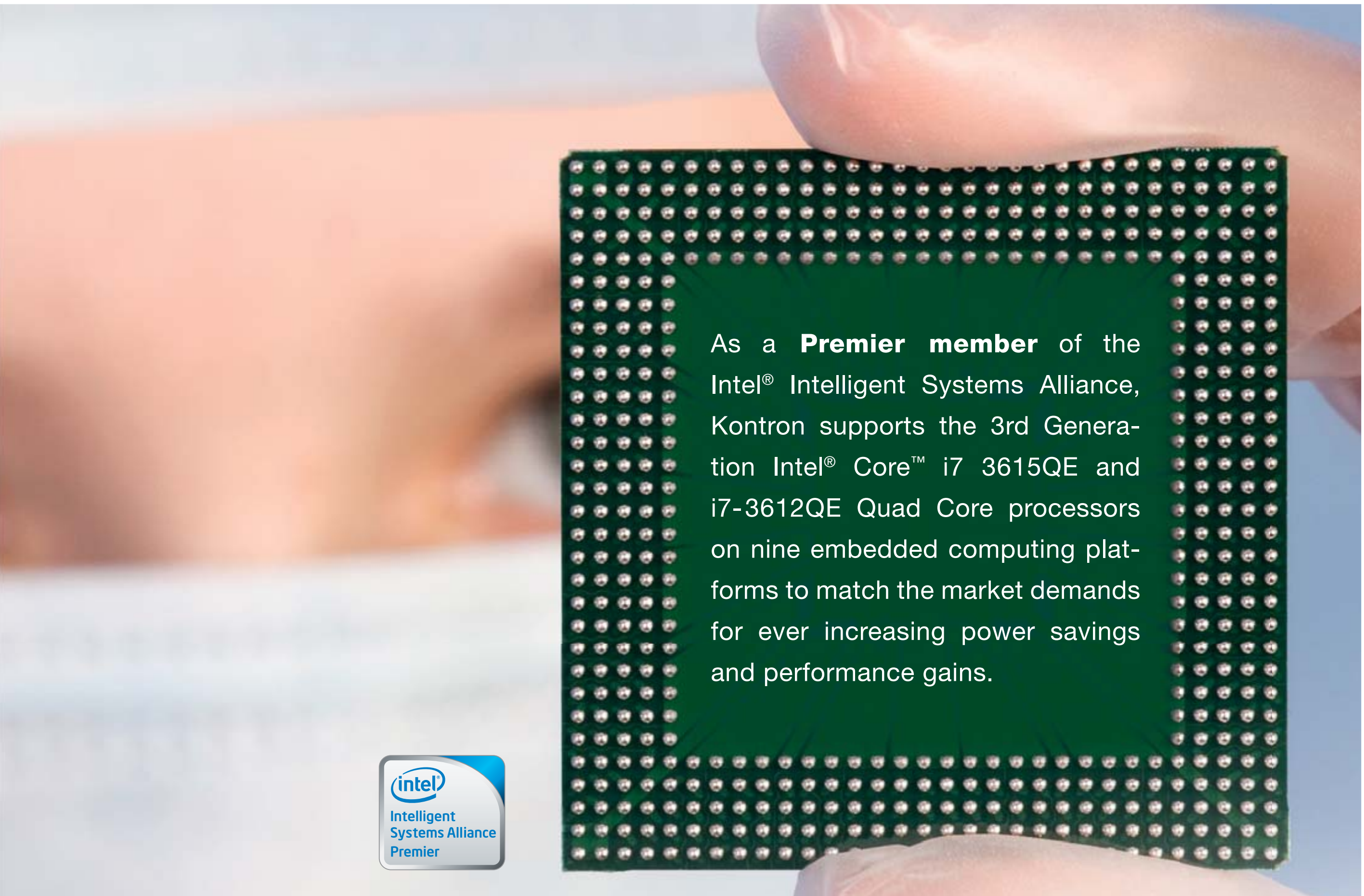
Globalization is resulting in rising complexity in all areas of economic life – presenting both opportunities and risks. Short-term approaches in business relations are not the way forward for companies to achieve lasting success. Shared concerns at strategic and corporate culture levels are vital, so the real task is to identify, cultivate and act on them. This is why, in our global supply chain, we deliberately team up with companies with the same passions, drive and dynamic ambitions that distinguish Kontron.

ACTING ON SHARED CONCERNS

Acting on Shared Concerns
SUPPLY CHAIN

Ton Steenman, Vice President and General Manager,
Intelligent Systems Group, Intel®

As a Premier Member of the Intelligent Systems Alliance and leading customer, Kontron frequently participates in early access programs for Intel products and actively participates in co-marketing. Coupled with their unwavering commitment to Intel® architecture they are able to bring intelligent products and solutions to market, often on the same day Intel® processors are officially launched.



As a **Premier member** of the Intel® Intelligent Systems Alliance, Kontron supports the 3rd Generation Intel® Core™ i7 3615QE and i7-3612QE Quad Core processors on nine embedded computing platforms to match the market demands for ever increasing power savings and performance gains.

Intel Intelligent Systems Alliance Premier

Panel PC

Digital Signage Evaluation Kit

Computer-on-Modules

Mini-ITX embedded motherboards

Flex-ATX embedded motherboards

AdvancedMC™

3U VPX

3U CompactPCI®

6U CompactPCI®

FINANCIAL STATEMENT

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Consolidated Financial Statements

Kontron Group

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01. Consolidated Statement of Income (IFRS)

in TEUR	Notes	1-12/2012	1-12/2011
Revenues	(1)	**546,955**	**589,570**
Material		-338,013	-347,053
Other production cost		-30,159	-43,423
Amortization of capitalized development projects		-12,998	-9,742
Order-related development cost		-35,309	-23,292
Cost of goods sold		-416,479	-423,510
Gross margin		**130,476**	**166,060**
Selling and marketing cost		-47,928	-49,203
General and administrative cost		-50,845	-41,664
Research and development cost		-45,048	-44,514
Subtotal operating costs	(3)	-143,821	-135,381
Goodwill Impairment	(13)	-19,282	0
Other operating income	(4)	15,977	18,020
Other operating expenses	(4)	-15,812	-14,606
Operating income before financial income and income taxes		**-32,462**	**34,093**
Finance income	(5)	680	367
Finance expense	(5)	-2,738	-1,881
Income taxes	(6)	921	-9,668
Net income		**-33,599**	**22,911**
Thereof account for non-controlling interests		-830	1,020
Thereof account for shareholders of Kontron AG		-32,769	21,891
Earnings per share (basic) in EUR	(31)	-0.59	0.39
Earnings per share (diluted) in EUR	(31)	-0.59	0.39

Consolidated Financial Statements

02. Consolidated Statement of Comprehensive Income (IFRS)

in TEUR	1-12/2012	1-12/2011
Net income	**-33,599**	**22,911**
Other comprehensive income:		
Exchange differences on translation of foreign operations	-329	852
Net actuarial gains and losses on pensions	-400	-7
Income tax effects	-229	-23
	-629	**-30**
Other comprehensive income, net of tax	**-958**	**822**
Total comprehensive income	**-34,557**	**23,733**
Thereof account for non-controlling interests	-713	904
Thereof account for shareholders of Kontron AG	-33,844	22,829

03. Consolidated Cash Flow Statement (IFRS)

in TEUR	Notes	1-12/2012	1-12/2011
Net income		**-33,599**	**22,911**
Depreciation and amortization of fixed assets		24,541	21,552
Depreciation of financial assets		0	9
Goodwill Impairment	(13)	19,282	0
Net gain / loss on disposal of fixed assets		135	351
Change in deferred income taxes		-3,677	2,100
Interest income	(5)	-680	-367
Interest expense	(5)	2,738	1,881
Other non-cash items		-284	36
Change in assets / liabilities:			
Accounts receivable		11,171	-6,757
Inventories		23,777	-15,559
Other receivables		-3,386	-403
Accounts payable and provisions		12,349	10,457
Interest paid		-3,684	-1,103
Interest received		218	432
Income taxes paid		-3,188	-5,551
Income taxes received		479	1,575
Net cash used in / provided by operating activities	(29)	**46,192**	**31,564**
Purchases of property, plant and equipment		-6,907	-6,732
Purchases of intangible assets		-22,861	-21,455
Purchases of financial assets		-27	-244
Proceeds from the sale or disposal of property, plant and equipment		4,779	25
Proceeds from the disposal of financial assets		67	0
Proceeds from the sale of subsidiaries, net of cash		6,060	724
Payment of liabilities from acquisitions		-2,459	-1,596
Acquisition of additional equity in subsidiaries		-15	0
Net cash used in / provided by investing activities	(29)	**-21,363**	**-29,278**
Change of current account / overdrafts	(17)	-3,699	782
Repayment of short-term borrowings	(17)	-39,570	-36,267
Proceeds from short-term borrowings	(17)	19,415	14,015
Repayment of long-term debt	(17)	-13,305	-1,823
Proceeds from long-term debt	(17)	13,789	12,278
Dividends paid		-12,136	-11,373
Net cash used in / provided by financing activities		**-35,506**	**-22,388**
Effect of exchange rate changes on cash		46	1,081
Net change in cash or cash equivalents		**-10,631**	**-19,021**
Cash or cash equivalents at beginning of period		38,165	57,186
Cash or cash equivalents at end of period	(7)	**27,534**	**38,165**

Consolidated Financial Statements

04. Consolidated Statement of Financial Position (IFRS)

Assets

in TEUR	Notes	12,31,2012	12,31,2011
Cash or cash equivalents	(7)	27,534	38,165
Inventories	(8)	100,023	111,476
thereof Advanced payments		6,144	7,682
thereof Receivables from construction contracts		6,397	3,383
Accounts receivable, net	(9)	109,954	123,625
Income tax receivable		2,905	2,847
Other current receivables and assets	(10)	18,165	14,228
Assets held-for-sale		0	18,819
Total current assets		**258,581**	**309,160**
Investments		702	742
Property, plant and equipment	(12)	22,426	20,695
Other intangible assets	(13)	68,604	68,756
Goodwill	(13)	93,326	111,027
Other non-current receivables and assets		1,965	549
Deferred income taxes	(6)	14,752	12,550
Total non-current assets		**201,775**	**214,319**
Total assets		**460,356**	**523,479**

04. Consolidated Statement of Financial Position (IFRS)
Liabilities

in TEUR	Notes	12,31,2012	12,31,2011
Accounts payable, trade	(14)	87,635	86,713
Short term borrowings, bank	(17)	518	23,756
Current portion of finance lease obligation	(17)	127	141
Current provisions	(18)	7,197	4,870
Deferred revenues		864	1,250
Obligations from construction contracts	(8)	4,488	1,018
Income tax payable		3,161	6,228
Other current liablilities	(15)	28,859	23,715
Total current liabilities		**132,849**	**147,691**
Long-term borrowings, bank	(17)	13,803	13,244
Non-current provisions	(18)	4,117	3,406
Pensions	(18)	1,140	2,738
Finance lease obligation long-term	(17)	80	127
Other non-current liabilities	(15)	1,484	1,402
Deferred income taxes	(6)	20,093	21,306
Total non-current liabilities		**40,717**	**42,223**
Common Stock	(20)-(22)	55,683	55,683
Additional Paid-in Capital	(26)	233,803	233,751
Retained Earnings		26,779	71,303
Other components of equity	(24)	-30,983	-30,537
Treasury stock	(23)	-1,813	-1,813
Equity attributable to Equity Holders of the parent		**283,469**	**328,387**
Non-controlling interests	(25)	3,321	5,178
Total equity		**286,790**	**333,565**
Total liabilities and equity		**460,356**	**523,479**

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05. Shareholders Equity (IFRS)

		Equity attributable to Equity Holders of the parent		
in TEUR	Notes	Common stock	Additional paid in capital	Retained earnings
January 01, 2011		55,683	233,303	60,557
Net income				21,891
Other comprehensive income				-30
Total comprehensive income		0	0	21,861
Dividend Payment				-11,114
Exercise of stock options	(31)		-6	
Stock based compensation	(30.1)		454	
December 31, 2011		55,683	233,751	71,303
January 01, 2012		55,683	233,751	71,303
Net income				-32,769
Other comprehensive income				-629
Total comprehensive income		0	0	-33,398
Acquisition of non-controlling interests				-12
Sale of a subsidiary				
Dividend Payment				-11,114
Stock based compensation	(30.1)		52	
December 31, 2012		**55,683**	**233,803**	**26,779**

Equity attributable to Equity Holders of the parent				
Foreign currency translation reserve	Treasury stock		Non-controlling interest	Equity total
-31,505	-1,813	316,225	4,533	320,758
		21,891	1,020	22,911
968		938	-116	822
968	0	22,829	904	23,733
		-11,114	-259	-11,373
		-6		-6
		454		454
-30,537	-1,813	328,387	5,178	333,565
-30,537	-1,813	328,387	5,178	333,565
		-32,769	-830	-33,599
-446		-1,075	117	-958
-446	0	-33,844	-713	-34,557
		-12	-4	-16
		0	-118	-118
		-11,114	-1,022	-12,136
		52		52
-30,983	**-1,813**	**283,469**	**3,321**	**286,790**

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06. Consolidated Statement of Assets 2012 (IFRS)

	Acquisition and Manufacturing Cost						
in TEUR	Balance at 01,01,2012	Currency changes	Change of scope of consolidation	Reclassifi-cation	Addi-tions	Disposals	Balance at 12,31,2012
I. Intangible assets							
1. Other intangible assets	**44,406**	**-264**	**-42**	**0**	**2,444**	**111**	**46,433**
2. Internally generated intangible assets	**85,016**	**-444**	**-966**	**0**	**20,213**	**807**	**103,012**
3. Goodwill	**167,295**	**-251**	**-125**	**0**	**0**	**0**	**166,919**
	296,717	**-959**	**-1,133**	**0**	**22,657**	**918**	**316,364**
II. Tangible assets							
1. Land, leasehold improvements and buildings including buildings on land owned by others	**19,708**	**-20**	**-632**	**15**	**2,466**	**70**	**21,467**
2. Technical equipment and machinery	**18,402**	**-47**	**-1,507**	**-235**	**1,219**	**207**	**17,625**
3. Other equipment, factory and office equipment	**15,389**	**3**	**-462**	**220**	**3,163**	**1,667**	**16,646**
4. Leasing assets	**1,594**	**9**	**-160**	**0**	**0**	**116**	**1,327**
	55,093	**-55**	**-2,761**	**0**	**6,848**	**2,060**	**57,065**
	351,810	**-1,014**	**-3,894**	**0**	**29,505**	**2,978**	**373,429**

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

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07. Consolidated Statement of Assets 2011 (IFRS)

in TEUR	Acquisition and Manufacturing Cost Balance at 01,01,2011	Currency changes	Change of scope of consolidation	Reclassifi-cation	Additions	Disposals*	Balance at 12,31,2011
I. Intangible assets							
1. Other intangible assets	**40,649**	**535**	**0**	**0**	**3,603**	**381**	**44,406**
2. Internally generated intangible assets	**66,306**	**455**	**0**	**0**	**18,331**	**76**	**85,016**
3. Goodwill	**166,699**	**596**	**0**	**0**	**0**	**0**	**167,295**
	273,654	**1,586**	**0**	**0**	**21,934**	**457**	**296,717**
II. Tangible assets							
1. Land, leasehold improvements and buildings including buildings on land owned by others	**20,932**	**-8**	**-1,676**	**0**	**779**	**319**	**19,708**
2. Technical equipment and machinery	**20,614**	**111**	**0**	**7**	**4,287**	**6,617**	**18,402**
3. Other equipment, factory and office equipment	**14,721**	**73**	**0**	**-7**	**1,847**	**1,245**	**15,389**
4. Leasing assets	**2,247**	**25**	**0**	**0**	**0**	**678**	**1,594**
	58,514	**201**	**-1,676**	**0**	**6,913**	**8,859**	**55,093**
	332,168	**1,787**	**-1,676**	**0**	**28,847**	**9,316**	**351,810**

* Includes tangible assets reclassified to assets held-for-sale

Depreciation								Book value	
Balance at 01,01,2011	Currency changes	Change of scope of consolidation	Reclassifi-cation	Additions	Additions unscheduled	Disposals*	Balance at 12,31,2011	Balance at 01,01,2011	Balance at 12,31,2011
22,173	452	0	0	5,868	0	348	28,145	18,476	16,261
22,443	396	0	0	9,314	414	46	32,521	43,863	52,495
56,266	2	0	0	0	0	0	56,268	110,433	111,027
100,882	850	0	0	15,182	414	394	116,934	172,772	179,783
9,091	6	-546	0	867	0	294	9,124	11,841	10,584
13,047	27	0	2	3,064	0	3,320	12,820	7,567	5,582
10,385	62	0	-2	1,704	0	902	11,247	4,336	4,142
1,005	7	0	0	321	0	126	1,207	1,242	387
33,528	102	-546	0	5,956	0	4,642	34,398	24,986	20,695
134,410	952	-546	0	21,138	414	5,036	151,332	197,758	200,478

08. Notes to the 2012 Consolidated Financial Statements of Kontron AG

General information

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

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

Accounting

Kontron AG prepared its consolidated financial statements for the 2012 financial year in accordance with International Financial Reporting Standards (IFRS), applied as required by the European Union. All of the announcements of the International Accounting Standards Board (IASB) whose application is mandatory for the 2012 financial year were taken into account. The significant effects of new or amended standards are described under "New and amended standards and interpretations".

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

The consolidated financial statements were prepared in euros. To the extent that nothing contrary is stated, all amounts are reported in thousands of euros (TEUR). The percentage figures and numbers may show rounding differences.

The consolidated financial statements and Group management report as of December 31, 2012 and 2011 were prepared pursuant to Section 315a para. 1 of the German Commercial Code (HGB). The consolidated financial statements and Group management report as of December 31, 2011 were published in the electronic Federal Gazette (Bundesanzeiger).

New and amended standards and interpretations

There were no changes to the accounting principles compared with the previous year. The amendments to the standards as listed below that were applied as from January 1, 2012 constitute exceptions to the above:

» Amendment to IAS 12 *Income taxes – deferred taxes: Realization of underlying assets*
» IFRS 7 *Financial instruments: Disclosures - Improvement of the disclosures on the transfer of financial assets*

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

Amendment to IAS 12 Income taxes – deferred taxes: Realization of underlying assets

The amendment contains a clarification concerning the assessment of deferred taxes for property measured at fair value and introduces the refutable supposition that a realization of the carrying amount by means of the sale is basically authoritative for the assessment of the deferred taxes in relation to properties which are measured at fair value in accordance with IAS 40. In the assessment of deferred taxes for assets not subject to wear and tear which are measured in accordance with IAS 16 using the revaluation model, a sale should always be assumed. The amendment must be applied for the first time for financial years that begin on or after January 1, 2012. The application of this amendment had no effects on the Group's net assets, financial position and results of operations.

IFRS 7 Financial instruments: Disclosures - Improvement of the disclosures on the transfer of financial assets

With this amendment the IASB is demanding extensive new statements about financial assets that have been transferred but not deleted from the accounts, the purpose being to allow users of financial statements to improve their understanding of these assets and their associated liabilities. It also requires disclosures to be made of the continuing involvement in transferred and derecognized financial assets as of the reporting date in order to give the user an understanding of the nature of, and risks associated with, the entity's continuing involvement in recognized financial assets. The amendment must be applied for the first time for financial years that begin on or after July 1, 2011. As the Group does not possess assets with such characteristics, this amendment had no impact on the consolidated financial statements.

Published but non-mandatory standards

The standards and interpretations which had been published by the time of the consolidated financial statements' publication but are not yet mandatory are shown below. The Group intends to apply these standards from the time they come into force.

Amendment to IAS 1 – Presentation of components of other earnings

The changes to IAS 1 give rise to a change in the grouping of the items shown under other earnings. Items which are later reclassified under net profit or loss for the period (including profits from the hedging of a net investment, translation differences from the conversion of currencies from foreign business entities, losses and gains from the hedging of cash flows and from available-for-sale financial assets), must be shown separately from the positions for which no classification will be carried out (including actuarial gains and losses from defined benefit pension plans and effects from the revaluation of land and buildings). This amendment only refers to the disclosures and does not affect the Group's net assets, financial position and results of operations. The amendment must be applied for the first time for financial years which begin on or after July 1, 2012, and shall be applied by the Group in its first annual report after the amendment comes into force.

IAS 19 Employee benefits (revised)

The IASB has thoroughly revised IAS 19. The amendments extend from basic changes such as ascertaining the expected return on plan assets and the abolition of the corridor approach up to simple clarifications and rewording. In the future, the revised standard will have an impact on the pension and benefit expenses reduced by income, as the expected income from the plan assets must be calculated using the same interest rate that is used for the discounting of the defined benefit obligation. The amendment must be applied for the first time for financial years that begin on or after January 1, 2013. When the Group applies it for the first time in 2013, the net pension obligation is likely to increase by around TEUR 168 at the expense of equity.

IAS 28 Investments in associates and joint ventures (revised 2011)

With the adoption of IFRS 11 *Joint arrangements* and IFRS 12 *Disclosure of interests in other entities,* IAS 28 was renamed as *Investments in associates and joint ventures* and its area of regulation, which was previously restricted to associated companies, was extended to applying the equity method to joint ventures. The revised standard must be applied for the first time for financial years which begin on or after January 1, 2014 and will have no impact on the consolidated financial statements.

Amendment to IAS 32 – Offsetting financial assets and financial liabilities

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

Amendment to IFRS 7 – Offsetting financial assets and financial liabilities

This amendment stipulates that a company must disclose information about offsetting rights and agreements associated with them (e.g. hedging agreements). In this way, users of financial statements would receive information with whose help the impact of the offsetting agreements on the financial position of companies can be assessed. The new disclosures are required for all financial instruments reported in the balance sheet which were offset within the framework of IAS 32 *Financial instruments: Presentation*. The disclosures apply equally to reported financial instruments which are subject to enforceable master offsetting agreements or similar agreements, irrespective of whether they are set off in accordance with IAS 32. The amendment must be applied for the first time for financial years which begin on or after January 1, 2013 and is unlikely to have any impact on the presentation of the Group's net assets, financial position and results of operations.

IFRS 9 Financial instruments: Classification and measurement

IFRS 9 reflects the first phase of the IASB project to replace IAS 39 and deals with the classification and measurement of financial assets and financial liabilities under IAS 39. The standard was intended for financial years which begin on or after January 1, 2013. With the amendment to IFRS 9 *Mandatory effective date of IFRS 9 and transition disclosures* published in December 2011, the date of mandatory first-time application was postponed until January 1, 2015. IASB will at later stages of the project deal with the treatment of hedge accounting and the impairment of financial assets. The application of the changes to the first phase of IFRS 9 will affect the classification and measurement of the Group’s financial assets but probably not affect the classification and measurement of its financial liabilities. If the final standard, including all of its phases, has been published, the Group will quantify the impact in conjunction with the other phases.

IFRS 10 Consolidated financial statements, IAS 27 Separate financial statements

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

IFRS 11 Joint arrangements

IFRS 11 is replacing IAS 31 *Interests in joint ventures* and SIC-13 *Jointly controlled entities - non-monetary contributions by venturers*. With the adoption of IFRS 11, the previous right to choose whether to apply pro rata consolidation to joint ventures is being discontinued. In the future, these companies will be included in the consolidated financial statements only using the equity method. This standard must be used for the first time for financial years which begin on or after January 1, 2014 and will have no impact on the presentation of the Group's net assets, financial position and results of operations.

IFRS 12 Disclosure of interests in other entities

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

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Consolidated financial statements, Joint arrangements and Disclosure of interests in other entities: transition guidance

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

IFRS 13 Fair value measurement

The standard sets out a single framework for measuring fair value. The standard does not deal with the question of when assets and liabilities must or can be measured at fair value, but does provide guidance on how to calculate the fair value under IFRS. The Group is currently examining the effects that the new standard is likely to have on the Group's net assets, financial position and results of operations.

Having conducted an initial assessment, the Group does not expect any substantial impact in view of the minor significance of measurement at fair value in the consolidated financial statements. The standard must be applied for the first time for financial years which begin on or after January 1, 2013.

Improvements to IFRS (May 2012)

The amendments arising from this statement will have no impact on the consolidated financial statements.

» *IAS 1 Presentation of financial statements*
Clarification of the difference between voluntary additional comparative information and prescribed comparative information, which generally encompasses the previous reporting period.

» *IAS 16 Property, plant and equipment*
Clarification that crucial replacement parts and maintenance equipment which qualify as property, plant and equipment are not covered by the applications regulations for inventories.

» *IAS 32 Financial instruments: presentation*
Clarification that income taxes on dividend payouts to holders of equity instruments are covered by the application regulations in IAS 12 Income taxes.

» *IAS 34 Interim financial reporting*
Regulation for aligning disclosures on segment assets with the disclosures on segment liabilities in interim financial reporting and for aligning disclosures in the interim financial reporting with the disclosures made for the annual reporting.

The amendment from this project must be applied for the first time for financial years which begin on or after January 1, 2013.

Scope of consolidation

The scope of consolidation changed as follows in the 2012 financial year:

Kontron AG and fully consolidated companies	
January 1, 2012	**27**
First-time inclusion in 2012	1
Exclusion due to merger in 2012	3
Exclusion in 2012	3
December 31, 2012	**22**

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

In addition to Kontron AG, the following subsidiaries are included in the consolidated financial statements for the period to December 31, 2012 in accordance with the rules on full consolidation:

Name and location of the company	Attributable interest
EMEA	
Kontron UK Ltd., Chichester / UK	100 %
Kontron ECT design s.r.o., Pilsen / Czech Republic	100 %
Kontron Europe GmbH, Kaufbeuren	100 %
Kontron Modular Computers S.A.S., Toulon / France	100 %
Kontron East Europe Sp.zo.o., Warsaw / Poland	97.5 %
Kontron Modular Computers AG, Cham / Switzerland	100 %
Kontron Technology A/S, Hørsholm / Denmark	100 %
Kontron Verwaltungs-GmbH, Kaufbeuren	100 %
Kontron Compact Computers AG, Luterbach/Solothurn / Switzerland	96.59 %
ubitronix system solutions gmbh, Hagenberg / Austria	51 %
North America	
Kontron America Inc., San Diego / USA	100 %
Kontron Canada Inc., Boisbriand / Canada	100 %
Emerging Markets	
RT Soft Project, Moscow / Russia	100 %
Affair OOO, Moscow / Russia	100 %
RT Soft ZAO, Moscow / Russia	74.5 %
Training Center RT Soft, Moscow / Russia	74.5 %
Kontron Ukraine Ltd., Kiev / Ukraine	74.5 %
Kontron Asia Pacific Design Sdn. Bhd., Penang / Malaysia	100 %
Kontron (Beijing) Technology Co. Ltd. Beijing / China	100 %
Kontron Hongkong Technology Co. Ltd. Hong Kong / China	100 %
Kontron Australia Pty. Ltd., Sydney / Australia	90 %
Kontron Technology India Pvt. Ltd., Mumbai / India	55 %

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

Acquisitions

Kontron Technology India Pvt. Ltd.
On December 3, 2012, Kontron AG acquired an additional 4 % of the shares in the Indian subsidiary Kontron Technology India Pvt. Ltd., thereby increasing its shareholding to 55 %. The purchase price was TEUR 15. As of the above acquisition date, the carrying amount of the net assets of Kontron Technology India Pvt. Ltd. amounted to TEUR 65. The carrying amount of the additional shares totaled TEUR 3. The difference of TEUR 12 between the acquisition costs and the carrying amount of the acquired shares was reported under equity in the revenue reserves.

There were no acquisitions during 2011.

Divestments

AP Parpro Inc.
Effective as of July 31, 2012, Kontron America Inc. sold all of its shares in AP Parpro Inc. to the management of AP Parpro Inc. in a management buyout. AP Parpro Inc. was acquired as a part of the AP Labs Group in May 2010 and, with its products, serves a niche market for low-standard components that do not fit into the Kontron Group's strategic orientation towards higher-margin systems and customer-specific solutions. The sale price for the shares was TEUR 6,190. The gain on this disposal amounts to TEUR 72 (including transaction costs totaling TEUR 46) and is shown under other operating earnings. Due to a tax adjustment entry from December, the amount gained on the disposal diverges from the gain of TEUR 353 published in the third-quarter interim report.

Merz s.r.o.
As of December 31, 2012, Kontron Modular Computers AG sold all of its shares (70 %) in Merz s.r.o. to the minority shareholders in Merz s.r.o. as part of a share deal. The business activity of Merz s.r.o. is focused mainly on the development of application software, an activity which will not be part of the Kontron Group's future strategic focus. The sale price for the shares was TEUR 400. The sale resulted in a loss of TEUR 469 (including transaction costs totaling TEUR 7) which is reported under other operating expenses. The purchase price of TEUR 400 that was still outstanding as of December 31, 2012, was settled in January 2013.

The third company to be deconsolidated was an inactive company.

Other changes in the scope of consolidation

AP Labs Group
Kontron America Inc. acquired 100 % of the shares in AP Labs Group in May 2010. Kontron agreed with the seller of the AP Labs Group a variable purchase price component dependent on future revenues earned by the AP Labs Group ("earn-out"), which was due in May 2011. At the end of 2011 there was a legal dispute between Kontron America Inc. and the seller about the final payment of the purchase price.

In the second quarter of 2012, an agreement was reached on the payment of TEUR 2,459. The payment was covered entirely by the other liabilities reported in the financial year 2011 as well as provisions that were set up; there was no impact on the income statement. The disclosures diverge from the 2011 annual report because of currency influences.

Kontron Europe GmbH
With the commercial register entry dated June 8, 2012, the three companies Kontron Modular Computers GmbH, Kontron Business GmbH & Co. KG, and Kontron Embedded Modules GmbH were merged with Kontron Europe GmbH, formerly Kontron embedded computers GmbH, with retroactive effect from January 1, 2012, and with new headquarters in Kaufbeuren.

Kontron Hongkong Technology Co. Ltd.
Kontron (Beijing) Technology Co. Ltd. has established a new, fully consolidated subsidiary (capital share 100 %), Kontron Hongkong Technology Co. Ltd., in Hong Kong. The equity amounting to THKD 10 was paid in fully on June 27, 2012.

Kontron Asia Pacific Design Sdn. Bhd.
As of July 9, 2012, Kontron Design Manufacturing Services Sdn. Bhd. in Penang, Malaysia, was renamed as Kontron Asia Pacific Design Sdn. Bhd.

Accounting principles

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

Consolidation principles

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

When subsidiaries are consolidated for the first time, assets and liabilities are valued at their fair value at the acquisition date. These identifiable assets, liabilities and contingent liabilities are amortized, written down or released as part of subsequent consolidation. The cost of acquiring a company is measured as the sum of the consideration transferred taken at fair value at the time of acquisition and the non-controlling interests in the acquired company. In the event of a business combination, the Group decides whether it will value the non-controlling interest in the acquired company either at the fair value or the corresponding portion of the identifiable net assets of the acquired company.

Any costs arising from the business combination are recorded as expenses and shown under administrative costs. The agreed contingent consideration is recorded at the fair value at the time of acquisition. Subsequent changes to the fair value of a contingent consideration representing an asset or a debt are recorded in accordance with IAS 39 either in profit and loss under other operating income/expenses or under other comprehensive income.
Goodwill is initially recognized at cost measured by the surplus of the total consideration transferred and the amount of the non-controlling interest through the identifiable assets acquired and liabilities assumed by the Group. If this consideration is below the fair value of the gross profit of the subsidiary company acquired, the difference is shown in profit and loss.
Goodwill resulting from consolidation is tested regularly for impairment as of the balance sheet date and, if required, an impairment charge is applied. All impairment losses are recognized immediately through the income statement. Impairment reversals are not applied. From January 1, 2010, a change in the level of interest held in a subsidiary (without loss of control) is recognized as an equity transaction.
The purchase of additional "non-controlling interests" was accounted for using the so-called parent entity extension method before January 1, 2010. This entails reporting the difference between the purchase price and the carrying amount of the proportional acquired net assets as goodwill.

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

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

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

Currency conversion

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

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

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

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

	Reporting date rate (base EUR 1)		Average rate (base EUR 1)	
	Dec 31, 2012	Dec 31, 2011	**2012**	2011
US Dollar	**1.32**	1.29	**1.29**	1.39
British Pound	**0.82**	0.84	**0.81**	0.87
Taiwan Dollar	**38.30**	39.22	**38.04**	40.90
Russian Rouble	**40.33**	41.63	**39.93**	40.86
Danish Crown	**7.46**	7.43	**7.44**	7.45
Swiss Franc	**1.21**	1.22	**1.21**	1.23
Australian Dollar	**1.27**	1.27	**1.24**	1.35
Chinese Yuan	**8.22**	8.23	**8.11**	8.97
Malaysian Ringgit	**4.03**	4.11	**3.97**	4.26

Income and expense recognition

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

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

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

Sale of products and goods

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

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

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

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

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

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

Public grants and subsidies

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

Borrowing costs

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

Accounts receivable

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

Inventories

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

Financial instruments

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

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

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

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

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

Derivative financial instruments are measured at fair value through profit and loss. The forward exchange transactions concluded in the Kontron Group are not classified as hedging transactions. The fair values of option transactions (call and put options for the acquisition of shares in companies) concluded within the framework of acquisitions are ascertained using a binomial model and/or the standard model by Black-Scholes. The results from the valuation of these options are reported in the financial result.

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

Derecognition of financial instruments

Financial assets

A financial asset is derecognized if one of the following conditions is satisfied:

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

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

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

Financial liabilities

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

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

Tangible assets

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

Scheduled depreciation is mainly based on the following useful lives:

	Years
Buildings and leasehold improvements	3 - 60
Technical equipment and machinery	2 - 25
Office and operating equipment	2 - 18

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

Non-current Assets Held for Sale and Disposal Groups

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

Property, plant and equipment and intangible assets classified as held for sale are not subject to scheduled depreciation. Prior to being classified as held for sale, the assets must be valued in accordance with the relevant IAS/IFRS and, where applicable, subject to an impairment under IAS 36.

Intangible assets

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

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

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

Capitalized development costs include all direct costs and overheads directly attributable to the development process.

Scheduled depreciation is mainly based on the following useful lives:

	Years
Concessions, industrial property rights, and similar rights	2 - 10
Capitalized development costs	2 - 7

Impairment of non-financial assets

At each balance sheet date, the Group assesses whether there are indications that non-financial assets may be impaired. In the event of such indications, or wherever an asset requires an annual impairment test, the Group estimates the relevant asset's recoverable amount. The recoverable amount of assets is the higher of either the fair value of an asset or a cash-generating unit (CGU) less costs to sell, or value in use. The recoverable amount must be determined for each individual asset. If the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is impaired, and written down to its recoverable amount.

Value in use is calculated by discounting expected future cash flows using a pre-tax discount rate that reflects current market expectations relating to the interest effect and the asset's specific risks. An appropriate valuation model is used to determine fair value less costs to sell. This is based on valuation multiples, as well as the stock market price of listed subsidiaries' shares, or other indicators of fair value that might be available.

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

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

Goodwill

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

Intangible assets

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

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

Taxes

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

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

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

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

Deferred tax assets can be offset against deferred tax liabilities if the tax creditors (tax authorities) are identical and offsetting is possible.
Deferred tax is in principle shown as a non-current item.

Trade accounts payable

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

Leases

In accordance with IAS 17, property, plant and equipment utilized on the basis of finance leases is capitalized if the prerequisites of a finance lease are satisfied, in other words, if the material risks and opportunities arising from the use are transferred to the lessee. The assets are capitalized at cost as of the date of the agreement, or at the present value of the minimum lease payments, whichever is lower.

Straight-line depreciation is based on the economic useful life or the term of the lease agreement, whichever is shorter. The payment obligations arising from the future lease installments are reported as liabilities at the present value of the lease installments.

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

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

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

Other provisions

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

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

A restructuring provision is only created if the general recognition criteria for provisions are met. Furthermore, the Group follows a formal restructuring plan containing detailed guidelines about the business segment affected or part thereof, the location and the number of employees affected as well as a detailed estimate of the costs associated with this and the reasonable timescales. The employees affected must have a legitimate expectation that the restructuring will be implemented or the implementation must have already commenced. Other provisions, in accordance with IAS 37, are recognized according to their likelihood of occurrence, and are not offset against recourse claims. Provisions falling due in over one year must be stated at their settlement amounts discounted to the balance sheet date.

Pension liabilities

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

Kontron reports actuarial gains and losses, which arise, for example, from discount rate changes or from the difference between the actual and expected yield from plan assets, in the year in which they arise, and among the list of income and expense items reported in consolidated equity. Kontron reports these entirely to equity on a post-tax basis, with no impact on profit or loss.

Financial liabilities and equity

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

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

Treasury shares

When Kontron acquires its own shares, they are reported at cost, and deducted from equity. The purchase, sale, issuance and withdrawal of treasury shares are not reported through profit or loss. Any differential amounts between the carrying value and the consideration are booked to the capital reserve.

Obligation from share-based payments (share options plans and employee share programs)

The Kontron Group makes payments to certain employees which are settled using equity instruments. Payment settled using equity instruments is measured at fair value on the date when the commitment is entered into.

The reporting of expenses resulting from the granting of equity instruments, and the corresponding increase in equity, is performed over the period in which the exercise or performance terms must be satisfied (the so-called vesting period). This period ends on the date on which exercise is first possible, in other words, the date on which the relevant employee becomes irrevocably entitled to subscription. The cumulative expenses arising from the granting of equity instruments reported on each balance sheet date up to the date of the first possible exercise reflect the portion of the vesting period that has already elapsed, as well as the number of equity instruments that can actually be exercised at the end of the vesting period according to the Group's best estimate. Income expense reported in net income for the period corresponds to the change in cumulative expenses reported at the start and end of the reporting period.

Fair value is calculated using the Black-Scholes model. Share option plans measured at fair value are reported among personnel expenses and in equity. All share option plans are described below in Note 30.1 "Employee share option plans – Share Options".

The Kontron Group also issues cash-settled share-based remuneration to specific employees. The costs of cash-settled transactions are valued firstly using the binomial model with the fair value at the time granted. The fair value is distributed over the period until the date of the first exercise option to profit and loss recording a corresponding debt. The debt is revalued on each year end date and on the delivery date. Changes to the fair value are recorded under expenses for services to employees (see Note 30.2).

When the Group calculates earnings per share, it performs an additional calculation to reflect the dilutive effects of outstanding share options. This gave rise to no dilutive effect in 2012 (for further details, please refer to Note 31 "Earnings per share").

Discretionary assessments and estimates used when applying accounting policies

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

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

» when determining the fair values of acquired assets and liabilities of business combinations;
» when determining the useful lives of capitalized development projects;
» when assessing the necessity and measurement of an extraordinary write-down or valuation allowance of intangible assets;

» when recognizing and assessing tax, warranty, and litigation risks;
» when assessing the requirement for value adjustments to inventories;
» when assessing whether deferred tax assets can be realized.

The review of market values and the allocation of the purchase price to the acquired assets, liabilities, contingent liabilities and goodwill are conducted on the basis of past experience or future cash flows.

The impairment test for goodwill is conducted annually on the basis of the four-year operating plan, and entails the assumption of annual growth rates. In the financial year 2012, this process revealed a need for impairment at three cash-generating units amounting to EUR 19.3 million in all. Further details can be found in Note 13 to the financial statements.

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

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

Notes to the Consolidated Income Statement

1. Revenue

Reported revenue was subdivided as follows:

in TEUR	2012	2011
Revenue from the sale of goods	467,482	517,391
Revenue from the sale of services	48,755	62,694
Revenue from construction contracts	30,718	9,485
Total revenues	**546,955**	**589,570**

The classification by segments and region can be found in the segment reporting in Note 33.

2. Personnel expenses

in TEUR	2012	2011
Wages and salaries	111,186	108,686
Severance payments	4,351	1,305
Social security expenses	20,474	19,881
Personnel expenses	**136,011**	**129,872**

The expenses for social security contributions contain income amounting to TEUR 2,092 (previous year: income of TEUR 532) for the company pension scheme. In the financial year 2012, income was recorded as a result of plan reductions (planned discontinuation of a pension plan in the financial year 2013) and reduction in the number of employees with pension entitlements. Further details can be found in Note 18 to the financial statements.

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

Contributions to statutory pension insurance amounted to TEUR 3,274 (previous year: TEUR 3,197).

Average number of employees	2012	2011
EMEA	971	1,001
North America	593	754
Emerging Markets	750	1,223
Annual average	**2,314**	**2,978**

3. Operating costs

in TEUR	2012	2011
Personnel costs	85,077	83,275
Third-party services	10,895	4,480
Rent, building and facility maintenance	10,342	12,041
Depreciation / amortization	8,351	8,608
Legal, consultancy and auditing costs	7,443	6,480
Advertising	4,989	4,603
Office material and internal material requirements	4,548	4,348
Travel expenses	4,180	3,825
Car fleet	2,029	1,986
Insurance policies and bank charges	1,647	2,019
Telephone and communications	1,375	1,382
Miscellaneous	2,945	2,334
	143,821	**135,381**

The stated costs include expenditure for the areas of sales and marketing, research and development and general administration.

Personnel costs include wages/salaries (including commissions), social expenses, as well as further training and education expenses.

Of the total research and development costs incurred in 2012, TEUR 20,018 fulfilled IFRS capitalization criteria (previous year: TEUR 18,254).

Research and development costs that do not fulfill the prerequisites for capitalization are treated as operating expenses, and are incurred in the current financial year. In the 2012 financial year, these expenses totaled TEUR 45,048 (previous year: TEUR 44,514).

The depreciation and amortization contained in current operating expenses relates exclusively to scheduled depreciation on non-current assets, with the exception of capitalized development costs. The write-downs on capitalized development costs in the reporting year (of which unscheduled impairment charges: TEUR 2,485; previous year: TEUR 414) are included in cost of sales.

The allocation of depreciation to individual items of non-current assets is presented in the statement of changes in fixed assets.

4. Other operating income and expenses

in TEUR	2012	2011
Exchange rate gains	14,312	14,396
Income from the disposal of production plants in Malaysia	1,021	0
Income from the release of provisions	245	566
Income from the adjustment of the call option ubitronix system solutions gmbh	0	311
Income from disposal of assets	80	108
Income from the disposal of AP Parpro Inc.	72	0
Refunds/compensation	41	26
Subsidies	12	100
Rental income	1	46
Income from adjustment of AP Labs Group earn-out	0	1,365
Income on sale of Business Center RTSoft	0	316
Miscellaneous income	193	786
Other operating income	**15,977**	**18,020**

in TEUR	2012	2011
Exchange rate losses	14,580	14,040
Losses on the disposal of Merz s.r.o.	469	0
Formation of provisions	399	5
Refunds/compensation	117	0
Losses from the adjustment of the call option ubitronix system solutions gmbh	68	0
Losses from disposal of fixed assets	10	71
Miscellaneous expenses	169	490
Other operating expenses	**15,812**	**14,606**

Income and expenses from changes in exchange rates consist primarily of gains and losses from exchange-rate changes between the trade and payment dates of foreign currency receivables and payables.

5. Financial result

in TEUR	2012	2011
Interest income	403	317
Income from derivative financial instruments	208	0
Income from disposal of financial assets	29	0
Dividends	0	17
Miscellaneous income similar to interest income	40	33
Finance income	**680**	**367**
Commission for guarantee and provision of credit facility	514	0
Losses on bills of exchange transactions	373	0
Credit facility transaction costs	276	0
Losses from derivative financial instruments	134	0
Losses from disposal of financial assets	0	12
Interest and similar expenses	1,441	1,869
Finance expense	**2,738**	**1,881**
Financial result	**-2,058**	**-1,514**

6. Income taxes

Income tax expenses are broken down as follows:

in TEUR	2012	2011
Actual income tax	2,233	7,540
Origination and reversal of temporary differences	-3,154	2,128
Tax reported in consolidated income statement	**-921**	**9,668**

Tax expenses contain corporation tax and trade tax for domestic companies as well as comparable taxes on income relating to foreign companies. Other taxation is contained in other operating expenses.

The domestic income tax rate for Kontron AG is calculated at 28.4 % (previous year: 28.4 %). Foreign tax rates range from 15 % to 36.49 %.

Changes in consolidated equity

in TEUR	2012	2011
Actuarial gains/losses from pensions	-229	-23
Losses from net investments*	-4	-1
Income taxes recognized in other comprehensive income	**-233**	**-24**

* Included in the consolidated statement of comprehensive income in the currency translation of foreign subsidiaries

The following table shows a reconciliation of the expected income tax expenses which would theoretically arise from the application at Group level of the current domestic income tax rate of 28.4 % (previous year: 28.4 %) with Group income tax expenses as reported in actuality.

in TEUR	2012	2011
Earnings before income tax	-34,520	32,578
Group income tax rate	28.4%	28.4%
Expected tax effect	9,804	-9,252
Effect of other tax rates applied to companies operating abroad	-498	-113
Share of tax for differences and losses for which no deferred tax has been reported	-2,375	-87
Tax-free public-sector grants and subsidies	93	861
Non tax-effective loss of subsidiary in Malaysia	0	-1,246
Non-deductible expenses	-658	-591
Prior years' tax reimbursement	33	918
Prior years' tax expense	-672	0
Adjustment of prior years' deferred tax	791	0
Tax effect from goodwill amortization	-4,925	0
Change in deferred tax relating to loss carryforwards and tax credits	-558	0
Other	-114	-158
Reported taxes on income	**921**	**-9,668**
Income tax rate	2.7%	29.7%

The income tax income in the financial year 2012 amounted to TEUR 921. The tax component of TEUR -2,375 from the differences and losses for which no deferred taxes were recorded originate predominantly from the ongoing loss incurred by Kontron Compact Computers AG.

The company will probably be liquidated in 2013 and it will no longer be possible to use the losses carried forward which accrued. The goodwill amortization gave rise to a tax-neutral transition item amounting to TEUR -4,925. Further disclosures about the goodwill amortization are provided in Note 13. The tax-free government grants result from research and development credits for Kontron Modular Computers S.A.S.

Deferred tax assets and liabilities as of December 31, 2012 and December 31, 2011 are allocated to the following items:

in TEUR	Deferred tax assets		Deferred tax liabilities	
	2012	**2011**	**2012**	**2011**
Property, plant and equipment	411	340	1,155	1,038
Intangible assets	530	362	17,297	17,297
Inventories	1,763	1,983	233	294
Receivables/other receivables	1,891	2,139	2,223	2,588
Provisions and deferred liabilities	2,709	1,373	1,191	1,223
Liabilities/other liabilities	831	1,805	2,174	2,480
Losses carried forward	6,461	4,172	0	0
Tax credit for research and development	4,139	3,868	0	0
Other	241	176	44	26
	18,976	**16,218**	**24,317**	**24,946**
Net deferred tax liabilities			**5,341**	**8,728**

in TEUR	2012	2011
Status January 1	8,728	6,624
Tax charge/income posted to expenses in the reporting period	-3,154	2,128
Tax charge/income recorded in other comprehensive income in the reporting period	-233	-24
Status December 31	**5,341**	**8,728**

The companies Kontron AG, Kontron Europe GmbH, Kontron America Inc., Kontron Technology A/S and Kontron Australia Pty. Ltd. have posted deferred tax assets for tax loss carryforwards in the amount of the expected earnings on the basis of current four-year corporate budgets.

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

Deferred tax assets can be offset against deferred tax liabilities if the tax creditors (tax authorities) are identical and offsetting is possible. Deferred tax assets were offset against deferred tax liabilities of TEUR 4,224 in 2012. The consolidated balance sheet reported a deferred tax asset of TEUR 14,752 and a deferred tax liability item of TEUR 20,093.

The still unutilized tax loss carryforward position is as follows:

in TEUR	2012	2011
Can be carried forward up to 1 year	0	1,400
Can be carried forward for up to 10 years	29,619	13,053
Can be carried forward beyond 10 years	5,056	2,324
Can be carried forward for an unlimited period	53,017	11,000
	87,692	27,777
Loss carryforwards recognized	-22,945	-14,902
Unutilized loss carryforwards	**64,747**	**12,875**

The loss carryforwards not used result from the subsidiaries Kontron Modular Computers AG, Kontron America Inc., Kontron Asia Pacific Design Sdn. Bhd. and Kontron Compact Computers AG.

As a result of the sale of production at Kontron Asia Pacific Design Sdn. Bhd., the company lost its "pioneer status" and its consequent tax exemption in 2012, although at the same time the loss of "pioneer status" also means that the tax loss carryforwards of TEUR 31,692 accumulated in previous years can be utilized in future and thereby increase the inventory of utilizable loss carryforwards in the financial year 2012. Due to the company's loss-making history, however, it was not possible to include the loss carryforwards in the accounts in the financial year 2012.

Kontron Modular Computers AG is a holding company pure and simple which in future will not generate sufficient positive earnings to utilize the loss carryforwards amounting to TEUR 3,206.

Due to the planned shutdown of Kontron Compact Computers AG in 2013, the existing loss carryforwards totaling TEUR 20,548 can no longer be utilized in future financial years. The deferred tax assets amounting to TEUR 524 which were formed in the previous years were liquidated in their entirety in the reporting year.

Notes to the Consolidated Balance Sheet

7. Cash and cash equivalents

The cash and cash equivalents of TEUR 27,534 (previous year: TEUR 38,165) comprise cash in hand, checks, and bank balances with terms of less than three months. These accrue short-term rates of interest.

in TEUR	2012	2011
Bank deposits, cash in hand, checks	22,654	36,576
Short-term deposits at banks	4,880	1,589
Total cash and cash equivalents	**27,534**	**38,165**

8. Inventories

The reported inventories item consists of the following:

in TEUR	2012	2011
Raw materials, consumables and supplies	27,181	37,294
Work in progress	22,644	25,046
Finished goods and merchandise	37,657	38,071
Advanced payments rendered	6,144	7,682
Receivables from construction contracts	6,397	3,383
	100,023	**111,476**

Inventories are reported at cost or net realizable value, whichever is lower. Net realizable value is the estimated sale price less all estimated costs up to completion as well as marketing, selling and distribution costs.

Impairments of inventories posted to expenses amount to TEUR 5,239 (previous year: TEUR 5,764) This impairment expense is reported in the cost of sales.

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

The amounts related to construction contracts are as follows:

in TEUR	2012	2011
Order revenue	30,718	9,485
Costs incurred	-23,542	-5,871
Profit	**7,176**	**3,614**

The increase shown by construction contracts results from the growth in customer-specific software developments at RT Soft ZAO and large-scale projects at Kontron East Europe Sp.zo.o.

Amounts receivable from construction contracts totaled TEUR 6,397 (previous year: TEUR 3,383) Liabilities due on construction contracts amounted to TEUR 4,488 (previous year: TEUR 1,018). Advance payments amounting to TEUR 11,759 (previous year: TEUR 7,944) were received for construction contracts.

9. Accounts receivable

Receivables and other assets are shown at either nominal value or cost. All identifiable risks are taken into account by means of appropriate valuation allowances. The general credit risk is taken into account with valuation allowances based on past empirical values, derivations from term structure and a commercial assessment of reported assets.
The trade receivables item consists of the following:

in TEUR	2012	2011
Accounts receivable	145,341	158,371
Value adjustments	-35,387	-34,746
Total trade receivables	**109,954**	**123,625**

As of December 31, 2012, impairment losses were applied to trade receivables with a nominal value of TEUR 35,847 (previous year: TEUR 35,521).
The following table shows the changes in the impairment account:

in TEUR	2012	2011
Value adjustments January 1	-34,746	-32,477
Additions expensed through income statement	-1,774	-1,860
Utilization	635	1,133
Release	985	539
Exchange rate differences	-487	-2,081
Value adjustments December 31	**-35,387**	**-34,746**

The amount of TEUR 34,746 carried forward from 2011 includes impairments at Kontron Asia Pacific Design Sdn. Bhd. which were formed during 2010 when there was a suspicion of fraudulent activity.

The total additions of TEUR 1,774 in 2012 (previous year: TEUR 1,860) consists of additions resulting from specific allowances for bad debts totaling TEUR 368 (previous year: TEUR 935) and consolidated specific allowances for bad debts of TEUR 1,406 (previous year: TEUR 925).

The reversals result from receivables paid by individual customers, which were impaired in the previous year due to indications of commercial difficulties at that time, as well as from the reversal of lump-sum specific valuation adjustments.

The term structure of trade receivables is as follows:

			of which: unimpaired and overdue within the following time bands					
	Nominal amount	of which: neither overdue 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
12,31,2012	145,341	62,285	34,528	3,301	3,955	2,472	526	2,427
12,31,2011	158,371	98,513	14,007	2,728	5,637	1,023	533	409

With respect to the trade receivables that are neither impaired nor in default, there are no indications as of the balance sheet date that the debtors will fail to meet their payment commitments. This also applies to unimpaired trade receivables that are overdue.

10. Other receivables and assets

The other receivables and assets consist of the following:

in TEUR	2012	2011
Other current receivables and assets		
VAT receivables	9,088	6,029
Prepayments and accrued income	2,624	2,592
Receivables from price adjustment clauses	1,120	0
Bonus receivables due from suppliers	1,061	1,552
Other tax receivables	940	648
Deposits	492	432
Creditor accounts in debit	431	219
Receivables from corporate disposals	400	0
Short-term securities	370	677
Receivables from derivative financial instruments	218	0
Receivables due from employees	206	261
Receivables due from shareholders	0	721
Miscellaneous	1,215	1,097
	18,165	**14,228**

in TEUR	2012	2011
Other non-current receivables and assets		
Prepayments and accrued income	1,492	0
Security deposits	294	494
Miscellaneous	179	55
	1,965	**549**

The transaction costs (TEUR 1,739 in total) incurred in the raising of a loan facility totaling EUR 170 million are reported in the non-current prepaid expenses and deferred charges. These will be allocated to interest expenses over the facility's five-year term.

11. Deferred tax assets

Comments on the deferred tax liabilities can be found in Note 6 below (Income tax).

12. Fixed assets

Impairment losses are determined in accordance with IAS 36 *Impairment of Assets*. Unscheduled depreciation of fixed assets was carried out in the amount of TEUR 172 in the reporting year (previous year: TEUR 0).

Also included are production facilities and vehicles totaling TEUR 65 (previous year: TEUR 387) which qualify as finance leases and which, due to the structure of the lease agreements on which they are based, must be attributed to the Group as their economic owner. The agreements contain extension options but normally not, however, advantageous purchase options or price adjustment clauses.

Details of the minimum leasing payments of the relevant leasing agreements are as follows:

in TEUR	2012	2011
Due within one year	131	154
Due between one and five years	90	119
Due after five years	0	6
	221	**279**
Share of interest payment contained in minimum lease payments	**14**	**11**
Sum of future minimum lease payments	**207**	**268**

The minimum lease payments split by the present value are as follows:

in TEUR	2012	2011
Due within one year	127	141
Due between one and five years	80	121
Due after five years	0	6
	207	**268**

The changes in property, plant and equipment are presented in the schedule of movements in fixed assets.

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

13. Intangible assets, goodwill

Internally generated intangible assets
A total of TEUR 65,066 was spent on research and development in 2012 (previous year: TEUR 62,974). TEUR 20,018 of this sum (previous year: TEUR 18,254) fulfills the capitalization criteria under IAS 38.

The capitalizations essentially concern customer-specific development projects and are explained in more detail below:

Capitalized development costs, products in development	in TEUR	2012	2011
Purchase/production costs 01,01,		23,081	21,705
Currency changes		-444	455
Additions		20,018	18,254
Reclassification of completed projects		-14,915	-17,333
Carrying amount December 31		**27,740**	**23,081**

Capitalized development costs, products currently in use	in TEUR	2012	2011
Purchase/production costs 01,01,		61,858	44,601
Additions		14,915	17,333
Disposals		-1,773	-76
Carrying amount December 31		**75,000**	**61,858**

Amortization of capitalized development projects	in TEUR	2012	2011
01,01,		32,521	22,443
Currency changes		-279	396
Additions (scheduled)		10,567	9,314
Impairment write-down		2,485	414
Disposals		-941	-46
Carrying amount December 31		**44,353**	**32,521**
Carrying amount of capitalized development costs December 31		**58,387**	**52,418**

Unscheduled amortization totaling TEUR 2,485 (previous year: TEUR 414) on internally generated intangible assets (capitalized development costs) were carried out in the reporting year. The recoverable amount of internally generated intangible assets is derived by calculating value in use using cash flow forecasts. The cash flow forecasts are based on a "Market Requirement Document" approved by management. The related approval allows the product to be developed. The Market Requirement Document includes a planning timeframe of seven years; The discount rates used for the cash flow forecasts before tax are between 7.05 % and 15 % (previous year: 12.5 %).

The unscheduled impairment expenses of TEUR 2,485 are reported under amortization of capitalized development costs, and result from the EMEA segments in the amount of TEUR 1,180 (previous year: TEUR 46) and from North America in the amount of TEUR 1,305 (previous year: TEUR 386). The unscheduled amortizations have been necessitated by product cancellations of customers and revised future revenue expectations.

In the current financial year, the Kontron Group has received government grants amounting to TEUR 334 (previous year: TEUR 337), which have reduced the production costs of the capitalized development projects, and further grants totaling TEUR 1,218 (previous year: TEUR 519), which have reduced research and development costs.

In addition, the allocations to the internally generated intangible assets include the sum of TEUR 195 which has been capitalized for programming work on Kontron's internal IT systems.

Rights and licenses, other intangible assets
In the financial year 2012 the sum of TEUR 2,161 was invested in the further development of the existing IT systems and the acquisition of software licenses.

The planned restructuring in the company structure in 2013 is leading to changed requirements of the new SAP system, whose development commenced as early as 2011. As a result, the investments made for the new SAP system in 2011 can be utilized only to a limited extent and an unscheduled amortization totaling TEUR 1,204 under "Other segments" became necessary.

Intangible assets also include rights and licenses, as well as other intangible assets arising from acquisitions (e.g. customer base, technology, brand name and order book position). TEUR 283 was invested in rights and licenses in the financial year.

Amortization of intangible assets is included in the individual items of the income statement as follows:

in TEUR	2012	2011
Other production costs	13,074	9,745
Research and development costs	1,933	3,045
General administrative costs	1,901	2,123
Selling and marketing costs	2,906	682
Goodwill impairment charges	19,282	0
	39,096	**15,596**

Within the framework of the goodwill impairment test, the sum of TEUR 1,959 was recorded as unscheduled amortization for the other intangible assets of ubitronix system solutions gmbh. In the income statement this sum is included under "Goodwill Impairment", and in the segment report the impairment is shown in the "Consolidation" column.

Goodwill

The goodwill results from corporate acquisitions and is apportioned to cash-generating units as follows.

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

in TEUR	01,01,2011	Currency changes	Additions / disposals	Impairment charges	12,31,2011
Goodwill					
Europe	46,496	219	0	0	46,715
ubitronix	2,701	0	0	0	2,701
North America	50,373	499	0	0	50,872
RT Soft Group	8,697	-103	0	0	8,594
Asia	2,166	-21	0	0	2,145
	110,433	**594**	**0**	**0**	**111,027**

In the financial year 2012, the annual impairment tests for goodwill revealed a need for impairment amounting to TEUR 19,282 (previous year: TEUR 0), which was recorded as goodwill impairment in the amount of TEUR 17,323. The sum of TEUR 1,959 was entered as unscheduled amortization of other intangible assets.

Kontron changed its internal reporting and monitoring structures in the financial year 2012. Various decisions were made on the further standardization and accompanying centralization in sub-areas. The original structure of largely independent operational units, with Kontron AG in the background for special Group tasks, was changed significantly as a result. As part of further unifying the European organization, the three German companies were merged and the other European companies (companies from the former Kontron Modular Computers Group and Kontron embedded computers Group) were put under unitary operational management. As of December 31, 2011, the Kontron Modular Computers Group had goodwill of TEUR 18,362, while the goodwill at Kontron embedded computers Group totaled TEUR 9,055. The goodwill at Kontron Embedded Modules amounted to TEUR 10,169. After the decision was made in the financial year 2012 to close down Kontron Compact Computers AG in 2013, a start was made in integrating the essential components of the company's business into Kontron Europe GmbH. Kontron Compact Computers had goodwill of TEUR 9,129 as of December 31, 2011.
The integration projects between the companies Kontron America Inc. and Kontron Canada Inc. were largely completed in 2012. The companies were put under unitary management. Kontron America posted goodwill of TEUR 43,385 as of December 31, 2011, while Kontron Canada was allocated the sum of TEUR 7,487.
The structure of the cash-generating units ubitronix, RT Soft Group and Asia remained unchanged compared with the previous year.

The goodwill amounts reported as of December 31, 2012 were apportioned anew in order to comply with the new reporting and monitoring structure. The previous year's figures were adjusted accordingly.

The derecognition of the goodwill amounting to totaling TEUR 124 results from the sale of Merz s.r.o. in December 2012. For more details, see the disclosures on the scope of consolidation.

The impairment tests for goodwill are based on the going-concern principle and take account of current circumstances and actual situation of the company as of the measurement date ("as-is-situation"). This means that positive growth and results effects that might flow from the optimization program "Shape" may not be taken into account in the financial plans.

The annual impairment test for goodwill at the cash-generating unit RT Soft Group revealed a need for write-downs amounting to TEUR 5,045. This necessity of write-downs results primarily from expected changes in terms of payment in project business and an appropriately adjusted assessment of market developments this cash-generating unit's project business.

The impairment test for the cash-generating unit ubitronix resulted in a need for impairment amounting to TEUR 4,660. The goodwill totaling TEUR 2,701 was value-adjusted in its full amount, while the additional sum of TEUR 1,959 was recorded as impairment under other intangible assets. The need for write-downs resulted essentially from the changed estimate of the growth prospects for ubitronix system solutions gmbh's project business in the planning period 2013-2016 compared with the previous year. Furthermore, higher operational expenses will become necessary in the medium term in order to reach the planned growth.

The need for impairment revealed by the annual impairment test at the cash-generating unit North America amounts to TEUR 9,577. The goodwill has arisen as a result of various acquisitions in recent years, although the planned targets originally envisaged have not yet been fully achieved and the aspired gross profit margins were fallen short of. The profitability of the North American activities fell short of expectations in 2012. For these reasons, the results of the financial planning for the years 2013-2016 are lower than in the previous year and therefore necessitate impairment.

In the cash-generating units Europe and Asia, the values in use ascertained during the impairment test are greater than the respective carrying amounts, which means that no impairment must be recorded.

Impairment tests for goodwill

Kontron carries out its annual impairment test for goodwill on December 31 each year. In checking for indications of impairment, the Group takes account of the relationship between market capitalization and carrying amount as well as other factors. As of December 31, 2012, the Group's market capitalization was below the carrying amount of its equity, indicating that there might be impairment of the goodwill and impairment of the cash-generating units' assets. In addition, the persistent economic uncertainty and the accompanying pressure on margins led to a decline in demand in the Group.

To calculate impairment requirements, the recoverable amount of cash-generating units is derived by calculating values in use using cash flow forecasts. The cash flow forecasts are based on four-year financial budgets approved by the Supervisory Board (2013-2016). A growth rate of 1 % compared with the last individually planned year (2016) is imputed to cash flows arising after the four-year planning period. To ascertain the values in use of the cash-generating units, payment flows are forecast based on operating results and the adherence to forecasts in the recent past, current operating results from the financial year and the best possible estimate of future developments on the basis of, among other things, assumptions about market developments by the management, and on market assumptions. Essentially, the value in use is determined by the accumulated amount (net present value of the perpetuity), which reacts with particular sensitivity to the long-term growth rate and the discount rate.

The pre-tax discount rate applied to the cash flow forecasts is presented in the following table. The pre-tax discount rate cannot be indicated for the previous year because of the redefinition of the cash-generating units in 2012.

Cash-generating units	in %	2012
Europe		9.38
ubitronix		7.45
North America		11.05
RT Soft Group		15.12
Asia		11.80

Basic assumptions for calculation of value in use

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

» Growth rates during the budget period,
» Gross profit margins,
» Discount rates,
» Growth rates that were used as the basis for the extrapolation of the cash flow forecasts outside of the detailed planning period.

Revenue growth – This was planned with the help of available market surveys and taking account of empirical values from the preceding financial years.

Gross profit margins – The estimates of gross profit margins are oriented towards the average figures that were achieved in the preceding financial years, as well as estimates of possible price, cost and product mix changes and efficiency increases in the planning period.

Discount rates – The discount rates reflect current market assessments with respect to specific risks allocable to each of the cash-generating units. The calculation of the discount rate takes account of the specific circumstances of Kontron AG and its business segments and is based on the weighted average costs of capital (WACC) that are customary in the sector. The average costs of capital take account of both borrowed capital and equity. The cost of equity capital is derived from the anticipated return on equity, while the borrowing costs are calculated on the basis of the expected debt servicing. This interest rate was adjusted further to reflect the market estimates relating to all risks, especially exchange rate and country-specific risks, specifically allocable to the cash-generating unit for which the estimate of future cash flows was not adjusted.

Estimate of the long-term growth rate – The growth rate for the extrapolation of the cash flow forecasts outside of the four-year planning period was assumed to be 1 % for all cash-generating units. The growth rate takes account of external macroeconomic data and sector-specific trends.

Sensitivity of assumptions used

The management is of the opinion that no change to one of the basic assumptions used to calculate the value in use of the cash-generating units Europe and Asia that is generally considered reasonable could result in the carrying amount of these cash-generating units significantly exceeding its recoverable amount.

At the cash-generating units ubitronix, North America and RT Soft Group, the carrying amount exceeds the recoverable amount. A negative change in a significant assumption would consequently lead to a further need for impairment. The effects of the basic assumptions on the recoverable amount are explained below:

Assumptions about the growth rate – The long-term growth rate can be influenced substantially by technological change and potential new competitors. Kontron, based on the current state of knowledge, does not expect the possible emergence of new competitors to have any negative influence on the forecast cash flows, however. This could nevertheless lead to a different exchange rate that could be regarded as reasonable. If the relevant long-term growth rate declines from 1 % to 0.5 %, there would be a greater need for write-downs at the cash-generating units ubitronix, RT Soft Group and North America. At the cash-generating units Europe and Asia, this change would not lead to any need for impairment.

Development of the gross profit margin – A decrease of one percentage point in the gross profit margin over time would not lead to any need for impairment at the cash-generating units Europe and Asia. On the other hand, the need for write-downs for the cash-generating units ubitronix, RT Soft Group and North America would increase further.

Discount rates – With an increase of one percentage point in the discount rates, the value in use of the cash-generating units in Europe and Asia would still be higher than their carrying amount.

14. Accounts payable

The trade accounts payable item consists of the following:

in TEUR	2012	2011
Trade accounts payable	73,419	70,881
Customer prepayments	14,216	15,832
	87,635	**86,713**

The accounts payable have the following residual terms:

in TEUR	Residual term up to 1 year	Residual term of 1-5 years	Residual term more than 5 years	Total
12,31,2012	86,813	822	0	87,635
12,31,2011	86,113	600	0	86,713

15. Other liabilities

Other liabilities were broken down as follows:

Other current liabilities in TEUR	2012	2011
Amounts owed to personnel	14,975	14,183
Other taxes	6,001	2,199
Re-acceptance obligation arising from sales of materials	2,607	0
Legal and consultancy costs	1,586	980
Outstanding bills	1,108	2,085
Rental obligations	350	210
Debtors accounts in credit	207	746
Liabilities from corporate acquisitions	125	1,785
Interest liabilities	92	51
Liabilities arising from derivative financial instruments	72	45
Social security liabilities	0	249
Miscellaneous	1,736	1,182
	28,859	**23,715**

Other non-current liabilities in TEUR	2012	2011
Onerous contracts	981	1,217
Put options on ubitronix shares	134	0
Miscellaneous	369	185
	1,484	**1,402**

16. Deferred tax liabilities

Comments on the deferred tax liabilities can be found in Note 6 below (Income tax).

17. Financial liabilities

All of the Kontron Group's interest-bearing liabilities as of the respective balance sheet date are shown under financial liabilities.

They consist of the following:

2012 in TEUR	Residual term up to 1 year	Residual term of 1-5 years	Residual term more than 5 years	2012 total
Non-current				
Long-term bank borrowings	0	13,803	0	13,803
Finance lease obligations	0	80	0	80
Non-current finance liabilities	**0**	**13,883**	**0**	**13,883**
Current				
Bank borrowings	518	0	0	518
Finance lease obligations	127	0	0	127
Current finance liabilities	**645**	**0**	**0**	**645**
	645	**13,883**	**0**	**14,528**

2011 in TEUR	Residual term up to 1 year	Residual term of 1-5 years	Residual term more than 5 years	2011 total
Non-current				
Long-term bank borrowings	**0**	**13,244**	**0**	**13,244**
Finance lease obligations	**0**	**121**	**6**	**127**
Non-current finance liabilities	**0**	**13,365**	**6**	**13,371**
Current				
Bank borrowings	23,756	0	0	23,756
Finance lease obligations	141	0	0	141
Current finance liabilities	**23,897**	**0**	**0**	**23,897**
	23,897	**13,365**	**6**	**37,268**

Non-current bank borrowings have the following maturities and interest rates:

in TEUR	2012	2011
Credit facility with an average interest rate of 1.71% until 2017	13,734	0
Other loans with interest rates between 5.0% and 10.2% until 2014	69	130
Loan with an interest rate of 3.35% repayable annually from 2011 until 2013	0	9,653
Loan with an interest rate of 3.9% repayable annually from 2011 until 2013	0	9,653
	13,803	**19,436**
Short-term portion of non-current bank loans	0	-6,192
	13,803	**13,244**

Overdraft facilities and bank loans with a term of less than one year
In order to finance their working capital, some foreign subsidiaries have bilateral credit lines with an aggregate volume of TEUR 3,254. TEUR 2,154 of this amount is accounted for by overdrafts and TEUR 1,100 by sureties. These credit lines were set up without an assumption of liability by Kontron AG and will remain valid until they are revoked. The utilization of the overdraft by a subsidiary amounts to TEUR 518 as of the balance sheet date. The sureties provided were utilized in full up to the amount of TEUR 1,100.

Bank loans with a term of more than one year
In April 2012, a credit facility totaling TEUR 170,000 was set up via a syndicate consisting of five banks. The term of this credit facility, which as well as financing the Kontron Group's working capital also finances investments and facilitates possible acquisitions, is five years.
The credit line is divided into a TEUR 140,000 tranche for short-term borrowing in the form of term borrowing ("cash line") and a guarantee facility of TEUR 30,000. Within the cash line granted there is also the possibility of agreeing bilateral credit lines for Kontron AG ("ancillary lines") and its subsidiaries ("subsidiary lines") with the individual members of the banking syndicate. As of December 31, 2012, Kontron AG used this financing option and set up bilateral credit lines totaling TEUR 29,600 with all of the consortium banks and a credit line totaling TEUR 20,233 with one consortium bank for a Russian subsidiary.

No collateral at all was furnished for the credit line. Several of Kontron AG's subsidiaries have assumed joint liability vis-à-vis the banking syndicate. The credit facility is subject to compliance with agreed key financial figures and non-financial requirements. The key financial figures are the ratio of the Group's net financial liabilities to EBITDA and of the Group's net financial result to EBITDA, and a defined minimum equity ratio. If the credit terms are not fulfilled, the outstanding liabilities are due immediately and must be paid to the creditor banks. As of the balance sheet date, the requirements stipulated in the credit agreement were complied with in full.

The interest on the amounts borrowed from within the credit facility is charged on the basis of the EURIBOR underlying the respective term, plus a credit margin which is calculated depending on the ratio of the Group's net financial debt to EBITDA. The interest within the bilateral "ancillary lines" was agreed with the respective consortium bank and is calculated on the basis of the prevailing money market interest rate. The average funding interest rate as of the balance sheet date is approximately 1.71 % per year.

On December 31, 2012 utilization of the funds within the credit facility amounted to TEUR 13,734, with the result that the Group has further funding scope in the amount of TEUR 110,174 at its disposal. The guarantee lines provided within the credit facility in the amount of TEUR 45,801 have been utilized to the extent of TEUR 18,982 as of the balance sheet date, leaving further scope amounting to TEUR 26,819.

As of December 31, 2011 the Group had at its disposal total credit and guaranteed credit lines of TEUR 89,674, which were utilized in the amount of TEUR 17,564. The sum of TEUR 15,571 for letters of indemnity reduces the unrestricted credit facility correspondingly. TEUR 56,539 was at the Group's disposal for further credit and guarantee lines. TEUR 3,048 of the short-term credit lines is secured by assignments.

As of the balance sheet date, 111.810 TEUR from unutilized credit lines for borrowings and 26,819 TEUR from further guarantees were available to the Group.

Fixed interest-rate loans
The bank loans of a foreign subsidiary amounting to TEUR 19,306 that existed as of the previous year's balance sheet date were repaid in full in connection with the setting up of the new credit facility and replaced by an internal Group funding arrangement. The security that had been furnished was returned. TEUR 69 of the remaining long-term financial liabilities are accounted for by the funding of company cars at a foreign subsidiary.

With respect to the financial debt reported on the balance sheet date, there were no payment problems relating to redemption or interest payments, the redemption fund, or the liabilities' redemption terms.

Lease obligations

The Group has entered into lease agreements relating to various vehicles, technical plant and software licenses. The average duration is between three and seven years. The lease agreements contain no extension or favorable purchase options. The lease agreements imposed no restrictions on the lessee.

The following payments arising from lease agreements were expensed in the reporting period:

in TEUR	2012	2011
Minimum lease payments arising from rent lease agreements	7,972	7,072

In previous financial years, SAP licenses with a total value of TEUR 14,519 were sold under sale-and-lease-back transactions to a leasing company, and lease agreements relating to these SAP licenses were simultaneously concluded with the lessor. The agreements, which were revised in 2009, run until the end of 2014, and the agreements concluded in 2010 and 2011 run until May 2015.

18. Provisions

IAS 37 defines provisions as liabilities whose timing or amount is uncertain. It makes a distinction between provisions and deferred liabilities. The deferred liabilities are contained in the item "Other current liabilities" and "Other non-current liabilities" and are explained in more detail in Note 15.

The provisions developed as follows:

Current provisions in TEUR	Carried forward 01,01,2012	Currency changes	Reclassi-fication	Addi-tions	Utili-zation	Release	Interest	Status 12, 31,2012
Warranties	2,347	-50	0	2,206	1,479	127	0	2,897
Litigation	173	-15	0	825	262	0	0	721
Contingent losses	373	-3	1,034	759	706	0	18	1,475
Restructuring	446	-1	-302	1,582	0	145	18	1,598
Miscellaneous	1,531	-11	0	386	954	446	0	506
Total	**4,870**	**-80**	**732**	**5,758**	**3,401**	**718**	**36**	**7,197**

Non-current provisions in TEUR	Carried forward 01,01,2012	Currency changes	Reclassi-fication	Addi-tions	Utili-zation	Release	Interest	Status 12, 31,2012
Warranties	1,010	-5	0	133	0	205	0	933
Contingent losses	2,366	0	-829	271	103	0	26	1,731
Restructuring	0	-2	0	1,324	0	0	0	1,322
Miscellaneous	30	0	97	4	0	0	0	131
Total	**3,406**	**-7**	**-732**	**1,732**	**103**	**205**	**26**	**4,117**

Current provisions in TEUR	Carried forward 01,01,2011	Currency changes	Reclassi-fication	Addi-tions	Utili-zation	Release	Interest	Status 12, 31,2011
Warranties	2,048	113	0	1,774	1,515	73	0	2,347
Litigation	56	0	0	288	127	44	0	173
Contingent losses	0	0	0	373	0	0	0	373
Restructuring	330	2	0	182	68	0	0	446
Miscellaneous	569	65	0	907	10	0	0	1,531
Total	**3,003**	**180**	**0**	**3,524**	**1,720**	**117**	**0**	**4,870**

Non-current provisions in TEUR	Carried forward 01,01,2011	Currency changes	Reclassi-fication	Addi-tions	Utili-zation	Re-lease	In-terest	Status 12, 31,2011
Warranties	1,040	18	0	290	313	25	0	1,010
Contingent losses	1,574	2	0	2,025	6	1,289	60	2,366
Miscellaneous	24	0	0	6	0	0	0	30
Total	**2,638**	**20**	**0**	**2,321**	**319**	**1,314**	**60**	**3,406**

Warranties

A provision was formed for warranty obligations arising from products sold in the past two years. Its measurement is based on past empirical values for repairs and customer complaints. Warranties from construction contracts will be considered in the calculation of provisions after the final acceptance of the respective project. We expect that most of these costs will be incurred in the next financial year and that the entire amount that has been provided for will be incurred within two years following the balance sheet date. The assumptions underlying the calculations of the warranty performance are based on the current sales level and information currently available concerning complaints relating to products sold within the two-year warranty period.

Litigation

TEUR 661 of the allocation to the current provisions for legal disputes results from a legal dispute between Kontron Australia Pty. Ltd. and one of its customers (for further information, see Note 19).

Contingent losses

Most of the allocations to the provision for anticipated losses (short-term TEUR 413, long-term TEUR 271) concern the lease installments for Kontron Europe GmbH's SAP system. As part of the merger of the four operating companies in Germany into Kontron Europe GmbH, the companies' SAP systems were consolidated and, at the same time, various improvements were carried out. As a result of these measures, parts of the previous SAP system were overhauled and can no longer be used.

Restructuring

In the financial year 2012, the sum of TEUR 1,582 was allocated to the current provisions for restructuring and the sum of TEUR 1,324 was allocated to the non-current provisions for restructuring. These allocations were carried out in connection with the closure of the company Kontron Compact Computers AG that was decided on in the third quarter of 2012. These essentially comprise severance payments and other personnel expenses amounting to TEUR 979 and expenses for burdensome contracts totaling TEUR 1,916.

Pensions and other post-employment benefits
Provisions for pensions and other post-employment benefits changed as follows:

	in TEUR
Pension commitments as of January 1, 2011	**3,244**
Expenses/income pension benefits	-260
Actuarial gains/losses reported in other comprehensive income	7
Employer contribution	-267
Benefits paid	-29
Conversion differences on pensions in other currencies	43
Pension commitments as of December 31, 2011	**2,738**

	in TEUR
Pension commitments as of January 1, 2012	**2,738**
Expenses/income pension benefits	-1,820
Actuarial gains/losses reported in other comprehensive income	401
Employer contribution	-192
Benefits paid	-4
Conversion differences on pensions in other currencies	17
Pension commitments as of December 31, 2012	**1,140**

In the past, the Group introduced various defined benefit pension plans that are measured using the projected unit credit method in compliance with IAS 19. The contributions are made to separately administered funds.

Due to statutory regulations, a subsidiary is required to make one-off payments to its employees when they leave or retire from the company. The payments are regulated by collective wage bargaining agreements and reflect length of service and final salary level before retirement. As of the balance sheet date, 95 employees were affected by this (previous year: 95 employees).

At two other subsidiaries, defined benefit pension plans were introduced in past years; provision for the post-retirement period was made for 56 employees (previous year: 112 employees) with these plans. The benefit plans depend on both salary and service period criteria. These comprise direct pension commitments. The Kontron Compact Computers AG pension plan in Switzerland is going to be discontinued in the financial year 2013 due to the scheduled closure of the company. The income from this plan curtailment were recorded in their entirety in the financial year 2012 and amount to TEUR 2,328. They are shown in the social security expenses of the individual functional areas. As of December 31, 2012, there are no longer any obligations from this pension plan.

The valuation method was changed in 2009 so that actuarial gains and losses are now reported under other comprehensive income in equity. The actuarial gains and losses that are reported cumulatively in other comprehensive income amounted to TEUR 1,072 as of the 2012 reporting date.

The components of expenses reported in the consolidated income statement as well as amounts for the relevant plans entered in the consolidated balance sheet are presented in the following tables.

Pension expenses or income contained in the income statement:

in TEUR	2012	2011
Current service cost	340	397
Interest expense	272	272
Past service cost	32	32
Expected return on plan assets	-136	-216
Income on plan curtailments	-2,328	-745
Income for pension benefits	**-1,820**	**-260**

The actual gains on plan assets in the 2012 financial year amounted to TEUR 219 (previous year: losses of TEUR 325).

In the consolidated income statement, the expenses and/or income are reported in the social security expenses of the individual functional areas, with the exception of interest expenses, which are recorded in the financial result. For the 2013 financial year, the Group anticipates contributions relating to defined benefit obligations totaling TEUR 67, TEUR 32 of which are in the form of expected direct pension payments.

Defined benefit obligations (at December 31):

in TEUR	2012	2011	2010	2009	01,01,2009
Present value of defined benefit obligation (fully or partially fund-financed plans)	4,337	8,710	8,049	5,971	1,654
Fair value of plan assets	-4,337	-6,872	-6,034	-5,174	0
	0	**1,838**	**2,015**	**797**	**1,654**
Present value of defined benefit obligation (non-fund-financed plans)	1,308	1,099	1,460	1,579	0
Unrecognized past service cost	-168	-199	-231	-262	-294
Defined benefit obligation liability	**1,140**	**2,738**	**3,244**	**2,114**	**1,360**

The changes in the present value of the defined benefit obligations are as follows:

	in TEUR
Present value of defined benefit obligation at January 1, 2011	**9,509**
Interest expense	272
Current service cost	397
Employee contributions	253
Benefits paid	-193
Actuarial gains/losses	114
Plan curtailments	-745
Conversion differences on plans in foreign currencies	202
Present value of defined benefit obligation at December 31, 2011	**9,809**

	in TEUR
Present value of defined benefit obligation at January 1, 2012	**9,809**
Interest expense	272
Current service cost	340
Employee contributions	184
Benefits paid	-1,514
Actuarial gains/losses	45
Plan settlements	-1,241
Plan curtailments	-2,328
Conversion differences on plans in foreign currencies	78
Present value of defined benefit obligation at December 31, 2012	**5,645**

The changes to the fair value of the plan assets are as follows:

	in TEUR
Fair value of plan assets at January 1, 2011	**6,034**
Expected return on plan assets	216
Gains/losses on plan assets	109
Employee contributions	253
Employer contributions	267
Benefits paid	-164
Conversion differences on plan assets in foreign currencies	157
Fair value of plan assets at December 31, 2011	**6,872**

	in TEUR
Fair value of plan assets at January 1, 2012	**6,872**
Expected return on plan assets	136
Gains/losses on plan assets	-355
Employee contributions	184
Employer contributions	192
Benefits paid	-1,509
Plan settlements	-1,241
Conversion differences on plan assets in foreign currencies	58
Fair value of plan assets at December 31, 2012	**4,337**

The reported plan payments amounting to TEUR 1,241 relate to payments made because of the reduction in the regular workforce at Kontron Compact Computers AG in the financial year 2011. The effects of the closure of the company, which was decided on in the financial year 2012, and the consequent discontinuation of the pension plan in 2013, are included in the "Plan curtailments" item (TEUR 2,328).

Experience gains and losses-related adjustments to plan obligations amounted to TEUR -564 in the reporting period (previous year: TEUR -294).

The main plan asset groups are presented as a percentage of the fair value of total plan assets as follows:

	in%
Shares	**0**
Bonds	**0**
Real estate	**0**
Cash and other financial assets	**100**

Due to the discontinuation of the pension plan at Kontron Compact Computers AG in Switzerland scheduled for the financial year 2013, the plan assets in question were transferred temporarily to a deposit account and are therefore reported under cash and other financial assets.
Plan assets do not contain any Kontron AG shares or real estate utilized by the Group itself.

The basic assumptions used to calculate long-term obligations to employees are as follows:

in%	2012	2011
Discounting rates:		
Germany	3.80	5.40
France	3.00	5.00
Switzerland	1.80	2.35
Salary trend	1.96	2.03
Pension trend	0.56	0.52
Expected return on plan assets	1.80	3.02

The anticipated return on the plan assets for 2013 is determined in accordance with the new, revised IAS 19 rules. The percentage rate will be set at the same level as the actuarial interest rate from 2013 onwards.

19. Disclosures concerning litigation

Various legal disputes are pending in the Group within the scope of its business activities. With the exception of the proceedings explained below, the Management Board does not believe that the outcome of litigation will have any material effect on the company's net assets, financial position and results of operations.

The first exception is the pending action for damages in Malaysia (plaintiff's lawsuit) against a number of defendants. With this action, damages claims amounting to TEUR 29,348 are being asserted. Kontron has not included any receivables for the damages claims in its accounts. At present it is not possible to ascertain from the lawyers appointed in Malaysia when it will be possible to return a verdict in Malaysia.

A customer of the Kontron company in Australia has filed an action against the company for the equivalent of TEUR 9,224. Kontron and the lawyers hired by Kontron in Australia are of the opinion that the action is largely unsubstantiated and the claims asserted can therefore largely be repudiated. In the balance sheet, the sum of TEUR 661 was allocated to the provisions as a precaution, of which TEUR 384 are for legal fees for advice.

20. Equity and share subscriptions

The number of no par value shares issued by Kontron as of December 31, 2012 was 55,683,024. Each share represents a share of subscribed capital of EUR 1. Preference shares or different classes of share do not exist.

The capital reserve contains the surplus from the issue of shares, and expenses relating to share option plans (Note 30).

The revenue reserve contains past earnings generated by companies included in the consolidated financial statements to the extent that these earnings were not distributed and actuarial gains/losses from pensions and other post-employment benefits. Since January 1, 2010, the difference between cost and the carrying amounts attributable to acquired shares when acquiring "non-controlling interests" in subsidiaries is also reported in the revenue reserve.

21. Conditional capital

The 2003/1 Conditional Capital conditionally increases the company's share capital by up to TEUR 1,105 through the issue of up to 1,104,850 new shares against conversion rights or share options. The conditional capital increase will be performed only to the extent that owners of option rights from the 2003 share option plans exercise them. As of December 31, 2012, there were 299,500 (previous year: 409,500) related share options.

The 2007 Conditional Capital conditionally increases the company's share capital by up to TEUR 1,500 through the issue of up to 1,500,000 shares (2007 Conditional Capital). The conditional capital increase will be carried out only to the extent that owners of option rights from the 2007 share option plans exercise them. As of December 31, 2012, there were 943,094 (previous year: 1,235,592) related share options.

The 2010 conditional capital was canceled as the result of a resolution by the Shareholders' meeting of June 7, 2011.

The 2011 Conditional Capital conditionally increases the company's share capital by a further TEUR 16,877 through the issue of up to 16,876,662 shares (2011 Conditional Capital). The conditional capital increase will be performed only to the extent that owners of convertible and/or option bonds issued by the company on the basis of the authorization of the shareholders' meeting of June 7, 2011 exercise their conversion and option rights by June 6, 2016. This had not given rise to any convertible or option bonds as of December 31, 2012.

22. Approved Capital

With the approval of the Shareholders' meeting of Kontron AG on June 7, 2011, a resolution was passed to set up a 2011 Approved Capital which replaces the 2010 Approved Capital.
The 2011 Approved Capital entitles the Management Board, with the approval of the Supervisory Board, to issue up to 27,841,512 new bearer shares in one or several tranches against cash contributions or non-cash capital contributions by June 6, 2016 (2011 Approved Capital). In principle the shareholders are entitled to subscribe to the new shares.

The statutory subscription right may also be granted to shareholders in such a way that the new shares are acquired by one or more credit institutions in order to offer them to the shareholders for subscription.
The Management Board is authorized, with the consent of the Supervisory Board, to exclude the legal subscription rights of the shareholders,

» to the extent required in order to compensate fractions and/or to issue new shares in connection with business combinations, the acquisition of companies or interests in companies/parts of companies, or for the purpose of acquiring receivables due from the company or other economic goods;
» insofar as required, in order to grant to the creditors of Kontron AG or one of its group companies bonds (including equity-related participation rights and bonds carrying entitlement to profits) with conversion or option rights or a conversion obligation to new shares to the extent that would accrue to them after exercising their conversion or option rights or fulfilling a conversion obligation;
» if the new shares are issued at a price that is not significantly lower than the share market price and the shares issued, to the exclusion of the subscription right in accordance with Section 186 no. 4 AktG, do not exceed 10 % of the share capital either on the date on which this authorization takes effect or on the date of exercise of this authorization. The sale of treasury shares shall be counted towards this 10 % limit provided that the sale occurs during the term of this authorization, subject to the exclusion of subscription rights pursuant to Section 186 para. 3 no. 4 AktG. Furthermore, such shares shall count towards this limitation that were or must be issued to service bonds (including equity-related participation rights and bonds carrying entitlement to profits) with conversion or option rights or a conversion obligation provided that the bonds or equity-related participation rights were issued during the term of this authorization subject to exclusion of the subscription pursuant to Section 186 para. 3 no. 4 AktG.

The sum total of shares issued against contribution in cash and in kind in accordance with this authorization may not exceed 25 % of the share capital either on the date on which this authorization takes effect or on the date of exercise of this authorization. The sale of treasury shares shall be counted towards this 25 % limitation provided that the sale occurs during the term of this authorization, subject to the exclusion of subscription rights.
Furthermore, such shares shall count towards this limitation that were or must be issued to service bonds (including equity-related participation rights and bonds carrying entitlement to profits) with conversion or option rights or a conversion obligation provided that the bonds or participation rights were issued during the term of this authorization subject to exclusion of subscription rights.

The Management Board is also authorized, upon the approval of the Supervisory Board, to determine the further content of the rights of the shares and the details of the capital increase and its execution.

23. Treasury shares

The Management Board was authorized by the shareholders' meeting on June 9, 2010 to acquire treasury shares up to a 10 % notional share of the issued share capital. The authorization is valid until June 8, 2015.

In the reporting year, the company did not acquire any treasury shares and did not transfer any treasury shares to its employees on the basis of share options.

As of December 31, 2012, Kontron holds 111,976 (previous year: 111,976) treasury shares, which corresponds to a nominal TEUR 112 (previous year: TEUR 112) of the share capital. The notional proportion of the issued share capital is 0.22 % (previous year: 0.22 %).

24. Other equity components

Other equity components changed from TEUR -30,537 to TEUR -30,983 due to currency exchange rate changes.

25. Non-controlling interests

The minority interest in the equity of TEUR 3,321 is mainly attributable to the subsidiary RT Soft ZAO (TEUR 3,270).

In accordance with current IFRS rules, non-controlling interests must be shown within shareholders' equity.

26. Type and purpose of reserves

Additional paid-in capital
Along with equity issue premiums and capital increase costs, additional paid-in capital also includes share-based payments. The share-based payment reserve serves to report the value of share-based payment granted in the form of equity instruments to employees (including managers) as a salary component. Please refer to Note 30 for further information about these plans.

Reserve for available-for-sale financial assets
This reserve is used to report fair value changes to available-for-sale financial assets.

Reserve for currency differences
The reserve for currency differences reports translation differences arising from the conversion of foreign subsidiaries' financial statements. It is also used to report the effects of hedging a net investment in a foreign operation.

27. Contingent liabilities

On January 18, 2012, the production assets and a large proportion of the inventories of Kontron Design Manufacturing Services Sdn. Bhd. were sold to Plexus Corp. in an asset deal. In return for the sale of the production plant by Plexus Corp., Kontron has undertaken to acquire at least USD 100 million per year in merchandise for two years. Due to the supply and delivery relationship in the financial year 2012, Kontron does not expect utilization in 2012 based on these contingent liabilities. Kontron is also required to repurchase inventories sold to Plexus Corp. under specific terms and set periods. In connection with this, the sum of TEUR 2,607 was recorded in the balance sheet under other current liabilities.

Between September and November 2012, Kontron sold inventories worth TEUR 780 to another supplier, for which there is likewise a repurchase obligation provided that the materials sold cannot be consumed by Kontron within 18 months as a result of appropriate product orders.

The Group did not give any guarantees in the reporting year or the previous year.

28. Other financial obligations

Besides liabilities, provisions and contingent liabilities, there are other financial obligations consisting, in particular, of rental and lease contracts for machinery, office and other equipment. Other financial obligations are broken down as follows:

in TEUR	Residual term up to 1 year	Residual term of 1-5 years	Residual term more than 5 years	2012 total
Operating lease obligations	6,732	11,834	4,693	23,259
Other rental obligations	1,843	4,794	147	6,784
Miscellaneous obligations	267	19	0	286
	8,842	**16,647**	**4,840**	**30,329**

in TEUR				2011 total
Operating lease obligations	7,713	14,640	5,321	27,674
Other rental obligations	1,724	5,682	820	8,226
Miscellaneous obligations	35	38	0	73
	9,472	**20,360**	**6,141**	**35,973**

Order commitments for the supply of goods lay within normal business bounds.

29. Notes to the Consolidated Cash Flow Statement

The statement of cash flows shows the sources and use of cash flows in 2011 and 2012 financial years. In accordance with IAS 7 *Statement of Cash Flows,* a distinction is made between cash flows from operating activities and those from investing and financing activities.

The cash and cash equivalents contained in the statement of cash flows comprise all liquid funds shown in the balance sheet, in other words, cash in hand, checks and bank balances if they are available within three months from the time of deposit.

The cash flows from investing and financing activities are determined in relation to payments and the cash flow from operating activities is derived indirectly, based on the net income for the year. As part of this indirect process of calculating cash flows, the changes taken into account in balance sheet items in connection with current operations are adjusted to eliminate effects resulting from currency conversion and changes to the scope of consolidation. The changes in the balance sheet items concerned cannot therefore be matched against the corresponding figures contained in the published consolidated balance sheet.

Besides additions to tangible and financial fixed assets, investing activities comprise additions to capitalized development costs.

Other notes

30. Share-based payments
30.1 Share option plans

Program 2003

Type of agreement	Share-based compensation for Management Board members, senior staff, and employees			
	(Program 4C)	(Program 4D)	(Program 4E)	(Program 4F)
Grant date	08,22,2005	04,06,2006	11,30,2006	04,30,2007
Options outstanding 1,1,2012	40,000	48,500	166,000	155,000
Options granted 2012	0	0	0	0
Options forfeited 2012	0	20,000	66,000	24,000
Options exercised 2012	0	0	0	0
Options expired 2012	0	0	0	0
Options outstanding 12,31,2012	40,000	28,500	100,000	131,000
Options exercisable as of 12,31,2012	40,000	28,500	100,000	131,000

Program 2007

Type of agreement	Share-based compensation for Management Board members, senior staff, and employees			
	(Program 5A)	(Program 5B)	(Program 5C)	(Program 5D)
Grant date	11,12,2007	08,12,2008	11,12,2008	08,11,2009
Options outstanding 1,1,2012	650,500	382,003	15,000	188,089
Options granted 2012	0	0	0	0
Options forfeited 2012	150,000	74,498	9,000	59,000
Options exercised 2012	0	0	0	0
Options expired 2012	0	0	0	0
Options outstanding 12,31,2012	500,500	307,505	6,000	129,089
Options exercisable as of 12,31,2012	500,500	307,505	6,000	64,545

The maximum term when the options were issued was 5 years. By resolution of the shareholders' meeting of June 9, 2010, the maximum duration of programs 4C to 4F and 5A to 5C was extended until the end of 2013 (please refer to the notes below).

Based on the underlying option terms (2003 and 2007 share option plan), the following exercise conditions apply:

(1) 50 % of the share options may not be exercised until the expiry of a two-year-and-one-week lock-in period following the issue date, and the remaining 50 % of the options may not be exercised until the expiry of a four-year lock-in period.
(2) The "exercise periods" in each case comprise ten stock exchange trading days on the Frankfurt Stock Exchange and commence in each case at the start of the fifth stock exchange trading day

for the 2003 program (programs 4C to 4F)
a) following the day of the company's ordinary shareholders' meeting and
b) after publication of the quarterly report for the third quarter of the company's financial year.

and for the 2007 program (programs 5A to 5D)
a) after the date of the annual results press conference
b) after publication of the quarterly report for the first, second and third quarter of the company's financial year.

(3) It is also not permitted to exercise the share options within an exercise period during the following "exercise blocking periods":
   a) from the date on which Kontron AG publishes an offer to its shareholders for the subscription of new shares or convertible bonds or other securities with conversion or option rights in the (electronic) Official Gazette of the German Federal Republic, until the date on which the subscription-entitled company shares are quoted ex-rights for the first time on the Frankfurt Stock Exchange.
   b) from the date on which Kontron AG publishes the distribution of a special dividend in the (electronic) Official Gazette of the German Federal Republic, until the date on which the special-dividend-entitled company shares are quoted for the first time ex-rights on the Frankfurt Stock Exchange.

   The exercise period determined in each case by the exclusion of exercise is extended by the corresponding number of stock exchange trading days directly following the end of the exercise blocking period. Subscription declarations reaching the company (subscription department) within an exercise period, but during the exercise blocking period, are deemed to have been delivered on the first date following the expiry of the exercise blocking period.

As a rule, the options are settled in equity instruments.

The average price of the Kontron AG share in the 2012 reporting period was EUR 4.72 (previous year: EUR 7.05).

The fair values of the share options were calculated using a modified Black-Scholes model. The following model parameters as well as the following imputed staff turnover were used for the calculations:

Program 2003

	Program 4C (2-year vesting period)	Program 4C (4-year vesting period)	Program 4D (2-year vesting period)	Program 4D (4-year vesting period)	Program 4E (2-year vesting period)	Program 4E (4-year vesting period)
Share price on valuation date	6.10 EUR	6.10 EUR	9.36 EUR	9.36 EUR	10.88 EUR	10.88 EUR
Maximum duration to issue cut-off date	5 Years	5 Years	5 Years	5 Years	5 Years	5 Years
Imputed duration of options	5 Years	5 Years	3.26 Years	4.27 Years	2.61 Years	4.62 Years
Exercise price at expected exercise date	7.15 EUR	7.15 EUR	10.51 EUR	10.51 EUR	12.52 EUR	12.52 EUR
Expected dividend yield	0%	0%	1%	1.39%	1.38%	1.38%
Risk-free interest-rate for duration	3.00%	3.00%	3.51%	3.60%	3.66%	3.66%
Imputed volatility for the duration	29%	29%	24%	24%	27%	27%
Imputed fluctuation for option holders for the duration	–	–	–	–	–	–
Option value	1.53 EUR	1.53 EUR	1.34 EUR	1.62 EUR	1.50 EUR	2.23 EUR

	Program 2003		Program 2007			
	Program 4F (2-year vesting period)	Program 4F (4-year vesting period)	Program 5A (2-year vesting period)	Program 5A (4-year vesting period)	Program 5B (2-year vesting period)	Program 5B (4-year vesting period)
Share price on valuation date	13.69 EUR	13.69 EUR	15.27 EUR	15.27 EUR	8.96 EUR	8.96 EUR
Maximum duration to issue cut-off date	5 Years	5 Years	5 Years	5 Years	5 Years	5 Years
Imputed duration of options	2.19 Years	4.21 Years	2 Years	4.01 Years	2.25 Years	4.25 Years
Exercise price at expected exercise date	16.34 EUR	16.34 EUR	19.35 EUR	19.35 EUR	10.18 EUR	10.18 EUR
Expected dividend yield	1.10%	1.10%	1.31%	1.31%	2.23%	2.23%
Risk-free interest-rate for duration	4.17%	4.17%	3.91%	3.90%	4.13%	4.04%
Imputed volatility for the duration	28%	28%	30%	30%	36%	36%
Imputed fluctuation for option holders for the duration	–	–	–	–	–	27%
Option value	1.62 EUR	2.70 EUR	1.51 EUR	2.74 EUR	1.55 EUR	2.22 EUR

Program 2007				
	Program 5C (2-year vesting period)	Program 5C (4-year vesting period)	Program 5D (2-year vesting period)	Program 5D (4-year vesting period)
Share price on valuation date	6.61 EUR	6.61 EUR	7.90 EUR	7.90 EUR
Maximum duration to issue cut-off date	5 Years	5 Years	5 Years	5 Years
Imputed duration of options	2.40 Years	4.40 Years	2.24 Years	4.25 Years
Exercise price at expected exercise date	7.57 EUR	7.57 EUR	9.10 EUR	9.10 EUR
Expected dividend yield	3.03%	3.03%	2.53%	2.53%
Risk-free interest-rate for duration	2.47%	2.90%	2.13%	2.73%
Imputed volatility for the duration	38%	38%	48%	40%
Imputed fluctuation for option holders for the duration	–	83%	–	47%
Option value	1.09 EUR	1.52 EUR	1.72 EUR	1.97 EUR

By resolution of the Shareholders' meeting of June 9, 2010, the duration of the share options still outstanding as of the date of the Shareholders' meeting of the 2003 and 2007 programs was extended until December 31, 2013, so that these could be exercised until the end of 2013, and adhering to the further preconditions of the share option plans. The 4C-4F and 5A-5B programs entailing a total of 1,583,135 options were affected by this amendment.

The modification to the durations gave rise to the following additional fair values:

	Additional fair values per option in EUR
Program 4C	0.48
Program 4D	0.37
Program 4E	0.35
Program 4F	0.21
Program 5A	0.23
Program 5B	0.00

The additional fair values granted are derived from the difference between the fair value of the modified share option plan and that of the original share option plan, which were both calculated on the date of the modification (June 9, 2010) utilizing a modified Black-Scholes model. There was no additional fair value for the program 5B since it was assumed that the exercise behavior of the individuals entitled to exercise options would not change due to the only insignificant extension of the duration.

The following model parameters as well as the following imputed staff turnover were used for the calculations:

	Program 4C (original program)	Program 4C (amended term)	Program 4D (original program)	Program 4D (amended term)	Program 4E (original program)	Program 4E (amended term)
Share price on valuation date	7.33 EUR	7.33 EUR	7.33 EUR	7.33 EUR	7.33 EUR	7.33 EUR
Imputed duration of options	0.02 Years	1.02 Years	0.42 Years	1.42 Years	1.42 Years	2.42 Years
Exercise price at expected exercise date	7.15 EUR	7.15 EUR	10.51 EUR	10.51 EUR	12.52 EUR	12.52 EUR
Expected dividend yield	2.73%	2.73%	2.73%	2.73%	2.73%	2.73%
Risk-free interest-rate for the duration	0.01%	0.20%	0.17%	0.30%	0.30%	0.57%
Imputed volatility for the duration	42%	27%	29%	37%	37%	41%
Imputed fluctuation for option holders for the duration	–	–	–	–	–	–

	Program 4F (original program)	Program 4F (amended term)	Program 5A (original program)	Program 5A (amended term)	Program 5B (original program)	Program 5B (amended term)
Share price on valuation date	7.33 EUR	7.33 EUR	7.33 EUR	7.33 EUR	7.33 EUR	7.33 EUR
Imputed duration of options	1.42 Years	2.42 Years	2.42 Years	3.42 Years	2.42 Years	2.42 Years
Exercise price at expected exercise date	16.34 EUR	16.34 EUR	19.35 EUR	19.35 EUR	10.18 EUR	10.18 EUR
Expected dividend yield	2.73%	2.73%	2.73%	2.73%	2.73%	2.73%
Risk-free interest-rate for the duration	0.30%	0.57%	0.57%	0.91%	0.57%	0.57%
Imputed volatility for the duration	37%	41%	41%	43%	41%	41%
Imputed fluctuation for option holders for the duration	–	–	–	–	–	–

The expected duration of the share options is based on historical data and current expectations concerning early exercise on the part of the individuals entitled to exercise the options. This will not necessarily correspond to the actual exercise behavior on the part of the individuals entitled to exercise options.

Estimates of the anticipated future volatilities are based on annualized historic volatilities. This is based on the assumption that conclusions can be made about future trends based on historic volatility over a timeframe similar to the expected duration of the options, whereby the actual volatility may diverge from the assumptions that have been made.

As of the balance sheet date, the share options had the following maximum contractual residual durations (in years), after the modification to the duration:

	Date of issue	12,31,2012	12,31,2011
Program 4C	8,22,2005	1.00	2.00
Program 4D	4,06,2006	1.00	2.00
Program 4E	11,30,2006	1.00	2.00
Program 4F	4,30,2007	1.00	2.00
Program 5A	11,12,2007	1.00	2.00
Program 5B	8,12,2008	1.00	2.00
Program 5C	11,12,2008	1.00	2.00
Program 5D	8,11,2009	1.58	2.58

The following expense arose for Kontron AG as of the balance sheet date from equity-based payment transactions settled using equity instruments:

in TEUR	2012	2011
Total expense	7,547	7,495
Expense for the period	52	454

No share options were exercised in the financial year 2012.

30.2 Performance Share Unit Plans

Within the framework of the 2011 and 2012 Performance Share Unit Plan (PSU Plan 2011 and 2012), performance share units (PSUs) were issued to Management Board members and employees of Kontron AG and its subsidiaries in January 2011 and 2012 respectively. These PSUs grant the holder the right to a cash payment in the amount of the average share price over a period of 30 calendar days before the payment date. The PSUs granted do not confer a right to shares of Kontron AG. The PSU Plan allows selected employees and Management Board members to be granted further subscription rights up to and including 2014.

The exercise of the PSUs granted is subject to the fulfillment of specific conditions:

» 20 % of the PSUs granted are earned over a period of four years from the PSUs' issue dates based on the fact that the beneficiaries work for the company over this period;

» 80 % of the PSUs granted are subject to performance requirements which comprise the following: PSU Plan 2011: The performance requirement is that for the financial year in which the PSUs are granted, revenue growth of at least 13 % and an EBIT margin (adjusted for extraordinary effects) of at least 8.8 % must be achieved in order to earn a claim to 80 % of the PSUs granted. If these performance targets are not achieved, only a correspondingly smaller portion of the PSUs is earned. If sales growth is less than 9 % and the EBIT margin less than 6 %, the claim to 80 % of the PSUs granted is forfeited in full.

  PSU Plan 2012: The performance requirement is that for the financial year in which the PSUs were granted, revenue of at least EUR 600 million, an EBIT margin (adjusted for extraordinary effects) of at least 8 % and a working capital ratio of no more than 24 % must be achieved in order to earn a claim to 80 % of the PSUs granted. If these performance targets are not achieved, only a correspondingly smaller portion of the PSUs is earned. If the revenue is lower than EUR 560 million, the EBIT margin is lower than 7 % and the working capital ratio exceeds 27 %, the claim to 80 % of the PSUs granted shall lapse in its entirety.

  PSUs for which a performance condition was issued are also subject to a waiting period of 3 years.

After the vesting period beneficiaries will receive a cash payment on the PSUs earned in an amount of the average price of the Kontron AG share over a period of 30 calendar days before the respective payment date. The amount paid may not exceed two times the grant value per PSU based on the average share price over a period of 30 calendar days prior to the respective issue date of the PSUs.

In the financial year 2012, within the framework of PSU Plan 2012, a total of 226,050 (2011: 123,350 from PSU Plan 2011) PSUs were granted to the beneficiaries, which on the issue date corresponded to an allocation volume of TEUR 1,165 (2011: TEUR 950 from PSU Plan 2011).

	Performance Share Unit-Plan	
	2011	**2012**
Grant date	**1,03,2011**	**1,03,2012**
PSUs outstanding taking into account performance target attainment January 1, 2012	**104,848**	**0**
PSUs granted for respective plan in FY 2012	**0**	**226,050**
PSUs forfeited for respective plan in FY 2012	**22,143**	**40,450**
PSUs outstanding 31 December, 2012	**82,705**	**185,600**
PSUs outstanding taking into account performance target attainment December 31, 2012	**82,705**	**74,240**

The performance share units granted were classified as a cash-settled share-based remuneration. The fair value of the liabilities to be booked under the PSU Plan was ascertained using the binomial model.

The valuation as of Monday, December 31, 2012 was based on the following parameters:

	Performance Share Unit-Plan	
	2011	2012
Share price on valuation date	4.11 EUR	4.11 EUR
Residual term of PSUs	2 Years	3 Years
Expected dividend yield	4.56%	4.56%
Risk-free rate for term	-0.04%	0.05%
Expected volatility for term	35%	37%
Expected staff turnover of beneficiaries for term	5%	11%
Fair value per PSU	3.76 EUR	3.51 EUR

Estimated future volatilities are based on annualized historic volatilities. This is based on the assumption that conclusions can be made about future trends based on historic volatility over a timeframe similar to the expected duration of the options, whereby the actual volatility may diverge from the assumptions that have been made.

The amounts for the PSU Plans recorded in the consolidated financial statements for the financial year 2012 are as follows:

in TEUR	2012	2011
Total expense	388	106
Expense for the period	282	106

The expense was allocated to the appropriate functional divisions.

31. Earnings per share

In accordance with IAS 33 *Earnings per Share*, undiluted earnings per share are calculated by dividing the net profit for the period attributable to the shareholders of Kontron AG by the weighted average number of shares outstanding during the financial year.

To calculate diluted earnings per share, the net profit for the period is adjusted to reflect all changes in expenses and income that would have resulted from the conversion of the outstanding share options. The number of shares is adjusted to reflect all changes in the number of outstanding shares that would have resulted from a conversion of the share options into ordinary shares.
The outstanding share options in 2012 financial year did not have a diluting effect as their intrinsic value during the reporting period was negative.

	2012	2011
Earnings (in TEUR)		
Undiluted earnings	-32,769	21,891
Effect of potentially dilutive ordinary shares:		
Share-based payments (after tax effects)	0	0
Diluted earnings	**-32,769**	**21,891**
Weighted average number of shares outstanding (in thousands)		
Undiluted	55,571	55,571
Effect of potentially dilutive ordinary shares (share options)	0	0
Diluted	**55,571**	**55,571**

32. Hedging policy and risk management
32.1 Financial instruments

The following table shows the carrying amounts and fair values of all financial instruments reported in the consolidated financial statements:

	Category	Carrying Amount		Fair value	
in TEUR	IAS 39**	2012	2011	2012	2011
Financial assets:					
Cash and cash equivalents	LaR	27,534	38,165	27,534	38,165
Accounts receivable	LaR	109,954	123,625	109,954	123,625
Other financial assets	LaR	7,610	5,758	7,610	5,758
Total loans and receivables		**145,098**	**167,548**	**145,098**	**167,548**
Financial assets available for sale	AfS	146	146	146	146
Financial derivative instruments	HfT	218	0	218	0
Held-to-maturity financial assets	HtM	46	39	46	39
Total financial assets		**145,508**	**167,733**	**145,508**	**167,733**
Financial liabilities:					
Interest-bearing loans	FLAC	14,321	37,000	14,321	35,754
Trade accounts payable	FLAC	73,418	70,881	73,418	70,881
Financial derivative instruments	HfT	206	0	206	0
Other financial liabilities	FLAC	15,042	21,151	15,042	21,151
Total financial liabilities		**102,987**	**129,032**	**102,987**	**127,786**

** LaR: loans and receivables
AfS: financial assets available for sale
HtM: financial assets held to maturity
HfT: financial assets held for trading
FLAC: financial liabilities at amortized cost

The fair value hierarchy levels introduced by IFRS 7 are described below:

Level 1: Quoted market prices for identical assets or liabilities on active markets;
Level 2: Information other than quoted market prices that is observable either directly (e.g. prices) or indirectly (e.g. derived from prices) and
Level 3: Information for assets and liabilities that is not based on observable market data.

Net earnings from financial instruments

	from interest	from subsequent measurement			Net result	
in TEUR		Currency translation	Mark-to-market	Impair-ment	2012	2011
Loans and receivables	112	-619	0	-697	-1,204	449
Held-to-maturity financial assets	0	0	0	3	3	3
Financial derivative instruments	0	0	191	0	191	-20
Financial liabilities	-1,953	1,237	0	0	-716	-2,147
	-1,841	**618**	**191**	**-694**	**-1,726**	**-1,715**

The interest and interest effects from the valuation of derivative financial instruments are shown in the financial result. The other components of net earnings and the earnings from the valuation of forward exchange transactions contracts are recorded in the operating result.

32.2 Hedging policy and risk management

With the exception of derivative financial instruments, the main sources of financial liabilities used by the Group include bank loans and overdrafts, finance leases, financial guarantees, trade accounts payable and hire purchase agreements. The main purpose of these borrowings is to finance the Group's operations. The Group holds various financial assets such as trade accounts receivable, cash or cash equivalents and short-term deposits that arise directly from operations.

The Group also holds derivative financial instruments whose purpose is to hedge against currency risks arising from the Group's operations and its sources of financing.

No speculative derivative trading was conducted in 2012 and 2011, nor will the Group engage in derivatives trading in the future.

The Group's main risks comprise market risks (consisting of foreign exchange, interest-rate and price risks), liquidity risks and default risks.
The company's management takes decisions on strategies and processes to manage individual types of risk, which are presented below.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument are exposed to price fluctuations due to changes in exchange rates.
The company's foreign exchange risk derives primarily from its business operations (revenue and/or expenses of an operating unit in a currency other than this unit's functional currency) and from a change in the fair value of foreign currency items through potential changes in respective currency exchange rates.

Due to its international orientation, the Kontron Group is exposed to risk arising from changes to foreign currency exchange rate (transaction risk) for various foreign currencies. The currency hedging strategy therefore targets a general hedging of foreign currency amounts at the time of occurrence of a claim expressed in foreign currency or portfolio an obligation by offsetting opposing payment flows in foreign currency. As a global undertaking, Kontron realizes revenues and materials purchases in US dollars or in currencies that are tied to the US dollar. Furthermore the Group incurs operating costs in USD. As a consequence, the resultant currency effects are mainly offset over time. Any remaining fractional amounts from receivables or liabilities entered are hedged using short-term forward contracts. Currency risks arising for Kontron AG as a result of granting Group financing to subsidiaries in their local currencies and/or liabilities to subsidiaries arising from the Group's cash management are hedged using forward exchange transactions.
In the process, receivables and liabilities in the same currency are first offset against each other and then the remaining fractional amounts are hedged.
Future payment flows in foreign currencies for foreign subsidiaries which are highly likely to occur are hedged individually using appropriate forward contracts. Currency hedging transactions are effected solely by the central treasury department with banks of good credit standing and, if required, forwarded to the subsidiaries by means of internal Group foreign exchange transactions.
For liquidity management purposes and in order to optimize the financial result, moreover, the Group carries out foreign exchange swap transactions in which the central treasury either buys a foreign currency against the euro at the spot price and then buys it back at the agreed price as of a later due date, or vice versa.
The forward exchange transactions conducted in the financial year 2012 are not classified as hedging relationships to hedge cash flows, the fair value or a net investment and are shown at fair value through profit and loss. The period for which the forward exchange transaction is made is equal to the period during which the foreign currency transaction risk exists, which is normally between one and twelve months.

The magnitude of the forward exchange contracts varies in accordance with the magnitude of the anticipated sales and purchases in foreign currencies, the amounts of the fractional amounts entered from receivables and liabilities in foreign currencies, and fluctuations in the exchange rates.

The fair value of the forward exchange transactions which existed as of the reporting date with a total nominal volume of TEUR 28,683 was TEUR -62. The amount of outstanding foreign exchange transactions with a positive market value was TEUR 10. As the Kontron Group effects forward exchange transactions solely with banks of good credit standing and the foreign exchange transactions are effected with different banks for risk diversification purposes, the risk of default from these activities can be classified as extremely low.

The significant transaction risks within the Group result from the change of USD/EUR exchange rate.

The following table shows the sensitivity of Group pre-tax earnings (on the basis of the change of the fair values of monetary assets and liabilities) and the Group's equity, to a potential change of ± 10 % in the US dollar exchange rate to the euro. All other variables remained constant. The Group's transaction risk with respect to exchange rate changes is not significant in the case of all other currencies.

	Change in USD exchange rate	Effects on earnings before tax and equity in TEUR
2012	+10 %	-778
	-10 %	891
2011	+10 %	-1,962
	-10 %	2.662

The divergence from the previous year results primarily from the decrease in USD receivables and liabilities at Kontron Asia Pacific Design Sdn. Bhd. due to the sale of the production activities there.

The following table shows the sensitivity of the result from the market valuation of the forward exchange transactions which existed as of December 31, 2012. The evaluation result is shown with a notional 5 % and 10 % fluctuation of the euro against the foreign currency. As the scope of the forward exchange transactions which existed as of December 31, 2011 can be classified as insignificant, no sensitivity analysis is being presented for the previous year.

A sensitivity analysis with shifts of 50 and 100 base points respectively in the interest curves was also carried out. Due to the insignificance of the effect on the valuation result, it was decided to dispense with a presentation.

Change in EUR	Effects on earnings before tax and equity in TEUR
+5 %	826
+10 %	1,577
-5 %	-913
-10 %	-1,927

Interest rate risks

With the exception of a financial liability amounting to TEUR 69 at a foreign subsidiary, all the financial liabilities existing as of the balance sheet date have variable rates of interest. If the financing costs as of the balance sheet date were increased by 0.5 % per year and a constant financing level for the whole of 2012 were assumed, the Group's financial result would be TEUR 72 lower. The risk represented by possible interest rate increases can therefore be classified as low for the Group. The risk of interest movement is analyzed regularly by the central treasury.

Liquidity risk

In order to safeguard the Kontron Group's solvency and its financial flexibility, a liquidity outlook is calculated based on a firm planning horizon. Thanks to its setting up of a revolving credit facility totaling EUR 170 million with a term of five years, the Group has sufficient long-term room for maneuver in terms of liquidity. If necessary, cash and cash equivalents are provided for subsidiaries through their inclusion in the Group's central cash management system. In the process, the central treasury issues internal Group credit lines to subsidiaries. A foreign subsidiary is financed by a local credit line which is collateralized by a guarantee from the parent company. Within the Group there are also smaller, bilateral credit lines which are utilized individually on grounds of margin advantages after consultation with treasury. Further details can be found under Note 17 "Financial liabilities".

The Group's financial liabilities have the following maturities as of Monday, December 31, 2012. This information is based on contractual, undiscounted payments.

12,31,2012	in TEUR	Due at call	up to 3 months	3-12 months	1-5 years	more than 5 years	Total
Interest-bearing loans		0	518	0	13,803	0	14,321
Trade payables		25,308	46,801	487	822	0	73,418
Other financial liabilities		2,249	6,644	5,000	1,152	203	15,248
Interest		0	61	184	790	0	1,035
Total		**27,557**	**54,024**	**5,671**	**16,567**	**203**	**104,022**

12,31,2011	in TEUR	Due at call	up to 3 months	3-12 months	1-5 years	more than 5 years	Total
Interest-bearing loans		60	12,941	10,755	13,244	0	37,000
Trade payables		8,088	61,893	300	600	0	70,881
Other financial liabilities		1,563	11,122	6,869	1,316	283	21,153
Interest		0	324	462	311	0	1,097
Total		**9,711**	**86,280**	**18,386**	**15,471**	**283**	**130,131**

Default risk

Default or credit risk is the risk that a business partner fails to fulfill its obligations as part of a financial instrument or customer framework agreement, thereby resulting in financial loss. As part of its operating activities, the Group is exposed to credit risks, which result, in particular, from default on receivables and services.

Respective business units manage customer receivables default risk on the basis of Group default risk management guidelines, procedures and controlling mechanisms. Individual credit facilities are determined accordingly. Outstanding customer receivables are monitored on a regular basis. Depending on the type and level of the respective business volume, credit information is obtained, or historical data from the business relationship to date are utilized, particularly concerning payment behavior, to avoid payment default. This minimizes default risk.

Kontron has a diversified client structure numbering several thousand customers. The ten largest customers account for around 33 % of total sales, with the largest customer generating less than 6 % of total sales. In this context, close customer relationships have generally existed for many years. Further risk minimization results from the fact that customers are based in different countries, belong to different sectors and operate on largely independent markets. As a result of the financial crisis, default risk for debts in the Eurozone, have in some cases risen. Therefore in October 2011 Kontron introduced a new global credit limit guideline. When this was introduced, the existing credit limits were examined and the provisions for default risk adjusted where necessary.
Valuation adjustment requirements are analyzed for significant customers on an individual basis on each reporting date, and lump-sum valuation adjustments based on receivables term structure are formed for all other customer receivables.
The level of financial assets in the balance sheet reflects maximum default risk, regardless of any existing collateral, in the event that business partners fail to honor their contractual payment obligations. The related information can be found in Notes 9 and 10.

Capital management

The primary objective of the Group's capital management system is to ensure that Kontron maintains a high credit rating and equity ratio in order to support its business operations. In principle, the higher the equity capital ratio, the better a company’s rating and financial stability and the lower the company’s dependency on external lenders.

in TEUR	2012	2011
Equity	286,790	333,565
Total capital	460,356	523,479
Equity ratio	**62.3%**	**63.7%**

The Group manages and adjusts its capital structure while taking into account changes in the economic environment. The Group can adjust its dividend payments to shareholders or issue new shares in order to maintain or adjust its capital structure.
As presented in Note 17, there are minimum capital requirements within the framework of the credit facility that was set up in 2012.
The Group's objectives, guidelines and procedures were not amended as of December 31, 2012 or December 31, 2011.

33. Segment information

Kontron Group's business activities are split into regions for the purposes of performance measurement and management, which gives rise to the following three operating segments in accordance with IFRS 8 *Operating segments*. Distinctions are made between the markets EMEA, North America (including Canada) and the emerging markets (primarily Russia, China and Malaysia), which are displaying highly divergent developments as regards their economic dynamism. The Group uses these segments for the purposes of reporting, decisions relating to resource allocation and planning.

No operating segments have been aggregated in order to present the above-mentioned segments.

Kontron AG's Management Board monitors the operating segments' activities using various key indicators that are identical to published IFRS data in terms of accounting policies.

Kontron AG (Holding) and the companies Kontron ECT design s.r.o., RT Soft Project and Affair OOO are aggregated under "Other segments" since they are not operationally active or do not generate any revenues or are not included in the key indicators communicated to the company's main decision-makers due to the minor scale of their activities.

Internal prices between business segments are calculated using normal market terms applicable to third parties.

Segment information 2012 in TEUR	EMEA	North America	Emerging Markets	Other segments	Consoli-dation	Consolidated financial statement
Revenue						
External customers	225,217	217,492	104,211	35	0	546,955
With other segments	44,878	22,787	13,942	10	-81,617	0
Total revenue	**270,095**	**240,279**	**118,153**	**45**	**-81,617**	**546,955**
Profit/loss						
Depreciation/amortization	12,072	6,590	1,427	591	0	20,680
Impairment charges	1,351	1,305	0	1,205	19,282	23,143
EBIT	-4,628	42	2,665	-11,150	-19,391	-32,462
Financial result	-2,753	-5,195	-1,974	-53,677	61,541	-2,058
Income tax	-1,107	89	-265	1,817	387	921
Net income	**-8,488**	**-5,064**	**426**	**-63,010**	**42,537**	**-33,599**
Working capital	62,486	43,056	22,755	-2,200	-2,079	124,018
Liabilities						**14,321**

Segment information 2011 in TEUR	EMEA	North America	Emerging Markets	Other segments	Consoli-dation	Consolidated financial statement
Revenue						
External customers	258,069	223,222	108,247	32	0	589,570
With other segments	43,694	20,256	86,687	7	-150,644	0
Total revenue	**301,763**	**243,478**	**194,934**	**39**	**-150,644**	**589,570**
Profit/loss						
Depreciation/amortization	11,386	6,892	2,678	182	0	21,138
Impairment charges	46	368	0	0	0	414
EBIT	24,975	11,453	3,300	-7,097	1,462	34,093
Financial result	-17,380	-9,150	-3,284	23,140	5,160	-1,514
Income tax	-3,634	-2,989	-624	-2,404	-17	-9,668
Net income	**3,961**	**-686**	**-608**	**13,639**	**6,605**	**22,911**
Working capital	76,949	59,744	20,308	-2,110	-1,736	153,155
Liabilities						**37,000**

Notes on segment information:

Revenue arising from transactions with other segments is eliminated for the purposes of consolidation.

Until December 31, 2011 segmental earnings are adjusted to reflect costs centrally incurred at Kontron AG, which are then allocated to the individual companies. This adjustment was no longer carried out in the reporting year. For this reason, the comparable figures from 2011 were adjusted accordingly.

The segment working capital is calculated on the basis of segment inventories (excluding payments made in advance and receivables from construction contracts) plus segment trade receivables, less segment trade payables (excluding payments received in advance).

Segment liabilities contain short-term and long-term bank borrowings. No segmented presentation has been prepared since 2012 because the bank borrowings have been managed centrally by the treasury department since 2012.

As the segment assets and the investments were no longer reported to the management in the reporting year, these disclosures, too, have not been published.

Under "*consolidation*", internal Group items are eliminated and income and expenses which are not directly attributable to the segments reported.

Segment information on products and services:

The products sold by Kontron can be summarized as follows: embedded computer modules (EMD), embedded computer systems (ESD) and embedded computer solutions (SOD). The three products differ as to their added value within an embedded computer application. Embedded computer modules are very generic and are used as identical components in nearly all embedded computer applications. Systems are complete units based on modules and contain customer-specific adaptations. Embedded computer solutions contain a high proportion of software and are adapted to a high degree to customer applications.

Segment information by products	in TEUR	2012	2011
External customer revenues			
Modules (EMD)		126,322	141,004
Systems (ESD)		189,155	219,043
Solutions (SOD)		231,478	229,523
Total		**546,955**	**589,570**

Geographical segment information

in TEUR		2012
	Germany	all other countries
External customer revenues	86,137	460,818
of which: USA		174,500
of which: Russia		77,168
Non-current assets	50,107	61,751
of which: USA		36,577
of which: Canada		9,425

in TEUR		2011
	Germany	all other countries
External customer revenues	105,496	484,074
of which: USA		195,585
of which: Russia		67,802
Non-current assets	44,199	64,524
of which: USA		35,745
of which: Canada		10,476

The revenues are segmented according to the location of the customer. Non-current assets do not contain any financial instruments or deferred tax claims.

34. Related party disclosures in accordance with IAS 24

Companies and persons are deemed related parties in the sense of IAS 24 that can be influenced by the reporting company, or can exert influence on the reporting company.

Rentals, sales to and purchases from related companies and individuals occur on standard market terms. Opening balances as of the year-end are unsecured, non-interest-bearing, and are generally settled by transfers. No guarantees exist with respect to receivables or liabilities relating to related companies and individuals. No receivables from related companies and individuals were subject to value adjustments in 2012 (previous year: TEUR 0).

Related parties

in TEUR	2012	2011
Managing Directors		
Rental expenses (Eurointel, RTS-Center, Business Center RTSoft)	1,373	965
Goods and services received (SKB-RT Soft & SPA)	3,825	4,396
Goods and services rendered (SKB-RT Soft, Business Center RTSoft, RTS-Center & Eurointel)	52	32
Derecognition of receivables from Managing Directors	0	170
Interest on shareholder loans	3	12
Supervisory Board		
Consultancy costs	62	31

The rental expenses result primarily from rental agreements with the companies LLC Eurointel, Moscow, Business Center RTSoft, Moscow and LLC RTS-Center, Moscow, where the managing director and shareholder of one Kontron AG subsidiary is the sole shareholder. All three companies rent buildings to this subsidiary. As of December 31, 2012, no receivables (previous year: TEUR 0) and no liabilities (previous year: TEUR 0) were outstanding. No advance payments were made to LLC Eurointel or LLC RTS-Center in the reporting period (previous year: TEUR 264). Another managing director of a subsidiary rents office space for TEUR 2 (previous year: TEUR 5) to this subsidiary.

LLC SKB-RT Soft Ltd., Moscow, and Closed Joint-Stock Company SPA, Moscow (CJSC SPA), are companies in which the managing director of a subsidiary of Kontron AG holds a significant stake. SKB RT Soft Ltd. is a production company and CJSC SPA provides marketing services. As of December 31, 2012, receivables from SKB-RT Soft amounting to TEUR 230 (previous year: TEUR 273) were still outstanding, while no liabilities were outstanding on the respective reporting dates in 2012 and 2011. Advance payments amounting to TEUR 2,093 were made to SKB-RT Soft in the reporting year (previous year: TEUR 3,441), of which TEUR 535 (previous year: TEUR 686) had not yet been entered in the accounts as of December 31, 2012. Advance payments of TEUR 29 were received from SKB-RT Soft in 2012 (previous year: TEUR 24). As of the balance sheet date, the balance was TEUR 1 (previous year: TEUR 3). As of December 31, 2012, no receivables (previous year: TEUR 0) and liabilities totaling TEUR 34 (previous year: TEUR 0) to CJSC SPA were outstanding. Advance payments amounting to TEUR 88 were made to CJSC SPA in the reporting year (previous year: TEUR 7), of which TEUR 36 (previous year: TEUR 6) was still outstanding on the balance sheet date.

A shareholder loan was made to that company by a person in a senior position at a subsidiary. Liabilities of TEUR 128 were outstanding on this loan as of December 31, 2012 (previous year: TEUR 125).

The outstanding purchase price claim amounting to TEUR 721 from the sale of Business Center RT Soft in 2011 was settled in full in 2012.

Effective as of July 31, 2012, Kontron America Inc. sold all of its shares in AP Parpro Inc. to the management of AP Parpro Inc. in a management buyout. AP Parpro Inc. was acquired as a part of the AP Labs Group in May 2010 and, with its products, serves a niche market for low-standard components that do not fit into the Kontron Group's strategic orientation towards higher-margin systems and customer-specific solutions. The sale price for the shares was TEUR 6,190. The gain on this disposal amounts to TEUR 72 (including transaction costs totaling TEUR 46) and is shown under other operating earnings.

As of December 31, 2012, Kontron Modular Computers AG sold all of its shares (70 %) in Merz s.r.o. to the minority shareholders in Merz s.r.o. as part of a share deal. The business activity of Merz s.r.o. is focused mainly on the development of application software, an activity which will not be part of the Kontron Group's future strategic focus. The sale price for the shares was TEUR 400. The sale resulted in a loss of TEUR 469 (including transaction costs totaling TEUR 7) which is reported under other operating expenses. The purchase price of TEUR 400 that was still outstanding as of December 31, 2012, was settled in January 2013.

Details of Management Board and Supervisory Board remuneration are described in more detail in Note 36.

35. Auditors' fees reported as expenditure

The fees for the auditor of the Group financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, totaled TEUR 773 and are accounted for by auditing services in the amount of TEUR 403, other validation services in the amount of TEUR 70, tax advisory services in the amount of TEUR 67 and other services amounting to TEUR 233.

36. Information about the Management and Supervisory Boards

The total remuneration of the members of the Management and Supervisory boards comprises fixed and variable components. The variable salary components are based on achieved profit and the company's financial position.

The remuneration is allocated as follows:

in TEUR	Remuneration 2012			Remuneration 2011	
	fixed*	variable	Severance payments	fixed*	variable
Rolf Schwirz (since December 1, 2012)	51	0	0	–	–
Ulrich Gehrmann (stepped down December 31, 2012)	392	280	1,850	391	165
Thomas Sparrvik	268	82	0	259	138
Dr. Jürgen Kaiser-Gerwens	271	84	0	233	60
Dirk Finstel (until October 24, 2012)	227	0	925	217	105
Andreas Plikat (since September 1, 2012)	80	23	0	–	–
Christopher Burke (since September 1, 2012, until August 31, 2012 on the Supervisory Board)	114	0	0	–	–
Supervisory Board	**265**	**0**	**0**	**193**	**0**

* Incl. monetary benefit of other emoluments

In addition, the following expenses from share-based payment were incurred in the reporting year in relation to members of the Supervisory and Management Boards:

in TEUR	2012		2011	
	Share option plans	PSU plans	Share option plans	PSU plans
Rolf Schwirz (since December 1, 2012)	0	0	–	–
Ulrich Gehrmann (stepped down December 31, 2012)	6	199	56	28
Thomas Sparrvik	4	22	38	17
Dr. Jürgen Kaiser-Gerwens	0	15	0	11
Dirk Finstel (until October 24, 2012)	0	0	16	17
Andreas Plikat (since September 1, 2012)	0	5	–	–
Christopher Burke (since September 1, 2012, until August 31, 2012 on the Supervisory Board)	0	0	–	–
Supervisory Board	**0**	**0**	**0**	**0**

The payment from the non-forfeitable commitments arising from the CEO Ulrich Gehrmann's PSU Plans 2011 and 2012 can be made at the end of any quarter in 2013, i.e. the waiting period of three years was waived. The expenses in question were therefore recorded in full in 2012.

The provision formed for the Management Board member Dirk Finstel in the financial year 2011 was reversed in the financial year 2012 because the claims were forfeited when he left the company.

No share-based payment in the form of share options was granted to members of the Supervisory and Management Boards in the reporting year or in the previous year.

The Management Board and Supervisory Board members received the following subscription rights under the 2012 Performance Share Units Plan (long-term remuneration components):

	Number Performace Share Units
Rolf Schwirz (since December 1, 2012)	0
Ulrich Gehrmann (stepped down December 31, 2012)	59,100
Thomas Sparrvik	29,600
Dr. Jürgen Kaiser-Gerwens	21,700
Dirk Finstel (until October 24, 2012)	34,500
Andreas Plikat (since September 1, 2012)	15,750
Christopher Burke (since September 1, 2012, until August 31, 2012 on the Supervisory Board)	0
Supervisory Board	**0**

The subscription rights granted to the Management Board member Dirk Finstel in the financial year 2012 lapsed with his departure from the company.

Management Board member Thomas Sparrvik has received a guarantee that in the event of the early termination of his employment he will receive a total annual salary for up to two years but for a maximum period until the agreed termination date of his contract.

Pursuant to a change-of-control agreement, Management Board members Andreas Plikat and Dr. Jürgen Kaiser-Gerwens are entitled to terminate their employment prematurely in the event of a takeover. Accordingly, the company is committed to continue paying these Management Board members' salaries until the regular end of their Management Board contracts, but only up to a maximum of three years' compensation. In this case, Mr. Andreas Plikat will receive a severance payment amounting to a maximum of two whole years' compensation.

Management Board member Rolf Schwirz enjoys the right as part of a change-of-control agreement to terminate his employment contract prematurely if the company is taken over. In this case the contractual compensation entitlements shall remain valid until the notice period expires, but no later than the end of the regular contract term of 48 months. At the end of the notice period, the Management Board member shall receive a severance payment in the amount of one whole year's compensation.

Severance payment limitations in accordance with the German Corporate Governance Code were agreed with the Management Board members Rolf Schwirz and Andreas Plikat. According to the aforementioned Code, payments made to the Management Board members may not exceed the equivalent of two whole years' compensation or, as the case may be, the aggregate compensation for the remaining term of the employment contract if the Management Board member terminates his position without good cause.

The Management Board member Rolf Schwirz is entitled to terminate his contract prematurely in the event of his being dismissed within the first 24 months of his employment period. In this case, the Management Board member shall receive a one-off payment amounting to two whole years' compensation plus 50 % of the compensation for the period up until the end of the residual term which exceeds 24 months.

There were no pension obligations to members of the Management and Supervisory Board, or to former members of these bodies in the reporting year.

Shares and share options owned by the Management Board and Supervisory Board:

	Shares	Share options
Supervisory Board		
Helmut Krings	40,000	0
Hugh Nevin	189,366	0
David Malmberg	12,000	0
Lars Singbartl	0	0
Mathias Hlubek	0	0
Christopher Burke (until August 31, 2012)	0	0
Management Board		
Rolf Schwirz (since December 1, 2012)	0	0
Ulrich Gehrmann (stepped down December 31, 2012)	280,000	0
Thomas Sparrvik	50,000	151,111
Dr. Jürgen Kaiser-Gerwens	0	0
Dirk Finstel (until October 24, 2012)	3,000	0
Andreas Plikat (since September 1, 2012)	0	0
Christopher Burke (since September 1, 2012, until August 31, 2012 on the Supervisory Board)	0	0

The share options held by the Management Board members Ulrich Gehrmann and Dirk Finstel lapsed when they departed from the company.

Memberships of the Management and Supervisory Board members in other controlling bodies

Management Board

Ulrich Gehrmann	
Chairman of the Management Board	**until December 31, 2012**
Member of controlling body:	
Kontron Technology A/S, Hørsholm / Denmark	**until November 29, 2012**
Kontron America Inc., San Diego / USA	**until November 29, 2012**
Kontron UK Ltd., Chichester / UK	**until December 28, 2012**
Kontron Technology India Pvt. Ltd., Mumbai / India	**until November 29, 2012**
Kontron Canada Inc., Montreal / Canada	**until December 26, 2012**
Kontron Compact Computers AG, Luterbach / Switzerland	**until November 30, 2012**
Thomas Sparrvik	
Head of Sales and Marketing	
Vice-Chairman of the Management Board	
Member of controlling body:	
Kontron America Inc., San Diego / USA	
Kontron Canada Inc., Boisbriand / Canada	
Kontron (Beijing) Technology Co. Ltd., Peking / China	
Kontron Australia Pty. Ltd., Sydney / Australia	
Kontron Technology Japan Inc., Tokyo / Japan	**until December 31, 2011**
Kontron Technology India Pvt. Ltd., Mumba / India	
Dirk Finstel	
Head of Development	**until October 24, 2012**
Member of controlling body:	
Kontron Technology A/S, Hørsholm / Denmark	**until October 24, 2012**
Kontron Asia Pacific Design Sdn. Bhd., Penang / Malaysia	**until October 24, 2012**
Dr. Jürgen Kaiser-Gerwens	
Chief Financial Officer	
Andreas Plikat	
Chief Operational Officer	**from September 1, 2012**
Christopher Burke	
Head of Strategy	**from September 1, 2012** **until February 28, 2013**
Member of controlling body:	
Buster Burke Advisory Ltd., Henley-on-Thames / UK	
Buster Burke Investment Ltd., Henley-on-Thames / UK	
Dialog Semiconductor GmbH, Kirchheim / Teck-Nabern	
One Access Inc., Fontenay aux Roses / France	
Tranzeo Wireless Technologies Inc., Pitt Meadows / Canada	
Liquid Payment Solutions Pte. Ltd., Singapore	**until August, 2012**
Mimedia Inc., Port Chester / USA	**until May, 2012**
Navmii, London / UK	
Muzicall, London / UK	
Dtex Systems Pty. Ltd., London / UK	
BBL – Thomas & Young, Solihull / UK	
Rolf Schwirz	
Management Board member	**from December 1, 2012**

Supervisory Board

Dipl.-Ing. Helmut Krings *Chairman of the Supervisory Board* *Management-Consultant*	
Christopher Burke	**until August 31, 2012**
Member of controlling body:	
Buster Burke Advisory Ltd., Henley-on-Thames / UK	
Buster Burke Investment Ltd., Henley-on-Thames / UK	
Dialog Semiconductor GmbH, Kirchheim / Teck-Nabern	
One Access Inc., Fontenay aux Roses / France	
Tranzeo Wireless Technologies Inc., Pitt Meadows / Canada	
Liquid Payment Solutions Pte. Ltd., Singapore	**until August, 2012**
Mimedia Inc., Port Chester / USA	**until May, 2012**
Navmii, London / UK	
Muzicall, London / UK	
Dtex Systems Pty. Ltd., London / UK	
BBL – Thomas & Young, Solihull / UK	
Mathias Hlubek *Management-Consulting* *Member of controlling body:*	
Riemser Arzneimittel AG, Greifswald	**until September, 2012**
Interactive Data Managed Solutions AG, Frankfurt	
Arcus Capital AG, Munich	
Euroclear SA/NV, Brussels / Belgium	
Euroclear plc., Baar / Switzerland	
David Malmberg *Entrepreneur* *Member of controlling body:*	
Kontron America In., San Diego / USA	**until January, 2011**
Marshall and Ilsley Bank, Minnesota / USA	**until January, 2011**
Rotherwood Corporation, Minnesota / USA	**until August, 2012**
DCMI Inc., Minneapolis / USA	
Daystar Life Center Inc., Florida / USA	
Hugh Nevin *Lawyer* *Member of controlling body:*	
The Beaumaris Land Company Ltd., Canada	
Perry Baromedical Corp., Riviera Beach / USA	
German-American Business Chamber of Southwest Florida, Naples / USA	
Overly Manufacturing Company, Greensburg / USA	
Plastifab Ltd., Montreal / Canada	
Lars Singbartl *Investment Director*	
Peter Bauer	**since February 22, 2013**

The dates specified with memberships in supervisory committees are referring to the time of withdrawal from the duty.

37. Approval of the consolidated financial statements

On March 18, 2013 the Management Board of Kontron AG approved the consolidated financial statements and submitted them to the Supervisory Board.
The Supervisory Board has the task of examining the consolidated financial statements and declaring its approval.
Changes are no longer permitted after the consolidated financial statements have been examined and approved by the Supervisory Board.

38. Associated and related companies of the Kontron Group as of December 31, 2012

	Interest held (in %)	Local currency (LC)	Equity *** (LC in '000)	Net profit/ loss for the year *** (LC in '000)
KONTRON Europe GmbH, Kaufbeuren	100	EUR	85.903*	-9.168*
Indirectly via KONTRON Europe GmbH				
KONTRON ECT design s.r.o., Pilsen / Czech Republic	100	CZK	173	149
KONTRON UK Ltd., Chichester / UK	100	GBP	2,788	715
KONTRON Modular Computers S.A.S., Toulon / France	100	EUR	14,137	473
KONTRON Technology A/S, Hørsholm / Denmark	100	DKK	33,039	-7,320
KONTRON EAST Europe Sp.zo.o., Warsaw / Poland	97.5	PLN	19,120	257
KONTRON Modular Computers AG, Cham / Switzerland	100	CHF	3,461	-2,531
KONTRON Verwaltungs GmbH, Kaufbeuren	100	EUR	20	-4
KONTRON Compact Computers AG, Luterbach / Switzerland	96.6	CHF	-17,926	-11,597
ubitronix system solutions gmbH, Hagenberg / Austria	40**	EUR	507	-1,929
KONTRON America Inc., San Diego / USA	100	USD	62,434	2,566
KONTRON Canada Inc., Boisbriand / Canada	100	USD	38,346	-6,626
Affair OOO, Moscow / Russia	100	RUB	319,265	38
Indirect via Affair OOO				
RTSoft Project, Moscow / Russia	100	RUB	481,061	120,934
Indirect via RTSoft Project				
RTSoft ZAO, Moscow / Russia	74.5	RUB	555,986	78,228
Training Center RTSoft, Moscow / Russia	74.5	RUB	6,873	239
KONTRON Ukraine Ltd., Kiev / Ukraine	74.5	RUB	1,773	276
KONTRON Asia Pacific Design Sdn. Bhd., Penang / Malaysia	100	MYR	-64,668	-1,691
KONTRON (Beijing) Technology Co. Ltd., Beijing / China	100	CNY	72,487	-449
Indirectly via Kontron (Beijing) Technology Co. Ltd.				
Kontron Hongkong Technology Co. Ltd., Hong Kong / China	100	CNY	111	104
KONTRON Australia Pty. Ltd., Sydney / Australia	90	AUD	162	-704
KONTRON Technology India Pvt. Ltd., Mumbai / India	55	INR	6,576	1,929

* before loss assumption ** 51% of voting rights *** Data as per December 31, 2012

Information relating to the equity and annual results of subsidiaries is taken from annual financial statements prepared for consolidation purposes (Commercial Balance Sheet II figures [Handelsbilanz II]).

In the financial year 2012, the Group's subsidiary Kontron Europe GmbH made use of the exemption rules in Section 264 para. 3, German Commercial Code (HGB).

Rate on balance sheet date	Dec 31, 2012	Rate on balance sheet date	Dec 31, 2012
AUD	1.27	INR	72.56
CHF	1.21	MYR	4.03
CNY	8.22	PLN	4.07
CZK	25.15	RUB	40.33
DKK	7.46	USD	1.32
GBP	0.82		

39. Significant events after the balance sheet date

After the balance sheet date December 31, 2012, there were no significant events that would have had an impact on the consolidated financial statements.

40. Declaration on the German Corporate Governance Code

The Management Board and Supervisory Board of Kontron AG issued their statement of compliance with the German Corporate Governance Code in accordance with Section 161, German Stock Corporation Act (AktG) on February 22, 2013. It was made available to shareholders by publication on the company's website on March 5, 2013.

Eching, March 18, 2013

Kontron AG
The Management Board

Rolf Schwirz   Thomas Sparrvik   Dr. Jürgen Kaiser-Gerwens   Andreas Plikat

We have audited the consolidated financial statements prepared by Kontron AG, Eching, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 January 2012 to 31 December 2012. 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 18, 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Spannagl	Christ
German Public Auditor	German Public Auditor

Consolidated Financial Statements

10. 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 assets, liabilities, financial position and profit or loss 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.”

Eching, March 18, 2013

Kontron AG
The Management Board

Rolf Schwirz Thomas Sparrvik Dr. Jürgen Kaiser-Gerwens Andreas Plikat

Flexible personal development opportunities and individual further education programs rank as key features of Kontron's personnel policy. The fact that we give each and every member of our workforce the scope to keep developing their skills and ambitions is the foundation for our team's powerful motivation to keep seeking ideal solutions for our customers and pursuing new avenues in the process. Mutual respect and trust create intense loyalty and a unique culture in our company.

CREATING SPACE

Creating Space
STAFF

Claudia Schweighofer, Head of Group Demand and Order Planning

Some ten years ago, I embarked on my training to become a European management assistant and quickly realized that the corporate culture suited me down to the ground. Kontron supported me in my study of business management while continuing to work. I was able to take on more and more responsibility and am now a Supply Chain Leader. Right from the start, I felt that the company was very prepared to trust me and give me responsibilities. I was able to develop within the company according to my own ideals and keep building on the support I received there. Under the Shape Project, I will in future assume total responsibility for Demand and Order Planning. The aim of this is to harmonize processes, reduce delivery times and create transparency with the further aim of ensuring customer satisfaction.

Dynamic growth rates in the embedded computer technology market rely to a significant degree on the use of individual products in additional application environments. At Kontron, the employees active in our research and development team frequently set standards for innovative solutions thanks to their in-depth expertise and inspiration. We foster interdisciplinary interactions and close cooperation with renowned partners to ensure the extremely rapid conversion of ideas into marketable products.

DEVELOPING SOLUTIONS

Developing Solutions
RESEARCH & DEVELOPMENT

Günter Ortner, Vice President Engineering at Kontron AG

The passion and motivation that is applied to the work done by our company for our customers is impressive. We currently have 973 employees in Research & Development, and many of my employees have worked for the company for many years, as I have. We have built up a wealth of expertise in our specific market that is virtually unique. This enables us to develop standard and customized ECT products at an early stage that are hallmarked by their sound reliability. We are proud of our innovation strength.


kontron
ESD

FURTHER INFORMATION

Report of the Supervisory Board

Helmut Krings
Chairman of the Kontron Group Supervisory Board

Dear Shareholders,

Kontron looks back on a difficult financial year in 2012 that saw the company's operational development fall short of the defined targets. Together with the Management Board, we took the decision to respond swiftly to weak demand from the public sector and industry's reticence in placing orders. "Shape", an optimization program to be implemented over the course of 2013, is designed to foster Kontron's innovation strengths and establish a more efficient corporate structure, with the aim of leveraging the manifold growth opportunities in the market for Embedded Computer Technology and participating more actively in shaping the market.

Advising and supervision of the Management Board

In the financial year 2012, the Supervisory Board exercised the responsibilities incumbent upon it under the law, the company's Articles of Association and bylaws. We regularly advised the Management Board in its management of the company and duly supervised its activity. The Management Board fully discharged its duty to provide information at all times. In and between Supervisory Board meetings we were informed regularly, promptly and extensively by the Management Board about the corporate policy, corporate planning, including financial, investment and personnel planning, the strategic development, business operations and the financial position of the company and the Group, including the risk position. Planning deviations were explained in detail by the Management Board and carefully examined by the Supervisory Board. Information was provided in both written and oral form. Overall communication between the Management Board and the Supervisory Board is good and their collaboration based on trust. We were directly involved in all decisions of special significance for the company. Measures requiring approval by the Supervisory Board were particularly extensively discussed and reviewed. Approval was granted in all cases necessary.

In the reporting year 2012, the Supervisory Board held a total of thirteen meetings, six of which in the first half year and seven in the second. In addition to the regular meetings, another ten meetings took place, nine of which were conducted via telephone conference. With the exception of one Supervisory Board meeting, all Supervisory Board members took part in all meetings.

Reports and resolutions prepared by the Management Board were submitted to us in good time to prepare our meetings, thereby giving us the opportunity of examining this information in detail and, if appropriate, of making proposals for changes. In addition to resolutions passed in the meetings, further decisions were taken by way of circular resolution.

Conflicts of interest in respect of members of the Management and Supervisory boards in connection with their activities that must be reported to the Supervisory Board without delay and communicated to the Shareholders' General Meeting did not arise.

Focus points of consultation

Along with the regular monitoring of current business, the following focus points of consultation arose in the financial year ended:

The emphasis in the first quarter was placed on the disposal of the Kontron Asia Pacific Design Sdn. Bhd. (formerly Kontron Design Manufacturing Services Sdn. Bhd. (Malaysia)) production business to Plexus Corporation, the adoption of the annual financial statements, reviewing the European business and the organization proposed for this business unit, as well as the medium-term financing of the company.

The second quarter concentrated on the main topics of the selection criteria and the structure of the Supervisory Board to be newly elected, a detailed examination of the corporate strategy (market, customers and products), discussions about the selection of an external strategy consultant, and the disposal of AP Parpro Inc. in the USA.

In the third quarter, a decision was taken on the planning horizon and implementation of the optimization program "Shape" following a detailed evaluation of the corporate strategy, with proposed measures for correction. In addition, the North American business in Montreal was the subject of a review.

The main activities in the fourth quarter focused on updating the optimization program "Shape", the analysis and discussion of business in Russia, and the allocation of tasks at Board Management level in the new financial year.

Audit Committee

The Audit Committee met six times during the financial year 2012. Key areas addressed by its work included the audit of the consolidated and separate financial statements 2011 and financial planning for the financial year 2012. On the occasion of other meetings, the Audit Committee discussed the quarterly financial statements and the development of business with the Management Board and had the Management Board provide information on its assessment of the business situation on an ongoing basis. Other key areas of the committee's work in 2012 consisted of advising the Management Board in the refinancing of credit facilities and overhauling the reporting system. Additional topics were risk reports and reporting by Internal Audit.

In its meeting in March, the committee examined the 2011 consolidated and separate financial statements. The external auditor took part in this meeting. Following the Shareholders' General Meeting, the Audit Committee mandated the external auditor with the audit of the 2012 consolidated and separate financial statements. In this context, we obtained the auditor' Declaration of Independence pursuant to Code Item 7.2.1 of the German Corporate Governance Code. The auditing and consultancy fees were disclosed to the Supervisory Board in the respective financial year.

Personnel Committee

The committee is tasked with personnel matters and held seven meetings in the reporting year, four of which via telephone conference. It focused on the selection of a personnel consulting company to search for new members for the Supervisory Board and a new Chief Executive Officer, interviews with selected candidates, reconciling two severance agreements and three employment contracts for new members appointed to the Management Board.

Corporate governance

The ongoing development of the corporate governance standards anchored in the company and the implementation of the recommendations of the German Corporate Governance Code constituted a key area of our activities in the reporting year. In March 2012, the Management and Supervisory boards jointly published an update of the Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act. This Declaration was made permanently available to the shareholders on the company's website.

Changes to the version of the code dated May 15, 2012, were discussed by the Management and Supervisory boards and the individual recommendations examined in detail. The Corporate Governance Report that was published on the company's own website, in conjunction with the Statement on Corporate Governance pursuant to Section 289a of the German Commercial Code (HGB), comprises detailed information on corporate governance.

The current Declaration of Conformity pursuant to 161 of the German Stock Corporation Act, explaining departures from the Code specific to the company, has been available to the shareholders on the company's website since March 2013.

Efficiency review of the Supervisory Board

During our meeting on February 22, 2013, the Supervisory Board deliberated extensively on the results and conclusions drawn from the efficiency review of the previous year and evaluated the Supervisory Board's working practices over the 10 months before. A catalog of measures was compiled with the aim of enhancing the efficiency that was already good. The implementation of the catalog of measures, especially the Management Board's providing the Supervisory Board with more comprehensive and detailed written information, was agreed with the Management Board. In our opinion, the Supervisory Board works efficiently, and no changes to the way the Supervisory Board proceeds are therefore necessary.

Changes at Supervisory Board and Management Board level

As per December 31, 2012, Mr. Ulrich Gehrmann, the former Chief Executive Officer, laid down his office. Mr. Gehrmann will be retained by the company in a consultant capacity. We would like to thank Mr. Gehrmann for his commitment and fruitful cooperation over many years. In order to ensure a seamless transition, we appointed Mr. Rolf Schwirz to the Management Board, effective December 1, 2012, and to the position of Chief Executive Officer as from January 1, 2013. Moreover, the Supervisory Board appointed Mr. Christopher Burke, who laid down his Supervisory Board mandate on August 31, 2012, for a term of office on the Management Board of six months, effective September 1, 2012, until February 28, 2013. The Supervisory Board appointed Mr. Andreas Plikat to the Management Board, also with effect from September 1, 2012. Mr. Dirk Finstel withdrew from Kontron AG's Management Board on October 24, 2012 and left the company effective December 31, 2012.

There was one change on Kontron AG's Supervisory Board in 2012. As mentioned above, Mr. Christopher Burke laid down his mandate in order to support the Management Board in the implementation of the "Shape" optimization program.

Audit of the separate and consolidated financial statements

Ernst & Young Wirtschaftsprüfungsgesellschaft audited the separate financial statements, including the accounting and the management report prepared by the Management Board in accordance with the regulations set out under the German Commercial Code (HGB), and issued an unqualified audit opinion. Pursuant to Section 315a of the German Commercial Code, the consolidated financial statements and the management report on the Group were drawn up in accordance with IFRS.

An unqualified audit opinion was also issued for these consolidated financial statements. The audit mandate was conferred in accordance with the resolution passed by the Shareholders' General Meeting on June 6, 2012.

In addition, the external auditor verified whether the Management Board had taken sufficient measures, in accordance with the provisions stipulated by Section 91 of the German Stock Corporation Act, to set in place a suitable monitoring system designed to identify going concern risks at an early stage. This audit showed that the risk management system installed is in compliance with the statutory requirements. There were no risks to the company as a going concern.

The documentation pertaining to the financial statements, the Management Board's proposal for the application of unappropriated retained earnings and the auditor's report were submitted to the Audit Committee in good time. They were discussed in detail and examined together with the Management Board and the auditor in the Audit Committee's meeting on February 18, 2013, and in the Supervisory Board's meeting to approve the annual financial statements on March 20, 2013. The auditor reported on the key findings of the audit and was available to the Audit Committee as well as the entire Supervisory Board for questions. All questions of the Supervisory Board were answered comprehensively. Following our own examination and in-depth discussion of the separate annual financial statements and the management report as well as the consolidated financial statements and the management report on the Group and the audit reports, we raise no objections and concur with the auditor's findings. We ratify the separate financial statements and the consolidated financial statements as at December 31, 2012, prepared by the Management Board. The annual financial statements of Kontron AG are hereby adopted. We concur with the proposal of the Management Board on the appropriation of unappropriated retained earnings and the payment of dividend amounting to EUR 0.04.

We would like to thank the Management Board and all the employees for their exceptional commitment in the financial year 2012. We are convinced that the measures that have been initiated will form the basis for the company's future growth.

Eching, March 20, 2013
The Supervisory Board

Dipl.-Ing. Helmut Krings
Chairman

Glossary

Application _ Software solutions / application programs to fulfil certain functionalities.

ARM _ Advanced RISC machine is a micro-processor architecture which is primarily distinguished by its high degree of energy efficiency. ARM processors are therefore particularly well suited to mobile usage, for example in smartphones, tablets, mobile medical technology, industrial computers, games consoles, data communications equipment or in digital signal processing. In short, ARM architecture is one of the most common processor technologies in these embedded systems.

ATCA / AdvancedTCA _ Advanced telecom computing architecture, standard defined by PICMG with the collaboration of Kontron that defines boards / systems especially suited for telecommunication applications.

Box-PC _ Compact industrial PCs optimized for certain applications like industrial automation, transport and infotainment.

Bussystem _ System for data transfer (e.g. PCI; PCI Express).

COM Express® _ Computer-on-Module (COM) standard defined by PICMG for use in various segments. They always need a custom-specific carrier board based on the mechanical and peripheral requirements of the individual embedded system.

Computer-on-Modules _ Generic term for several CPU module standards.

CPCI _ This board standard with the European card form factor and PCI / PCI Express bus system was defined by PICMG in cooperation with Kontron. Primarily used for applications in the communication industry, and in the transport and security sectors.

CPU _ Central Processing Unit: Core element of a computer.

ECT _ Embedded Computer Technology means hardware and software which are integrated in a more extensive technical context. ECT takes over for example monitoring, steering or regulating functions or is responsible for special forms of data processing or transmission. ECT systems encompass a combination of hardware and software which is perfected coordinated and which is mostly developed for targeted application-specific tasks.

EMS _ Electronic Manufacturing Services.

ETX _ Standard for CPU modules, as defined by Kontron.

FPGA _ Field programmable gate array: Flexible configuration of I/O functionality and algorithms via IP cores.

HMI _ The Human Machine Interface (HMI) is a hardware and software-based user interface through which humans can interact with machinery. HMI solutions offer, for example, comfortable usage of the equipment and the observation of machine conditions through a touch-based screen.

Intel® Atom™ Processor _ Energy-efficient and cost-effective CPU, as implemented in netbooks and mobile devices, for example.

Intel® Core™ Processor Family _ New generation of processor technology that provides a minimum of two autonomous processor cores within a chip delivering much higher computing performance at similar space and power consumption compared with single-core processors.

M2M _ Machine-to-Machine: M2M communication means the automated exchange of information between technical terminals such as vending machines, machinery or vehicles through a control center. These central collection points evaluate the information and initiate further measures where required. The communication goes in both directions. M2M communications are used, for example, for the remote maintenance of production machinery or for building surveillance.

MicroTCA _ Micro telecom computing architecture: Standard defined by the PICMG with the collaboration of Kontron that defines systems based on AdvancedMC modules suited for high availability applications in communications as well as in other market segments like industrial, medical and aerospace.

Mobile Computing _ Mobile computing signifies the mobile usage of a computer, normally wirelessly, with other stationary or mobile terminals. The data communication may be routed, for example, through the mobile phone network or a WLAN.

Multi-Core Technology _ New generation of processor technology that provides a minimum of two autonomous processor-cores within a chip providing much higher computing performance at similar space and power consumption compared to single core processors.

OEM _ Original Equipment Manufacturer: Consumers of hardware components produced by a supplier or hardware producer. The OEM builds these hardware components into its products and markets the solutions under its own name.

POS _ A POS (Point of Sale) is a place where goods are sold (mostly shops or online sites) and where the customer makes direct contact with the supplier and can therefore be encouraged to make a purchase. Apart from local shops and cash desk systems, the POS is increasingly often to be found in vending machines which frequently also have digital signage systems.

POI _ POI (Point of Interest) means a place where people can obtain information about the products of one or more suppliers. This also includes, for example, (tourist) information terminals in public squares or at trade fairs as well as digital signage systems in railroad stations or airports. The information is often supplied through a multimedia system. Due to the increasing combination of this form of information presentation with an immediate opportunity to place an order, the POI is becoming increasingly synonymous with a POS (point of sale).

Rackmount PC _ an industrial PC, modularly extendable through plug-in cards and mainly deployed in the industrial automation, defense and transport areas.

RAID _ High-speed mass storage technology for redundant systems.

SBC _ Single Board Computer: Compact computer with on-board I/O functions & connectors.

SMARC _ SMARC™ (Smart Mobility ARChitecture for ARM/SoC) is the brand name of the first SGET form factor. The SMARC™ specification describes extremely flat ARM/SoC-based ultra low-power computer-on-modules in a mini format.

SSD _ Mass storage devices (Solid-State-Disk) Rugged mass storage technology without rotating media such as hard disks.

ThinkIO-Duo _ Very compact size Embedded PC with latest high-performance Multicore Technology. It can be used for control and visualization tasks in industrial and harsh environments and does not require any maintenance as it has no fans, no rotating disks and no batteries which need to be replaced.

VME _ Open board level standard defined by VITA used for rugged systems in the security segment.

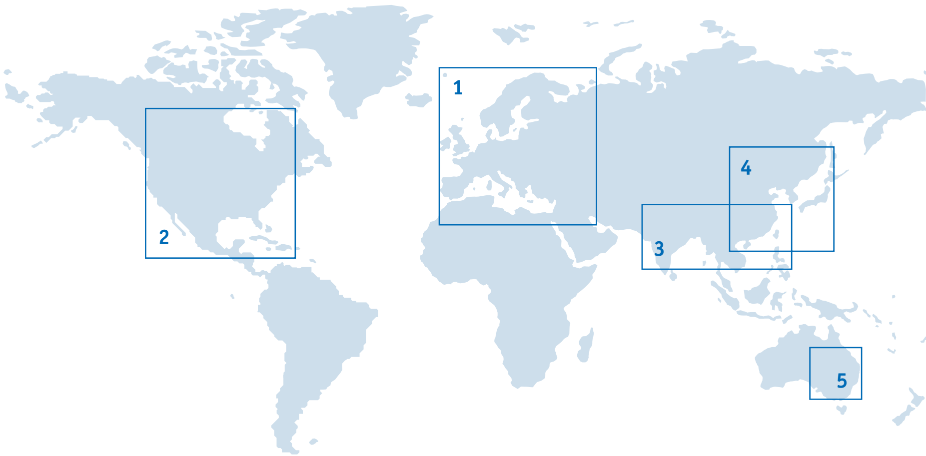
VPX _ Open standard defined by VITA for boards implemented for rugged systems in the security segment.

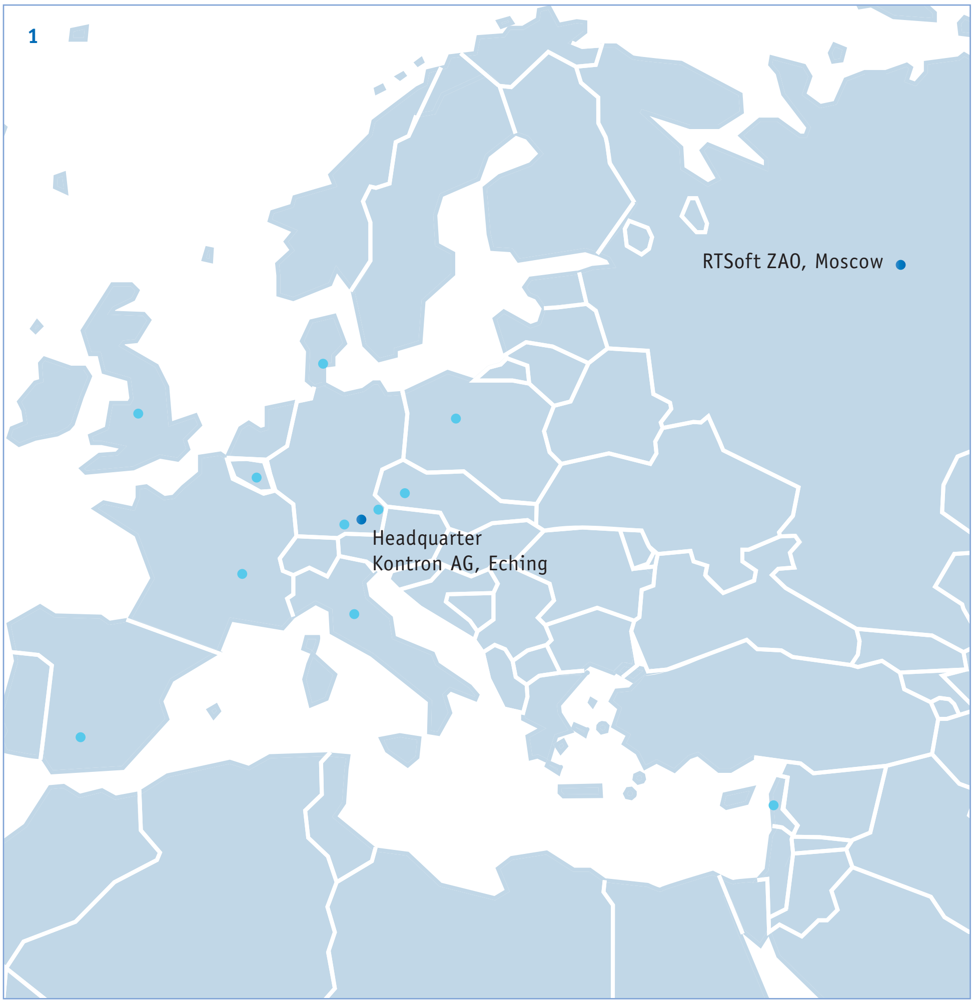
XSCALE _ Single core Processor architecture with extreme low power consumption.

Wikipedia, ITWissen Online, and Gablers Wirtschaftslexikon Online

Kontron worldwide

Kontron is close by – wherever you are.



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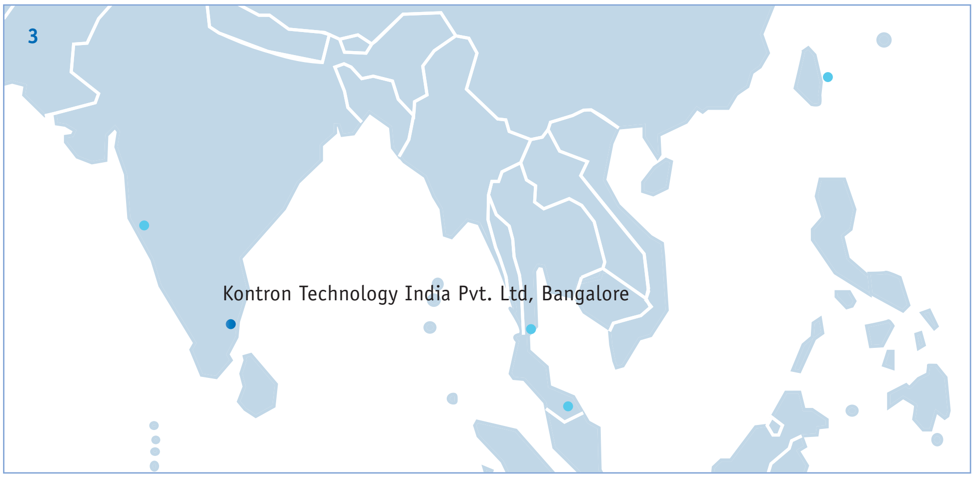
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Comparative figures – Kontron Group

		2008	2009	2010	2011	2012
Results of operations						
Revenues	Mio. EUR	496.7	468.9	509.5	589.6	**547.0**
Gross Margin	Mio. EUR	150.4	131.1	147.9	166.1	**130.5**
EBITDA[1]	Mio. EUR	58.3	42.3	14.0	55.7	**11.4**
EBIT[2]	Mio. EUR	46.9	30.1	-5.8	34.1	**-32.5**
EBT[3]	Mio. EUR	48.0	29.6	-8.2	32.6	**-34.5**
Net income	Mio. EUR	34.9	21.9	-13.4	22.9	**-33.6**
Earnings per share	EUR	0.67	0.41	-0.24	0.39	**-0.59**
Profitability data						
Gross Margin[4]	%	30.3	27.9	29.0	28.2	**23.9**
EBIT-Margin[5]	%	9.4	6.4	-1.1	5.8	**-5.9**
EBT-Margin[5]	%	9.7	6.3	-1.6	5.5	**-6.3**
Return on equity[6]	%	12.1	6.6	-4.2	6.9	**-11.7**
Return on investment (ROI)[7]	%	12.2	6.4	-1.6	6.2	**-7.5**
Balance sheet data						
Balance sheet total	Mio. EUR	394.5	461.3	515.6	523.5	**460.4**
Non-current assets	Mio. EUR	147.2	171.2	213.5	214.3	**201.8**
Current assets	Mio. EUR	247.3	290.2	302.1	309.2	**258.6**
Equity	Mio. EUR	288.1	332.9	320.8	333.6	**286.8**
Liabilities	Mio. EUR	106.4	128.4	194.8	189.9	**173.6**
Provisions	Mio. EUR	6.4	5.0	8.9	11.0	**12.5**
Finance debt	Mio. EUR	12.2	24.6	46.3	37.3	**14.5**
Accounts payable, trade	Mio. EUR	55.9	62.2	82.5	86.7	**87.6**
Equity ratio[8]	%	73.0	72.2	62.2	63.7	**62.3**
Cash Flow						
Cash Flow from operating activities	Mio. EUR	27.5	23.9	16.2	31.6	**46.2**
Cash Flow from investment activities	Mio. EUR	-36.7	-28.9	-48.5	-29.3	**-21.4**
Cash Flow from financing activities	Mio. EUR	-16.4	32.4	6.4	-22.4	**-35.5**
Personnel						
Number of personnel		2,536	2,487	2,892	3,057	**2,208**
Revenues per employee	EUR	195,875	188,545	176,168	192,859	**247,715**

[1] EBITDA = EBIT before depreciation and amortization
[2] EBIT = earnings before interest and other financial expenses or income and tax
[3] EBT = earnings before tax
[4] Gross margin = gross profit on revenues
[5] The margins pertain to revenues respectively
[6] Return on equity = net result for the year/equity
[7] Return on Investment (ROI) = EBT/Total equity
[8] Equity ratio = equity/total capital

Financial Calendar for 2013

March 21, 2013 _ Annual Results Press Conference and publication of the annual report 2012

April 24, 2013 _ Publishing of the Q1/2013 Quarterly Report

June 05, 2013 _ Shareholders' General Meeting 2013, Freising

July 24, 2013 _ Publishing of Q2/2013 Quarterly Report

October 24, 2013 _ Publishing of Q3/2013 Quarterly Report

We will publish any changes to dates in good time at **www.kontron.com/unternehmen/investor-relations/**. You can also use this link to view our annual report and quarterly reports on the respective dates when they are published.

This Annual Report was released on March 21, 2013 and is available in German and English. In the event of doubt, the German version shall prevail.

The Annual Report includes forward-looking statements that are based on assumptions and estimates made by the Management Board on future developments. Although we believe that the aforementioned assumptions and estimates are realistic and pertinent, they are subject to certain risks and uncertainties that may lead to actual future results deviating significantly from the assumptions and estimates. Factors that may result in deviations include, among other things, changes in the macroeconomic environment or in the business, economic and competitive situation, exchange rate and interest rate fluctuations and changes in the corporate strategy. We undertake no guarantee that the future development and actual results achieved in the future will conform to the assumptions and estimates made in this Annual Report. The assumptions and estimates in this report are not updated.

This annual report was produced on a carbon-neutral basis. CO2 burdens incurred by the production were fully compensated by the support of a climate protection project of natureOffice.

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Reliability in Innovation

2012 Kontron Group Annual Report

The pulse of innovation