

Declaration of compliance and corporate governance report

The declaration of compliance and corporate governance report can be viewed on Kontron AG's web page by following this link: www.kontron.com/investor/corporate-governance in accordance with Sec. 315 V HGB in conjunction with Sec. 289a I HGB.

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

DECLARATION OF COMPLIANCE PURSUANT TO SEC. 161 AKTG

The members of the Management Board and the Supervisory Board once again examined the topic of good corporate governance at Kontron AG and within the Kontron Group in detail during the past fiscal year, and included the recommendations of the German Corporate Governance Code in their deliberations. In 2016 the declaration of compliance was updated on August 26, 2016, based on the declaration as of December 8, 2015. The two governing boards afterwards issued the following declaration of compliance with the German Corporate Governance Code on November 30, 2016:

"The Management Board and Supervisory Board of Kontron AG herewith declare pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] that since the last declaration of compliance of December 2015 (supplemented by the update in August 2016) the recommendations of the German Corporate Governance Code (the "Code") from May 5, 2015 published in the official notices section of the Federal Gazette on June 12, 2015 have been complied with and will continue to be complied with in the future, with the following exceptions:

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

Recommendations concerning Management Board remuneration (Nos. 4.2.2 (2) Sentence 3, 4.2.3 Sentence 3 et seq. and 4.2.5 of the Code). On July 25, 2016, Kontron AG announced changes in the composition of the Management Board, as part of which Mr. Sten Daugaard, who until then had been a member of Kontron AG's Supervisory Board, and Dr. Thomas Riegler, previously the provisional head of Finance, were appointed to the Management Board. This change resulted in the following deviations from the Code's recommendations concerning Management Board remuneration:

The Supervisory Board takes statutory requirements into account when setting the remuneration of the individual members of the Management Board, and ensures that it is commensurate with each Management Board member's responsibilities and achievements as well as the company's situation, and does not exceed the customary level of remuneration without good reason. According to No. 4.2.2 (2) Sentence 3 of the Code, the Supervisory Board should also take the ratio between the remuneration paid to the Management Board and that of the executive management and the workforce as a whole into account (including how this changes over time), and for this purpose the Supervisory Board defines executive management and the relevant workforce. The Supervisory Board is of the opinion that it is not currently necessary to implement this recommendation in order to define a range for appropriate Management Board remuneration.

According to No. 4.2.3 Sentence 3 et seq. of the Code, the monetary components of the Management Board's remuneration should include fixed and variable elements. The variable elements of remuneration should be measured on the basis of a period of multiple years, the structure of the variable remuneration should take both positive and negative developments into account, and maximum limits should be set. The remuneration of one current member of the Management Board deviates from this. Specifically, the contract in question does not include any variable components due to the relatively short duration of the contract and the economic situation at the time of the appointment. Moreover, the appointment served the purpose of bridging a vacancy. In light of the above, the company considers the aforementioned deviations from the Code to be justified.

No information on Management Board remuneration using standard tables (No. 4.2.5 Sentence 5 et seq. of the Code). The remuneration report is supposed to contain certain information for each member of the Management Board using the standard tables appended to the Code. This is not the case. The Management Board's remuneration is disclosed in accordance with the provisions of the law. A more detailed disclosure and breakdown using the standard tables does not seem necessary in order to adequately satisfy the interests of shareholders

and investors in information.

The chairman of the audit committee should have particular expertise and experience regarding the application of accounting principles and internal controls (No. 5.2.3 Sentence 2 of the Code). After Sten Daugaard, the former Chairman of the Audit Committee, stood down from the Supervisory Board and was appointed to the Management Board Dr. Dieter Düsedau was appointed as the new Chairman of the Audit Committee. Dr. Düsedau has been a member of the Supervisory Board since September 2015. He has a degree in physics, and until 2014 worked as a Senior Partner at McKinsey & Company in Munich where he was responsible for telecommunications, IT and media practice. Before joining McKinsey he advised companies in the high-tech and financial services sectors. However, it would be possible to argue that he is not a “financial expert” in the sense of the Code’s recommendation. Mr. Daugaard’s transfer to the Management Board made it necessary to find a successor as Chairman of the Audit Committee at short notice. The Supervisory Board believes that this vacancy was filled in the best interests of the company with a current, impartial member of the Supervisory Board. At least one of the other members of the Audit Committee still has expert knowledge of the application of accounting principles and internal controls.

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

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

Disclosure and reporting regarding conflicts of interest (Nos. 5.5.2 and 5.5.3 of the Code). In accordance with No. 5.5.2 of the Code, every member of the Supervisory Board should disclose to the Supervisory Board any conflicts of interest, particularly those that could arise as a result of an advisory or board function for customers, suppliers, creditors or other third parties. In accordance with No. 5.5.3 Sentence 1 of the Code, the Supervisory Board should provide information on any conflicts of interest that have arisen and how they were dealt with in its report to the Annual General Meeting of Shareholders. Significant and not just temporary conflicts of interest in respect of the person of a Supervisory Board member should result in the termination of their mandate pursuant to Sec. 5.5.3 Sentence 2 of the Code. The Code does not specify whether material shareholders constitute other third parties for the purposes of these recommendations, or how detailed the disclosure in the Supervisory Board and the information in the Supervisory Board’s report should be, resulting in legal uncertainty. The Supervisory Board has therefore decided to explain a deviation from the Code’s recommendations in Nos. 5.5.2 and 5.5.3 Sentences 1 and 2 as a precaution.

The Supervisory Board should assess the efficiency of its activities at regular intervals (No. 5.6 of the Code). The Supervisory Board has decided to refrain from assessing the efficiency of its work in the 2016 fiscal year because four of its six members were replaced.

The consolidated financial statements should be accessible to the public within 90 days of the end of the fiscal year (No. 7.1.2 of the Code). The introduction of a new restructuring program and strategy involves an increased workload in terms of the reporting and coordination in this regard. As a result, the Management Board and Supervisory Board have decided not to make the consolidated financial statements for the 2016 fiscal year accessible to the public within 90 days of the end of the fiscal year. This means that the deadline recommended by the Code for publishing the consolidated financial statements is not being complied with, although the company will meet the four-month deadline for publishing its annual financial statements as specified by the law and the regulations of the Frankfurt Stock Exchange in the sub-area of the regulated market with additional obligations arising from admission (Prime Standard).

The Supervisory Board and Management Board also issued the following declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG on January 30, 2017, while the separate and consolidated financial statements were being prepared:

“The Management Board and Supervisory Board of Kontron AG herewith declare pursuant to Sec. 161 AktG [“Aktengesetz”: German Stock Corporation Act] that since the last declaration of compliance of November 30, 2016, the recommendations of the German Corporate

Governance Code (the "Code") from May 5, 2015 published in the official notices section of the Federal Gazette on June 12, 2015 have been complied with and will continue to be complied with in the future, with the following exceptions:

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

Recommendations concerning Management Board remuneration (Nos. 4.2.2 (2) Sentence 3, 4.2.3 Sentence 3 et seq. and 4.2.5 of the Code). Kontron AG announced changes to the composition of its Management Board on December 6, 2016 (appointment of Mr. Hannes Niederhauser to the Management Board) and on December 14, 2016 (departure of Mr. Sten Daugaard from the Management Board). This resulted in the following deviations from the Code's recommendations concerning Management Board remuneration with respect to the remuneration of the current members of the Management Board:

The Supervisory Board takes statutory requirements into account when setting the remuneration of the individual members of the Management Board, and ensures that it is commensurate with each Management Board member's responsibilities and achievements as well as the company's situation, and does not exceed the customary level of remuneration without good reason. According to No. 4.2.2 (2) Sentence 3 of the Code, the Supervisory Board should also take the ratio between the remuneration paid to the Management Board and that of the executive management and the workforce as a whole into account (including how this changes over time), and for this purpose the Supervisory Board specifies the definitions of executive management and the relevant workforce. The Supervisory Board is of the opinion that it is not currently necessary to implement this recommendation in order to define a range for appropriate Management Board remuneration.

According to No. 4.2.3 Sentence 3 et seq. of the Code, the monetary components of the Management Board's remuneration should include fixed and variable elements. The variable elements of remuneration should be measured on the basis of a period of multiple years, the structure of the variable remuneration should take both positive and negative developments into account, and maximum limits should be set. The remuneration of the Management Board deviates from this. Specifically, one Management Board contract does not include any variable components due to the relatively short duration of the contract and the economic situation at the time of the appointment. The appointment also served the purpose of bridging a vacancy. With respect to the remuneration of the other Management Board member, said member has expressly waived any form of remuneration. In light of the above, the company considers the aforementioned deviations from the Code to be justified.

No information on Management Board remuneration using standard tables (No. 4.2.5 Sentence 5 et seq. of the Code). The remuneration report is supposed to contain certain information for each member of the Management Board using the standard tables appended to the Code. This is not the case. The Management Board's remuneration is disclosed in accordance with the provisions of the law. A more detailed disclosure and breakdown using the standard tables does not seem necessary in order to adequately satisfy the interests of shareholders and investors in information, particularly because only one member of the Management Board is currently entitled to fixed or variable remuneration.

Conflicts of interest (No. 4.3.1 et seq. of the Code). As part of the appointment of new members of the Management Board, one person was appointed as Chairman of the Management Board who is also the chairman of the management board of the company's main shareholder. The new Chairman of the company's Management Board was also released from the prohibition on working for the main shareholder as well as certain of its affiliates. In order to prevent potential conflicts of interest and ensure the neutrality of decision-making and monitoring or the approval of any legal transactions between the Management Board of Kontron AG and the main shareholder, a Group Committee was set up with a majority of independent members with no relation to the main shareholder.

Duties and authorities of the Chairman of the Supervisory Board (No. 5.2 of the Code). In accordance with No. 5.2 Sentence 2 of the Code, the Chairman of the Supervisory Board should not also be Chairman of the Audit Committee. Following the change in the composition of the Supervisory Board, the Chairman of the Supervisory Board was also appointed as Chairman of the Audit Committee because he has the special expertise and experience of applying accounting principles and internal controls required by No. 5.2.3 of the Code and also because this is the most effective option in light of the company's de facto consolidation into the group of companies in which the Chairman of the Supervisory Board serves as Chief Financial Officer. In light of the above, the company considers a deviation from No. 5.2 of the Code to be justified.

Nomination committee (No. 5.3.3 of the Code) Considering the fact that the Supervisory Board consists entirely of shareholder representatives, and since it has six members, no separate nomination committee has been established. Instead, all of the Supervisory Board's members are involved in this function.

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

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

Disclosure and reporting regarding conflicts of interest (Nos. 5.5.2 and 5.5.3 of the Code). In accordance with No. 5.5.2 of the Code, every member of the Supervisory Board should disclose to the Supervisory Board any conflicts of interest, particularly those that could arise as a result of an advisory or board function for customers, suppliers, creditors or other third parties. In accordance with No. 5.5.3 Sentence 1 of the Code, the Supervisory Board should provide information on any conflicts of interest that have arisen and how they were dealt with in its report to the Annual General Meeting of Shareholders. Significant and not just temporary conflicts of interest in respect of the person of a Supervisory Board member should result in the termination of their mandate pursuant to Sec. 5.5.3 Sentence 2 of the Code. The Code does not specify whether material shareholders constitute other third parties for the purposes of these recommendations, or how detailed the disclosure in the Supervisory Board and the information in the Supervisory Board's report should be, resulting in legal uncertainty. The Supervisory Board has therefore decided to explain a deviation from the Code's recommendations in Nos. 5.5.2 and 5.5.3 Sentences 1 and 2 as a precaution. As part of the appointment of certain new members of the company's Supervisory Board and Management Board with people associated with the main shareholder, the Supervisory Board decided to establish a Group Committee in order to prevent conflicts of interest. In order to ensure the neutrality of decision-making as well as monitoring and the passing of resolutions by independent members of the Supervisory Board in the event of a conflict of interest, this Group Committee comprises a majority of independent members with no relation to the main shareholder.

The Supervisory Board should assess the efficiency of its activities at regular intervals (No. 5.6 of the Code). The Supervisory Board has decided to refrain from assessing the efficiency of its work in the 2016 fiscal year because five of its six members were replaced.

The consolidated financial statements should be accessible to the public within 90 days of the end of the fiscal year (No. 7.1.2 of the Code). The introduction of a new restructuring program and strategy involves an increased workload in terms of the reporting and coordination in this regard. As a result, the Management Board and Supervisory Board have decided not to make the consolidated financial statements for the 2016 fiscal year accessible to the public within 90 days of the end of the fiscal year. This means that the deadline recommended by the Code for publishing the consolidated financial statements has not been complied with, although the company will meet the four-month deadline for publishing its annual financial statements as specified by the law and the regulations of the Frankfurt Stock Exchange in the sub-area of the regulated market with additional obligations arising from admission (Prime Standard).

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

RELEVANT CORPORATE GOVERNANCE STANDARDS AND PRACTICES

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

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

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

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

The Management Board and the Supervisory Board worked closely together in the reporting year and maintained constant contact to reach the goals for the 2016 fiscal year and keep developing the business.

a) Composition and working methods of the Management Board

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

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

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

b) Composition and working methods of the Supervisory Board

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

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

The Supervisory Board advises and monitors the Management Board in their management of the company and is involved in all decisions of fundamental significance by the Management Board. In addition, the Supervisory Board has drawn up a catalog of transactions requiring the approval of the Supervisory Board. This specifies which matters the Management Board must submit to the Supervisory Board and is an integral component of the Rules of Procedure of the Management Board. Until November 30, 2016, the Supervisory Board contained two members (Martin Bertinchamp and Harald Joachim Joos) with links to shareholders holding more than 10 % of the shares with voting rights. Since December 2, 2016, the Supervisory Board has had three members (Messrs. Neuwirth, Jeske and Roider) with links to a shareholder holding more than 10 % of the shares with voting rights. The Supervisory Board also included or includes the following independent members: Mr. Reiner Erlat (until November 30, 2016), Dr. Harald Schimpf (until December 5, 2016), Dr. Dieter Düsedau and Dr. Valerie

Barth (since November 3, 2016). This means that, as recommended by the German Corporate Governance Code, the Supervisory Board has what it considers to be a suitable number of independent members to ensure the independence of the monitoring of the Management Board and the advice given.

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

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

c) Composition and working methods of Supervisory Board committees

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

The Supervisory Board established an Audit Committee, a Nomination Committee and a Strategy Committee in the 2016 fiscal year, although the Nomination Committee and Strategy Committee were both dissolved again on December 14, 2016. A Group Committee was also established in the fiscal year.

The Audit Committee assists the Supervisory Board with the following tasks in particular: Monitoring the accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, the statutory end-of-year audit, including the auditor's independence and any other services rendered by the independent auditor as well as overall compliance. Details on its tasks and duties are contained in the Rules of Procedure for the Audit Committee. Mr. Sten Daugaard served as Chairman of the Audit Committee until he stood down from the Supervisory Board on July 25, 2016, and he was succeeded by Dr. Dieter Düsedau until December 14, 2016. Mr. Martin Bertinchamp and Mr. Harald Joachim Joos were members of the Audit Committee until their departure on November 30, 2016. Since December 14, 2016 the Audit Committee has comprised Mr. Richard Neuwirth as Chairman as well as Dr. Valerie Barth, Dr. Dieter Düsedau and Mr. Michael Jeske.

Until it was dissolved on December 14, 2016, the Nomination Committee was responsible for selecting suitable candidates for election to the Supervisory Board. Mr. Rainer Erlat served as Chairman of the Nomination Committee until he stood down from the Supervisory Board on November 30, 2016. Mr. Martin Bertinchamp and Mr. Harald Joachim Joos were members of the Nomination Committee until they stood down from the Supervisory Board on November 30, 2016.

Until it was dissolved on December 14, 2016, the Strategy Committee dealt at length with issues relating to the corporate strategy in addition to its ordinary sessions. The Strategy Committee consisted of Dr. Dieter Düsedau as Chairman as well as Messrs. Martin Bertinchamp and Harald Joachim Joos.

A Group Committee was established on December 14, 2016 in order to specifically assess any potential conflicts of interest between Kontron and S&T and discuss them in the Supervisory Board. The Group Committee is chaired by Dr. Valerie Barth. Its members are Dr. Dieter Düsedau and Mr. Richard Neuwirth.

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

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

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

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