kontron

Solutions for tomorrow

KONTRON GROUP ANNUAL REPORT 2011

If it's embedded, it's Kontron.

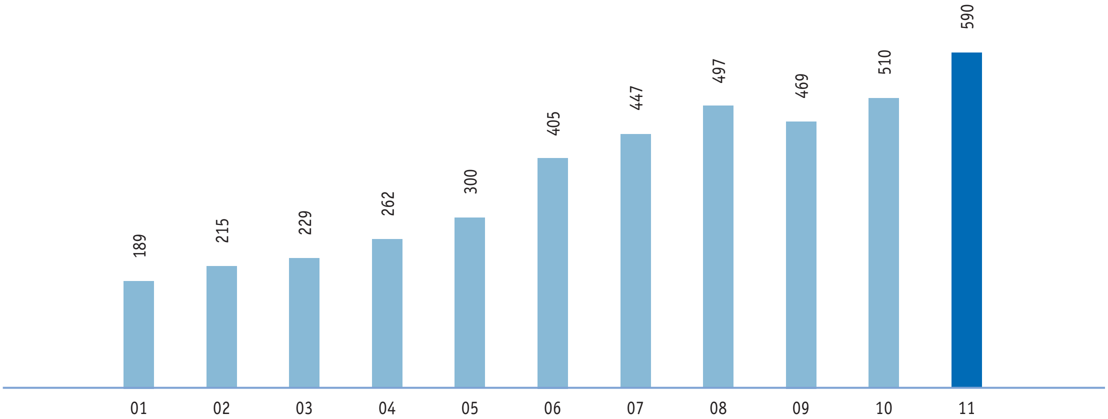
Kontron in figures

	2011	2010
	in EUR M	in EUR M
Revenues	**589.6**	509.5
Gross margin	**166.1**	147.9
Operational & production cost	**212.0**	187.6
- as of engineering costs	**77.5**	60.6
EBIT	**34.1**	-5.8
Net income	**22.9**	-13.4
Cash flow from operational activities	**31.6**	16.2
Number of design wins	**456**	465
Design wins (in EUR M)	**283.8**	306.1

	2011	2010
	in EUR M	in EUR M
Cash, cash equivalents & short term investments	**38.2**	57.2
Bank loans	**37.0**	45.5
Inventory and trade receivables	**235.1**	226.4
Total assets	**523.5**	515.6
Equity	**333.6**	320.8
Number of employees	**3,057**	2,892
- as of which engineers in R & D	**973**	942
Order backlog	**370.8**	438.1

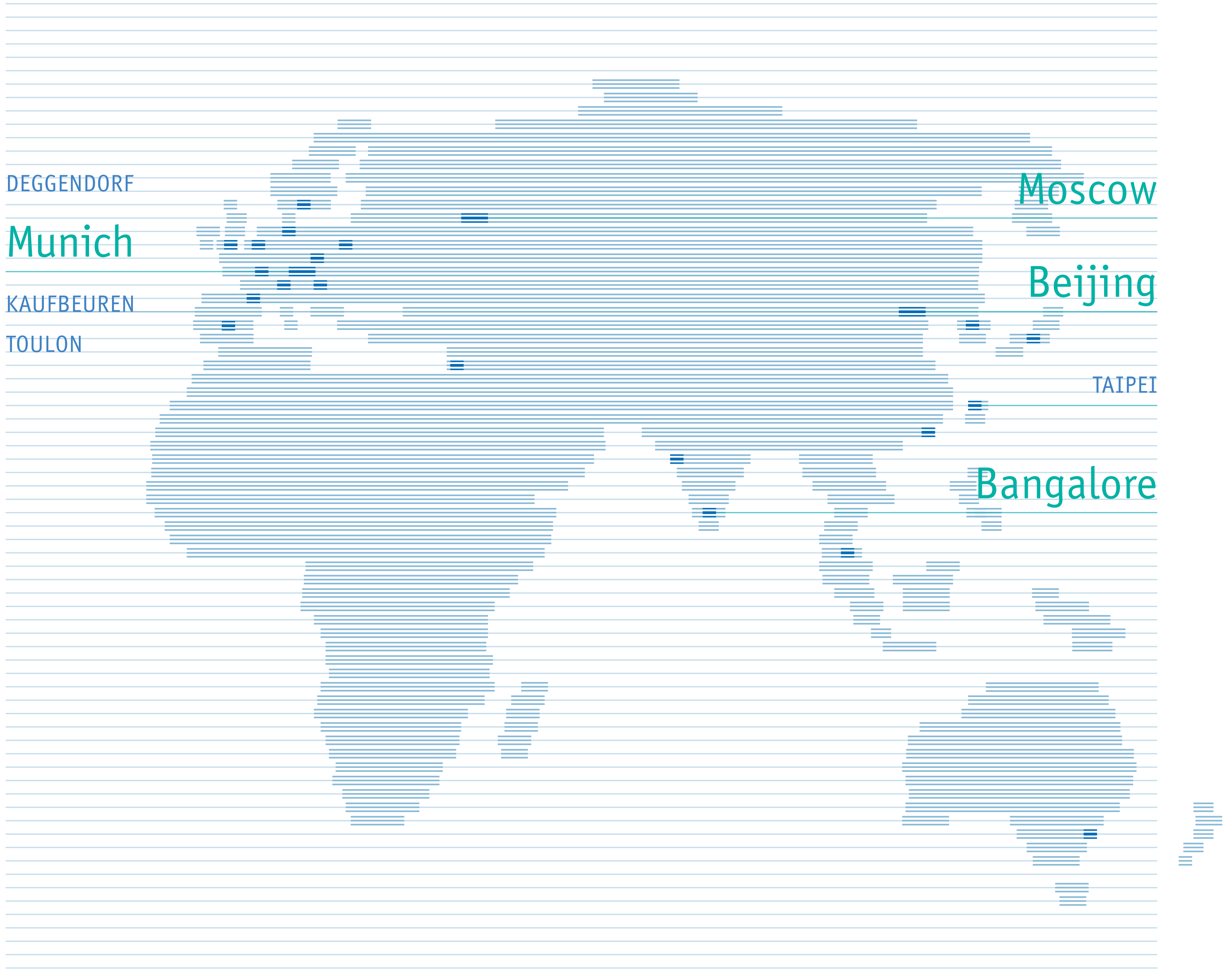
Sales Growth 2001 - 2011

in EUR M



Kontron worldwide

Kontron is close by – wherever you are.




San Diego North America


Eching Germany


Beijing China


Montreal North America


Columbia North America


Fremont North America


Kaufbeuren Germany


Deggendorf Germany


Luterbach/Solothurn Suisse


Toulon France


Moscow Russia


Taipei Taiwan


Bangalore India

Profile

Kontron AG ranks as one of the world's leading manufacturers of embedded computer technology (ECT). Embedded computers (ECs) are "electronic brains" based on hardware and software that provide very varied systems and equipment with intelligence.

The Kontron name stands for outstanding quality and a technologically leading position in the development and production of intelligent ECT solutions. This is reflected in a large R&D department, which consists of nearly 1.000 highly trained employees. As a broadly positioned ECT company, Kontron serves industrial demand for reliable and innovative high-performance solutions based on embedded computer technology for highly varied applications in currently seven industrial sectors: telecommunications, industrial automation, medical technology, energy, transportation, security & defense, and infotainment.

Kontron AG's holding company's headquarters are located at Eching (near Munich, Germany); further important bases are Kaufbeuren/Germany, Deggendorf/Germany, Pittsburgh/USA, San Diego/USA, Montréal/Canada, Toulon/France, Moscow/Russia, Beijing/China and Taipei/Taiwan. The company employs a total of 3,057 staff. Kontron AG is listed in the TecDAX 30 equity index of German's largest listed technology sector companies.

Global product marketing is supported through the company's own sales outlets in over 20 countries. The embedded computer technology market is one of the world's fastest growing markets. Embedded computer systems not only make everyday life easier in many areas – they are also implemented universally as special industrial solutions. Kontron offers optimal ECT solutions for highly varied applications spanning mobile ultrasound equipment, controlling functions for powerplants, through to ultra-robust tablet PCs.



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Solutions for tomorrow

2011 was a record year for Kontron AG in terms of sale. Top line growth was as well a result of our diversification strategy into different vertical markets having been started in 2008. This growth indicates the resistance of our business model towards recession trends.

Ulrich Gehrmann
Chairman of the Management Board

Ladies and gentlemen,
shareholders and partners of Kontron AG,

2011 was a record year for Kontron AG in terms of sales. We consider the 15.7 % rise to EUR 590 million as highly satisfactory in view of the ongoing difficulties in the global economic environment.

Top line growth was as well a result of our diversification strategy into different vertical markets having been started in 2008. This growth indicates the resistance of our business model towards recession trends.

Despite overall positive performance not everything developed well. In face of significant increase of profitability it was below our own expectations. But we are well aware of where we have to start. We reached an important milestone at the turn of 2011/2012: We discontinued the highly volume-driven module business and sold the production assets of our Malaysian subsidiary in the context of an asset deal to our strategic partner Plexus. This was another step to our strategic goal to position Kontron as a solutions and systems company with attractive value added and to further optimize Working Capital.

Leadership in standard technologies and customized solutions is our most important foundation for further profitable growth. The basis for this are the approximately 1,000 employees in research & development, which mark a record in our sector. However, we also intend to grow through acquisitions, which has been and will be a cornerstone of our growth strategy.

In 2011, we have set the basis for the continuation of increasing performance. Once again we have achieved many design wins. At 456, the number of design wins was almost on par with the previous year's figure of 465. In addition, we launched 44 new products in the embedded market last year.

The current business year will not be without uncertainties for us. We assume that budgets for public infrastructure projects will definitely be cut. This is an important sector with high margins for us. On the other hand, we expect rising capital expenditures in markets like energy generation as well as energy efficiency (smart grids), entailing big opportunities for the development of embedded computer technology. We warmly invite you to gain an impression for yourself from this annual report based on the global trends, their particular technological challenges and from these, of what we at Kontron can contribute to our clients on these markets.

Our particular thanks go out to our team of personnel who once again have done a tremendous job over the past year. We would also like to thank our clients, partners and shareholders very much for placing their trust in us in 2011. We hope that you continue to join us on this exciting journey.

Sincerely,

Ulrich Gehrmann
CEO

Interview with the Management Board

Ulrich Gehrmann, CEO and Dr. Jürgen Kaiser-Gerwens, CFO of Kontron AG, in conversation about the future of the ECT market, Kontron as a technological leader and the strategy for 2012.

Kontron claims to be the technological pioneer in the ECT market. What are you doing to maintain this position?

Ulrich Gehrmann _ We want to expand this market position, not just maintain it. Innovation and technological leadership is our most important driver for future sales and profit growth. Germany is still an extremely important research & development location for us. We do now conduct development work in parallel on almost all continents. For three reasons – the expertise on emerging markets has also now reached an excellent level. However the costs are still considerably lower than in Germany. Finally development work increasingly must be conducted closer to the clients and the markets. This is because the value added lies in development which is close to clients and customized.

Dr. Jürgen Kaiser-Gerwens _ Our claim to have technological leadership is, for example, emphasized by the fact that our R&D department consists of almost 1,000 engineers and is one of the biggest on the market. Furthermore, for many years now and also in 2011, we gained a large number of design wins, that means new projects requiring ECT solutions. Also our competitors' new developments are analyzed so that we are able to react promptly at all times.

You are active in many different markets. Don't you waste a lot of time this way?

Ulrich Gehrmann _ Quite the opposite. We develop and produce systems and solutions for seven vertical markets, sales markets I mean, in which our embedded computer technology is used: the telecommunications and infotainment sector, industrial automation, the energy, transport and medical technology segment and security & defense. We benefit in many ways from this diversified position compared with the competition. We generate economies of scale and of usage from new technological developments. This means, for example, that ECT solutions developed for a project, for instance in the energy sector, can be used in other vertical markets such as transport and medical technology. This also means that Kontron can react to changes in the dynamic of individual vertical markets by altering the focus of capacity.

Dr. Jürgen Kaiser-Gerwens _ Kontron's relatively diversified positioning also acts as a buffer during periods of crisis. Not many technological forerunners got through the 2008/2009 crisis with just a 6 % decline in sales like Kontron.

Ulrich Gehrmann
Chief Executive Officer of Kontron AG

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

Do you have plans to get into other markets?

Ulrich Gehrmann _ Of course. However, a decisive factor is for us to develop new markets and fields of application which allow us to make further use of the technologies and core expertise: They are always cutting edge technological ECT solutions for specific usages. And on this basis, we constantly examine new opportunities to use systems and solutions which already exist or which need slightly adjusting in various other sectors. This is how we entered the energy market for example. Interesting sectors for the future include M2M (machine-to-machine) communications, cloud computing for industrial usage or robotics, for example, in mechanical engineering.

Dr. Jürgen Kaiser-Gerwens _ Another source of opportunity comes from acquisitions. We look for companies which fit into our strategy and have comparable technological standards to Kontron.

Are you planning any further acquisitions?

Ulrich Gehrmann _ We aimed and still do aim to make targeted acquisitions. Growth through acquisitions is already part of our philosophy. The ECT market will further consolidate, primarily smaller ECT companies in many cases do not have the financial strength and the personal positioning to master the increasingly complex development requirements of industrial clients.

Dr. Jürgen Kaiser-Gerwens _ In early 2012, we were actually the selling party for the first time when we separated from the production of simple modules in Malaysia, again to focus Kontron's activities more on systems and solutions with higher value added.

So what are the particular potential growth areas for Kontron?

Ulrich Gehrmann _ There are several dimensions regarding our growth strategy. We generally assume appreciable growth in the ECT market. This is because embedded technologies are increasingly becoming part of day to day life, work and industry. The products, systems and processes must be implemented in an increasingly "intelligent" way, which extends the areas in which embedded solutions can be used considerably.

In the short and the medium term, another growth driver is appearing on the EC market. The increased pressure on costs among buyers of EC technologies and the fast pace of technological change is making outsourcing more common especially in times of economic uncertainty.

Ulrich Gehrmann _ In parallel we are addressing the vertical markets which hold a lot of prospects in the future and which in themselves are already promising growth. One example is the energy market. The shortage of fossil fuels, the constant growth in demand for energy and the withdrawal from nuclear power create new potential markets for EC technologies. Intelligent energy supply systems, also known as smart grids, will be a big thing in the future. These systems allow a much more efficient usage of energy sources by intelligently balancing power supply and demand with each other. All components of these smart grids use ECT solutions, from the computers that control wind farms through to energy producers' distribution plants and including smart meters for domestic households. Kontron is already working, for example, in Russia on a large smart grid project and with Linz AG, a utility company in Austria which is introducing the biggest ever smart metering project in the German-speaking world. We therefore see good growth prospects in the markets relevant to Kontron and excellent prospects for our technologies within these markets.

Dr. Jürgen Kaiser-Gerwens _ In the short and the medium term, another growth driver is appearing on the EC market. The increased pressure on costs among buyers of EC technologies and the fast pace of technological change is making outsourcing more common especially in times of economic uncertainty. By outsourcing development services for embedded computers, clients want to cut costs and react to technological changes more quickly.

But you're not the only ones. What are the competitors doing?

Dr. Jürgen Kaiser-Gerwens _ The competitive environment is characterized by less large and many smaller competitors. Most of the bigger competitors are focused on specific market segments. In principle we can say that companies offering ECT which concentrate exclusively on hardware-based technologies are under great price pressure compared with those offering ECT solutions which are development-intensive and ready-to-use such as Kontron. This expertise also constitutes a market entry barrier for competitors in the same way as the growing requirements of the clients who operate globally. In the medium-term it is only ECT companies of a sufficient size and financial strength which will be able to benefit from these developments. Kontron is definitely well-placed here.

Looking further into the future, what will the ECT market look like in 2020?

Ulrich Gehrmann _ 2020 is indeed far off but we envisage very strong growth on the ECT market until 2020 and far beyond. What does the future hold for embedded computer technologies? I will give you an example in a domestic situation. For example, if it were already possible to have a digitally networked home powered by machine-to-machine communication then the coffee machine would get switched on by the digitally networked alarm clock, the shutters would open from a signal and the stationary heating of the car would receive an instruction based on the weather conditions automatically generated through a mobile phone to switch on promptly. The refrigerator will in future be able to establish whether there is enough milk, butter or jam and when needed will use the order system to buy more from the store. The washing machine or the dishwasher will switch on automatically when the grid usage is lowest.

These examples demonstrate that the opportunities for using this technology are almost unlimited. We must now imagine that the opportunities for networked solutions are even much higher in industrial processes. Machine-to-machine communication is only one application for embedded computer technology, but it quite clearly shows that ECT is the future.

The Kontron share

2011 on the stock exchange

In the course of 2011, the situation on the international capital markets was characterized by a great deal of uncertainty as a result of the spread of European financial markets crisis and increasing US government debt. While the leading US DowJones index closed slightly up by 5.53 %, the leading European indices were considerably down. The EuroStoxx 50 fell by 17.05 % compared with the previous year and the DAX declined by 14.69 %. The TecDAX, which is relevant to Kontron, also performed poorly and decreased by 19.47 %. The Kontron share was unable to disconnect from this trend and reflected the course of the TecDAX, although to a lesser extent.

Share price January 01, 2011 - March 15, 2012

Performance of the Kontron share

The Kontron share started in January 2011 with an opening price of EUR 7.96 and, shortly afterwards, on January 12, 2011, recorded its annual high of EUR 9.38. While the share price remained stable in the first quarter, despite a positive performance in the second quarter, there was a slight downward trend. As a result of increasing insecurities on the financial markets, from the middle of the year investors concentrated more on the major DAX30 stocks and turned their backs on small and mid-caps. Despite record sales and good orders, the Kontron share was therefore unable to stop this downward movement in the third and fourth quarters and reached a low price of EUR 4.80 on December 19, 2011. The price rose at the year end, leading to a closing price for the year of EUR 5.06. After the announcement of the sale of the principal assets of the Malaysian production plants to Plexus Corp. in January 2012, the stock's upward trend continued to strengthen and by January 5, 2012 had already reached a level of over EUR 5.80. The rise continued in February to EUR 6.20.

The Share in figures

	2011	2010
Number of shares	55,683,024	55,683,024
Average price	EUR 7.05	EUR 7.06
Highest price	EUR 9.38	EUR 8.75
Lowest price	EUR 4.80	EUR 5.35
Closing price	EUR 5.06	EUR 7.99
Average daily trading volume	221,707	255,898

* Figures compared to XETRA

Trading volumes

Average daily trading volumes of the share on XETRA amounted to 221,707 in 2011, therefore slightly below the comparable figure for the previous year (2010: 255,898). The trading volume in 2011 was subject in some cases to strong fluctuations. In the first three months of 2011, the average trading volumes amounted to 309,053, while the daily average number of shares traded in the second quarter fell to 159,008. The following quarters saw a further return in the direction of the average value (Q3/2011: 220,943; Q4/2011: 196,867). For the whole of 2011, the aggregated trading volume stood at around 57.0 million in comparison to 65.5 million in 2010.

Market capitalization at the end of the financial year amounted to EUR 281.76 million compared with EUR 444.91 million in 2010.

Earnings per share

The earnings per share (EPS) grew in 2011. The prior year figure stood at EUR -0.24, and moved ahead to EUR 0.39 in 2011.

The Share in figures

	2011	2010
Earnings per share	EUR 0.39	EUR -0.24
Operating cash flow per share	EUR 0.57	EUR 0.29
Equity capital as at 31/12	EUR 5.99	EUR 5.76
Market capitalization on 31/12	EUR 281.76 M	EUR 444.91 M

Stock exchange listing and coverage

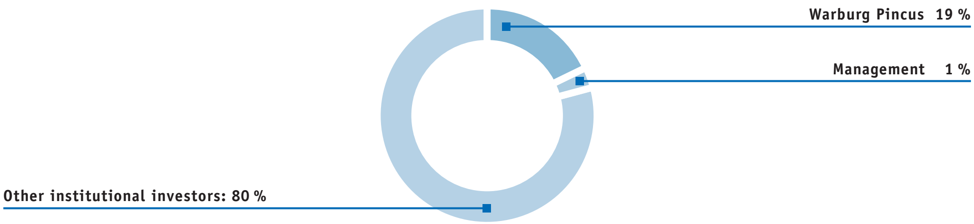
The Kontron share is listed on the regulated market in Frankfurt and meets the prime standard transparency requirements of the German stock exchange. The Kontron share is also traded on the OTC market on the Berlin, Düsseldorf, Hamburg, Hannover, Munich and Stuttgart stock exchanges. The Group is part of the TecDAX German technology index.
The Kontron share was covered by 15 analysts in 2011.

Shareholder structure

The private equity company Warburg Pincus holds 18.62 % of the 55,683,024 shares, and which considerably raised its stake in 2011 from the 10.00 % in 2010.

Shareholder structure

December 31, 2011



Kontron management holds one percent. The remaining 80.83 % includes, for example, the holdings of Fidelity Investments, JP Morgan and ING (Source: Factset, as of December 31, 2011).

Capital market communications

The work of the Investor Relations department at Kontron AG aims to achieve a continuous, ongoing and, open exchange of information with all capital market participants. The purpose is to create an understanding of the activities of Kontron AG as well as trust in the ongoing, positive performance of the company and therefore also the share. In the interest of achieving reasonable assessments, Kontron AG was represented at eight analyst conferences in the 2011 financial year and ensured capital market transparency by providing all relevant business performance information at nine road-shows. In recognition of its work, the Investor Relations department of Kontron AG was awarded the “IR Manager of the Year” by Handelsblatt in 2011.

Dividends

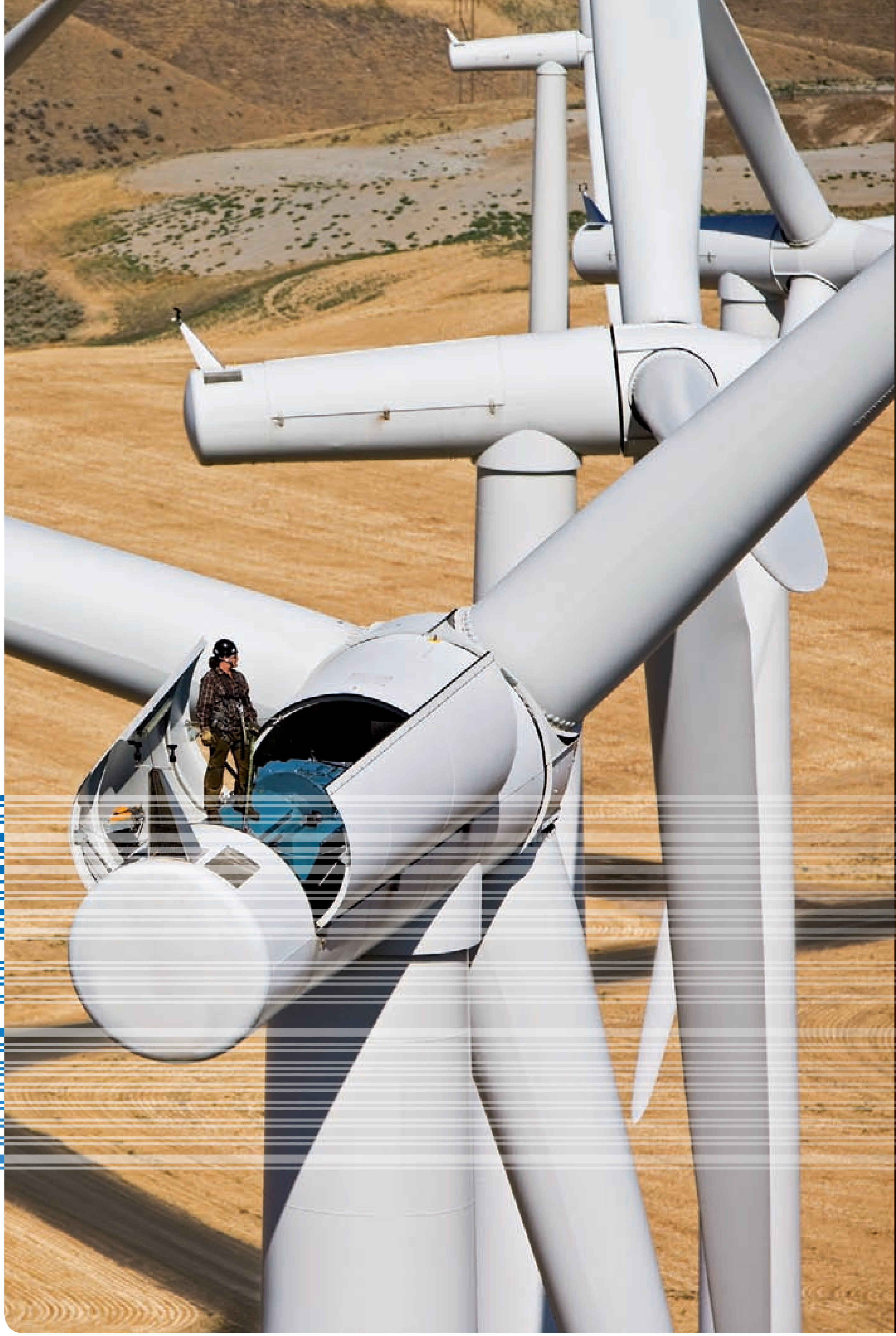
In accordance with Article 58 (2) of the German Stock Corporation Act (AktG), Kontron AG's proposed appropriation of earnings is based on the unappropriated retained earnings reported under German commercial law in the annual financial statements of Kontron AG. According to the financial statements of Kontron AG prepared under commercial law, unappropriated retained earnings of TEUR 17,918 are available for distribution. At the Shareholders’ Meeting, the Management Board and Supervisory Board of Kontron AG will propose a dividend distribution of EUR 0.20 per share and that the remaining amount should be carried forward. Against the background of a further planned positive and profitable development, but depending on the actual financial and operational situation, Kontron wants to let shareholders have a slice of the net operating results in the future as well.

Solutions for tomorrow

ENERGY

INTELLIGENT ENERGY SUPPLY

Solutions for tomorrow



ENERGY

TECHNOLOGY FOR INTELLIGENT ENERGY SOLUTIONS

Renewable energies are conquering the world. Climate change, the scarcity of fossil fuels and the growing demand for energy have all led to a fundamental rethinking of the way energy is obtained. Globally, the construction of on- and offshore wind farms, solar fields and hydropower plants is forging ahead, accelerated by the reactor catastrophe in Japan. The consulting firm McKinsey has forecast that global investment will rise from the current level of Euro 0.5 billion to Euro 2.1 billion by 2020, and that the share of renewable energies in the power mix will soar. The fact that renewable energy sources are prone to fluctuation, however, presents a great challenge for the flexibility and efficiency of existing power networks. The solution lies with intelligent networks known as smart grids. These grids harness “smart” supply management solutions to balance out peaks in demand and overcapacities.

ENERGY

SMART GRIDS: THE TECHNOLOGY OF THE FUTURE

Over the past 30 years, no other global energy sector has grown as fast as the renewable energies segment. Industry studies have shown that wind energy will be growing at the rate of 16 % per year up to 2020, and according to current estimates, total investments in wind power will rise from the current level of USD 153 billion (2011) to USD 820 billion by 2017. In the photovoltaic industry, it is possible that between now and 2015, new sales markets and additional applications for solar power will lead to an average annual growth in the sector of 18 %.

The major shift away from atomic power poses a great challenge to the existing energy supply. On the one hand, renewable energies such as wind and solar power are highly dependent on weather conditions, and therefore prone to fluctuations. Secondly, smaller, decentralized production plants need to be incorporated into the supply network, and this is something that will call for a high level of technological research and development in the future, especially with regard to the way in which energy is stored and transported.

The structural changes in energy production represent new challenges in terms of the flexibility and efficiency of today's power networks.

The objective is to enable the automatic balancing-out of peaks in demand and overcapacities, in order to achieve stable power supplies. Smart grids need to provide a comprehensive solution to these issues in the future.

Smart Grids enable the analysis, control and automation of energy flows from the plant to end users. With the help of smart meters, the demand and supply for power can be calculated automatically. Overcapacities can be delivered to end users more cost efficiently, while higher tariffs are applied to peak periods, thereby counteracting declines in demand.

Local and regional governments worldwide are now discovering the benefits offered by the energy efficiencies available with smart grids: According to pilot studies carried out in the USA, the energy requirement during peak periods can be reduced by 15 % with the help of smart grids. In view of structural conditions and the huge savings opportunities, this will be a strong market in the future, which the International Energy Agency IEA has quantified at approximately USD 50 up to 75 billion. Estimates based on industry studies have placed the growth rate at over 15 % in the ECT sector between now and 2015.

ENERGY

KONTRON PRODUCTS

Kontron offers a wide range of robust, high-availability computing modules, user interfaces and industrial servers for use in numerous applications in the energy sector, ranging from oil drilling and raw materials extraction through to power generation and grid surveillance.

PC/104™ Single Board Computer

» Small Form Factor for rugged environments
» Stackable, space saving, extremely robust
» Wide range of peripheral cards
» Extended temperature available

VME Modular Computer Systems

» Extreme long term availability
» Optimized for rugged, real-time solutions
» Excellent shock and vibration capabilities
» Air and conduction-cooled variants

Markets with particular future significance include the design and construction of smart grids and smart metering. Kontron's subsidiary ubitronix is fielding innovative, reliable hardware and software solutions for these application areas.

Box PC

» Easy customization
» Variety of interface options
» Fanless cooling and flexible expansions
» Long life-cycle support

Meter Server

» Platform for the realization of energy management applications
» Logs consumption data and provides immediate feedback on consumption behavior
» Integrated HomePlug AV based power line module
» Prepared for the integration of Home Automation and Photovoltaic Systems

ENERGY

KONTRON APPLICATIONS

On the road towards smart grids – projects for intelligent energy supply

Kontron already supports energy providers by developing and implementing energy efficient projects. Kontron's Austrian subsidiary ubitronix, for example, is currently working on the largest smart metering project in the German-speaking world, at its plant in Hagenberg together with Stadtwerke Linz. More than 100,000 households are expected to be equipped with electronic meters and linked up to the network over the next three years. ubitronix not only provides smart meters and other components for intelligent power supply, but also the software needed to operate such a comprehensive system.

The system is open enough to enable the smooth development of the smart grid in the future.

When installed at end customers, the ubitronix meter server transmits all the consumption data on site. With the help of existing IP-enabled devices such as smart phones, notebooks, tablets and smart TVs, the data can be easily displayed and accessed. All the disadvantages associated with the methods previously used to display consumption data, such as web portals and in-home displays with their high costs, data protection issues, poor extensibility and restricted functionality, will therefore be eliminated.

The smart meter server can host a multitude of smart services, which will enable intelligent energy management from the comfort of your own home. The energy-efficient, digitally networked household is no longer a futuristic vision. Automatic meters permanently measure a home's ambient temperature, and will automatically activate the blinds or heating in order to prevent fluctuations in temperature. When the network load reaches a minimum (at times when electricity also costs less), the boiler will switch on and the electric car will start recharging automatically. The system also allows for the integration of proprietary energy sources such as roof-mounted solar panels.

Wind farms – Renewable resources for a sustainable energy management

Wind farms – particularly in the offshore sector – are appreciated for their high availability and long-term, low maintenance operation. The hardware components at work in wind farms must therefore be extremely reliable and feature very robust design. Kontron's intelligent wind energy platforms meet these requirements, and guarantee efficient, reliable power production. The main tasks carried out by Kontron processors include systems control, the display/user interface, and data acquisition.

A control unit in the pod continually analyses data from the sensors, and adjusts the direction of the pod and blades according to wind conditions in order to maximize the efficiency of the energy yield. A Panel PC installed at the foot of the tower acts as a user interface, enabling local system control and maintenance.

Continuous surveillance of the installation enables the acquisition of productivity and operational data. The data can be acquired locally, for each wind plant, or centrally for the entire wind park. With central data acquisition, all the information from each turbine is channeled to a central control point where it is analyzed to allow the remote control and surveillance of the entire wind park.

ENERGY

TECHNOLOGY FOR INTELLIGENT ENERGY SOLUTIONS

Renewable energies are conquering the world. Climate change, the scarcity of fossil fuels and the growing demand for energy have all led to a fundamental rethinking of the way energy is obtained. Globally, the construction of on- and offshore wind farms, solar fields and hydropower plants is forging ahead, accelerated by the reactor catastrophe in Japan. The consulting firm McKinsey has forecast that global investment will rise from the current level of Euro 0.5 billion to Euro 2.1 billion by 2020, and that the share of renewable energies in the power mix will soar. The fact that renewable energy sources are prone to fluctuation, however, presents a great challenge for the flexibility and efficiency of existing power networks. The solution lies with intelligent networks known as smart grids. These grids harness “smart” supply management solutions to balance out peaks in demand and overcapacities.

I. 2011 Group Management Report

Contents

This is a translation of the German „Konzernabschluss gemäß § 315a Abs. 1 HGB der Kontron AG zum 31. Dezember 2011“. Sole authoritative and universally valid version is the German language document.

2011 Group Management Report

1. Market and business situation
1.1 Group structure and segments

Excellent market position thanks to technology and quality leadership
Along with its subsidiaries, Kontron AG is a globally active manufacturer of embedded computer technology (ECT), and ranks as one of the worldwide leading companies in the ECT market. Embedded computer technology refers to information technology that is integrated within a larger technical context – primarily in highly varied types of industrial applications, machines and products that are not destined for the end-consumer market. ECT manages monitoring, steering or controlling functions, for example, or is responsible for special types of data processing or transmission. ECT systems comprise a combined hardware-software implementation that is mostly developed for specific application tasks. ECT systems are typically subject to significantly higher quality requirements than consumer-based computer systems: complying, for instance, with customer specifications and market-specific certification, security, speed, resilience and durability, as well as low consumption of space, energy and memory. The key difference to consumer-based computers is that Kontron, with its embedded computer solutions, is integrated into end-product lifecycles, and generally supplies unchanged computer control systems for several years.

Kontron conducts research, development and production on all steps of the value chain in the embedded computer market. Focal points include the development, sale and support of computer boards all the way through to complete and application-ready system solutions. Kontron is present on seven vertical markets: telecommunications, industrial automation, infotainment, medical technology, transportation, energy, and security & defense. Kontron aims to create sustainable competitive advantages for its customers, including original equipment manufacturers (OEM), system integrators and application providers: primarily through superior technology and quality, through a significant reduction in the timespan until their new products are launched on the market, or through cost advantages that can be realized in the development of innovative ECT solutions with Kontron as a reliable partner.

The Group's business activities are split into three geographical regions for the purposes of performance measurement and controlling: EMEA, North America and Emerging Markets (primarily Russia, China and Malaysia). The Group's segment reporting reflects this regional split.

The products that Kontron sells are divided into three product groups: Embedded Computer Modules (Module/EMD), Embedded Computer Systems (Systems/ESD) and Embedded Computer Solutions (Solutions/SOD). These individual product groups are also reported in the Group's segment reporting.

Kontron also assesses market potentials on the basis of commercial trends in the seven vertical markets that Kontron serves with its products (telecommunications, industrial automation, energy, medical technology, transportation, security & defense, and infotainment), and presents these markets' business trends and strategy below.

Centralized organizational structures secure efficiency and create synergies

Kontron AG is the parent company of the Kontron Group. As a holding company, it is responsible for Global Group functions. These include departments such as Group Accounting, Controlling, Risk Management, Human Resources, Internal Audit, Legal & Compliance, IT, Investor Relations, Corporate Communications and Marketing. These globally coordinated functions were strengthened and expanded in the reporting year. R&D activities as well as Procurement and Logistics are also coordinated globally in order to effectively deploy global research and development resources, and to ensure that bundled procurement and logistics processes deliver superior efficiency.

Slight change to legal Group structures in the year under review

The Kontron Group comprises a total of 27 companies as of December 31, 2011 (previous year: 29). Two companies left the Group in the 2011 financial year, namely Business Center RT Soft and another formerly dormant entity.

Up to the end of 2011, the Group also operated its own centralized production location (Kontron Design Manufacturing Services Sdn Bhd) for module and board manufacturing in Penang/Malaysia. Most of the entity`s assets and businesses were sold to Plexus Corp. with effective date January 18, 2012.

1.2 Important products and services

Extensive product and services portfolio

Kontron offers its customers in the ECT market a broadly diversified portfolio of products and services. Kontron's range of services is split into the product groups of Embedded Modules, Embedded Systems and Embedded Solutions, whereby each of these individual segments account for an almost equal share of revenue.

Two areas are of equal importance among the other services that Kontron offers. The first area comprises customer-specific development work in close cooperation with renowned partners. As part of this, Kontron renders a noteworthy scope of engineering services, and is responsible for project lifecycle management over the entire development and production timeframe. Secondly, Kontron provides extensive support in all topics relating to application and operation, for instance through providing the latest information, drivers, BIOS, operating systems and technical applications for customers, and by ensuring that problems are solved rapidly and smoothly by expert partner personnel within the global Kontron network.

1.3 The Group's global locations

Successfully utilizing location factors

The Kontron Group benefits from a worldwide presence. The company is represented in the most important international markets for embedded computer technology (ECT) with its Group headquarters located at Eching near Munich, and further operating locations and subsidiaries, including in Germany, France, the UK, Denmark, Belgium, Switzerland, Russia, China, India, Taiwan, Malaysia, Mexico, the USA and Canada. Kontron is one of the few ECT companies that operates own development, customer service and specific production facilities in both Europe and North America, as well as in Asia (production until the beginning of 2012). The Kontron Group is currently maintaining 27 subsidiaries operations in 17 countries, including sales offices and development locations. A clear benefit for customers: Kontron enables products to be developed and shipped more rapidly in a sector where the shortest possible lead-time until a product is ready for the market represents a constant challenge.

1.4 Market position and influencing factors

Kontron ranks as one of the world's leading providers of ECT solutions

Kontron has positioned itself in the market as a full-service provider for original equipment manufacturers and other customers that require innovative embedded computer technologies. Kontron's strategic focus is on system integration and on offering complete solution packages.

Kontron is broadly positioned compared to its significant competitors, both measured in terms of its available technology, and with regard to the value steps that it covers – despite the fact that Kontron is gradually withdrawing from volume-driven production. At the same time, Kontron is pursuing a strategy of further deepening its vertical range of manufacture through customer-specific development services and added-value services. This reduces the significance of the pure production of modules components, which largely generated only low margins. By contrast, the systems and solutions areas are gaining importance – areas that also provide higher margins. Customer loyalty is particularly strong in the solutions segment due to the high level of development specialization, which significantly raises market entry barriers for competitors.

The company's broad positioning in various vertical markets such as energy, telecommunications, transportation, industrial automation, medical technology, security & defense, and infotainment is a special feature and strength of Kontron. Many of its competitors have specialized in only one or two of these vertical markets to date. Volatility in these sales markets exerts a corresponding and significant impact on specialist market participants. More broadly positioned providers such as Kontron also benefit from technology and application transfer, since solutions that have already been developed can frequently be deployed and further developed in different sales markets. For this reason, Kontron is ideally positioned to continue to benefit from ongoing market growth. Firstly, thanks to its size, the Kontron Group commands the requisite research and development resources, as well as procurement benefits. Secondly, Kontron's positioning is far more stable than its specialized competitors since differences in economic conditions are leveled across the different sales markets.

New technologies and application areas are key growth drivers in the ECT market, as well as, most notably, the rising cost pressure on customers that purchase and apply ECT solutions. This lends further momentum to the trend toward outsourcing, since companies across all sectors are focusing to a greater extent on their own core competencies. When outsourcing development and production services within the context of embedded computer technology, customers benefit from rapid cost-savings, insofar as their working capital partially undergoes a significant reduction, and their R&D departments benefit from capacity relief.

1.5 Takeover law disclosures

Disclosures pursuant to sections 289 paragraph 4, 315 paragraph 4 of the German Commercial Code (HGB) and Explanatory Report

Composition of subscribed capital, voting rights and transfer of shares
Kontron AG subscribed capital amounted to EUR 55,683,024 as of December 31, 2011, and was split into 55,683,024 nil-par ordinary shares, each with a proportional amount in the share capital of EUR 1.
There are no different types of share. All shares are furnished with the same rights and obligations. Each share grants one vote at the Shareholders' General Meeting, and is decisive for the shareholder's interest in the company's earnings.
Kontron AG shares can be transferred freely, and are not subject to any voting right restrictions. The company is not aware of any agreements between shareholders that restrict voting rights or the transferability of shares.

Shareholdings exceeding 10 % of voting rights
The company was notified on January 14, 2011 that WP International II S.à.r.l., Luxembourg, Grand Duchy of Luxembourg, had increased its direct voting right interest to 10.003 %, (5,570,000 voting rights).

On March 18, 2011, WP International II S.à.r.l., Luxembourg, Grand Duchy of Luxembourg, exceeded the threshold of 15 % of the voting rights in Kontron AG. This voting right interest now amounts to 18.62 % (corresponding to 10,369,000 voting rights).

Note: the list above exclusively contains direct interests in the equity capital that exceed 10 % of the voting rights.

Shares with special rights lending powers of control
There are no shares with special rights lending powers of control.

Statutory regulations and articles of association *regulations concerning the nomination and dismissal of Management Board members and amendments to the* articles of association
Pursuant to section 84 of the German Stock Corporation Act (AktG), the Supervisory Board is responsible for appointing Management Board members, and for dismissing them. The company's articles of association make the statutory regulations more specific by requiring that the Management Board of Kontron AG consists of at least two individuals. The Supervisory Board determines the number of Management Board members. The Supervisory Board may nominate one Management Board member to be the Chairperson or Spokesperson, and one Management Board member to be the Deputy Chairperson or Deputy Spokesperson of the Management Board (section 8 paragraph 2 clause 1 of the company's articles of association). The Supervisory Board can also appoint Deputy Management Board members (section 8 paragraph 2 clause 2 of the company's articles of association).

Pursuant to section 26 paragraph 1 of the company's articles of association, Shareholders' General Meeting resolutions are to be passed with a simple majority of the votes submitted, and, to the extent that a capital majority is required, with a simple majority of the issued share capital represented at the passing of the resolution, to the extent that neither the law nor these company's articles of association mandatorily require otherwise. The requirement for a simple majority shall also apply – to the extent statutorily permitted – to amendments to the articles of association and capital measures.

Pursuant to section 18 paragraph 4 of the company's articles of association, the Supervisory Board is authorized to approve amendments to the company's articles of association that affect solely their wording.

The last amendments to the articles of association were made pursuant to resolutions of the Shareholders' General Meeting of June 7, 2011, where the wording of sections 4 and 20 was changed.

Authorizations of the Management Board to issue or repurchase shares
Approved capital pursuant to section 4 paragraph 3 of the articles of association:
With a resolution of the Shareholders' General Meeting of June 7, 2011, the Management Board was authorized to increase, subject to the consent of the Supervisory Board, the company's share capital until June 6, 2016, once on several occasions, 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 (Approved Capital 2011).

The Management Board is authorized to exclude, subject to the consent of the Supervisory Board, shareholders' statutory subscription rights in particular instances that are set out in greater detail in section 4 paragraph 3 of the articles of association.

The Management Board has not yet utilized the authorization to increase the share capital from approved capital.

Authorization to issue convertible warrant bonds, participation rights, income bonds, and the creation of new conditional capital
With a resolution of the Shareholders' General Meeting of June 7, 2011, the Management Board was authorized to issue convertible warrant bonds, participation rights or income bonds (or a combination of these instruments) as follows:

a) Duration of authorization, nominal amount and number of shares
The Management Board is authorized until June 6, 2016, subject to the consent of the Supervisory Board, to issue once or on several occasions, bearer convertible or warrant bonds, participation rights or income bonds, or a combination of these instruments (together referred to as "bonds") in a total nominal amount of up to EUR 200,000,000.00. In addition, the Management Board is also authorized to grant the holders of such bonds conversion or warrant rights for the company's bearer shares with a proportional amount of the share capital totaling up to EUR 16,876,662.00 according to the more detailed specifics of the convertible or warrant bond terms. Apart from a denomination in Euro, the bonds can also be issued in the statutory currency of any OECD country, while being limited to the corresponding Euro consideration. The bonds can also be issued by a Kontron AG Group company in the meaning of section 18 of the German Stock Corporation Act (AktG). In this instance, the Management Board is authorized, subject to the consent of the Supervisory Board, to assume for the company the guarantee for the bonds, and to grant the holders of bonds conversion or warrant rights to Kontron AG shares.
The Management Board is authorized with the consent of the Supervisory Board to exclude shareholders' subscription rights in particular instances that are set out in greater detail in section 4 of the articles of association.

Also with a resolution of the Shareholders' General Meeting of June 7, 2011, the Management Board was authorized to conditionally increase the share capital by up to EUR 16,876,662.00 through issuing up to 16,876,662 new ordinary bearer shares (Conditional Capital 2011). This conditional capital increase serves the purpose to grant shares to the holders of bonds that are issued pursuant to the above authorization, to the extent that the issue was against cash. The new shares are to be issued according to the conversion or warrant price that is to be determined in each case according to the specifics of the authorization as set out in section 4 of the articles of association.
To date, the Management Board has not utilized the authorization to issue convertible or warrant bonds, participation rights or income bonds, as well as to increase the share capital from conditional capital.

The Management Board is also authorized to issue subscription rights to Kontron AG shares according to the more detailed specifics of the 2007 stock option program over a period of almost four and a half years in a total volume of 1,500,000 stock options. With a resolution of the Shareholders' General Meeting of June 9, 2010, the duration of the stock options issued as part of the 2007 stock option program, and which have not yet been exercised, was extended until December 31, 2013.

On the basis of this authorization, 1,500,000 stock options have been issued since 2007 to individuals entitled to such options. Since some of the stock options have lapsed, there were 1,235,592 stock options outstanding as of the balance sheet date. The share capital is currently still subject to a conditional increase of up to EUR 1,500,000 through issuing up to 1,500,000 new ordinary bearer shares (Conditional Capital 2007 I – section 4 paragraph 5 of the articles of association).

The Management Board is also authorized to issue subscription rights to Kontron AG shares according to the more detailed specifics of the 2003 stock option program over a duration of almost four and a half years in a total volume of 3,000,000 stock options. With a resolution of the Shareholders' General Meeting of June 9, 2010, the duration of the stock options issued as part of the 2003 stock option program, and which have not yet been exercised, was extended until December 31, 2013. There were 409,500 stock options outstanding as of the balance sheet date since some of the stock options have lapsed, some have been settled in cash, and some have been serviced through the company's treasury shares. The share capital is currently still subject to a conditional increase of up to EUR 1,104,850 through issuing up to 1,104,850 new ordinary bearer shares (Conditional Capital 2003 I – section 4 paragraph 4 of the articles of association).

The Management Board is authorized until June 8, 2015, to purchase and sell the company's own shares. This authorization is restricted to the purchase of the company's own shares with an arithmetic interest of up to 10 % in the share capital.

To date, the Management Board has not utilized the authorization issued in 2010 to acquire the company's own shares. As of the balance sheet date, Kontron AG held 111,976 treasury shares due to earlier repurchases.

Significant agreements entered into by the company that are subject to a change of control following a takeover offer

The company has not entered into any significant agreements that are subject to a change of control following a takeover offer, with the exception of the regulations for individual cases for Management Board members as presented in the following section.

Compensation agreements entered into by the company with Management Board members or employees in the instance of a takeover offer

The company has entered into a commitment with one Management Board member whereby the company will continue to pay his salary for up to two years of service if he discontinues his employment activities early, although the maximum term of this commitment is until the agreed end of the employment contract. Two Management Board members enjoy the right as part of a change of control agreement to terminate their employment contracts early if the company is taken over. The company is correspondingly committed to continue to pay these Management Board members' salaries until the regular end of their employment agreements, albeit to a maximum of three years' compensation.

1.6 Corporate Management Statement pursuant to section 289a of the German Commercial Code (HGB) and the Corporate Governance Report

The Corporate Management Statement pursuant to section 289a of the German Commercial Code (HGB) providing information about corporate practices, describing the working methodologies of the Management and Supervisory boards, the composition and working methodology of its committees, and the statement pursuant to section 161 of the German Stock Corporation Act (AktG) is publicly available on the company's website at www.kontron.com.

The Corporate Governance Report is reproduced in the 2011 Annual Report.

1.7 Basic aspects of the compensation system pursuant to section 289 paragraph 2 no. 5 and section 315 paragraph 2 no. 4 of the German Commercial Code (HGB) and Compensation Report

Compensation for Management Board members consists of fixed and variable components. It is composed of the following individual key components:

» Fixed compensation corresponds to the annual fixed salary, which is paid out in equal monthly amounts as salary after deducting taxes and constributions to the social security system.

» Kontron AG also provides company cars, and, in individual cases, reimburses the cost of travelling home for managers with primary domicile distantly located from the regular workplace.

Variable, performance-related compensation is paid as a bonus that depends on the extent that priorly determined earnings targets are reached. The Supervisory Board Chairperson sets the individual Management Board members' earnings targets annually in advance. The starting point is a bonus target that can accordingly be exceeded or fall short of. In 2011, the performance-related compensation depended on growth targets relating to the Kontron Group's revenue and operating earnings (EBIT), the attainment of cost objectives, and function-specific targets relating to individual Management Board members. This performance-related compensation carries an upper limit, and also depends on a certain minimum attainment. The variable compensation component with long-term incentive effect and risk character for the Management Board has been provided by a stock option program to date, and was supplemented by a program entailing virtual stock options in the 2011 financial year. Further information about compensation is published in the notes to the consolidated financial statements and in the notes to the single-entity annual financial statements. The Management and Supervisory board are covered by group directors & officers' (D&O) insurance cover.

1.8 Goodwill

Goodwill is tested annually for impairment. A review is also performed if circumstances indicate that its value may be impaired. At times during 2011, Kontron AG's market capitalization fell below the carrying amount of its equity. For various reasons, such as the after-effects of the Malaysia incident, uncertain business prospects, and the earnings forecast downgrade, Kontron's management was of the view that this valuation discount was primarily attributable to a temporarily pessimistic perception of Kontron on the capital market. The share price performance during the first weeks of 2012, when valuations returned sustainably to levels above the balance sheet equity, indicates that capital market participants had reassessed Kontron with significantly greater optimism and confidence.

2. Business situation
2.1 Management Board's overall statement

Strong growth continues for embedded computer technology market

Demand for embedded computer technology (ECT) continued to report significant growth in 2011 (Sources: VDC, NVR, IMS, Heavy Reading and own market research, competitors' reports). Year-on-year growth rates have nevertheless normalized somewhat, settling at a level that corresponds to those prevailing before the economic crisis in 2009.

The two key driving factors behind the continued high level of demand for ECT products were, firstly, the constant advance of embedded computer technology into new application areas and possible uses, and, secondly, the ongoing trend towards the further outsourcing of solutions that companies have previously developed themselves. Embedded computer technology is penetrating ever deeper into the world of products and applications, particularly in the end-markets that Kontron serves such as energy, telecommunications, medical technology, infotainment, transportation, security & defense, and industrial automation. Since the growth of the embedded computer technology market correlates directly with these end-markets, their positive trends in 2011 fed through to an immediate and rapid rise in demand.

Macroeconomic factors in 2011 resulted in public-sector orders being postponed or cut across all regions.

Almost all customer sectors continue to further reduce their planning and stock cycles due to uncertainties in their environment, in order to thereby respond more rapidly and flexibly to potential demand fluctuations. This approach is currently exerting a somewhat dampening effect on the embedded computer technology market. ECT companies that are successful in reacting to these increasingly short-term requirements with corresponding offerings and higher availability are benefiting from this situation.

An identifiable and unchanged trend towards further consolidation in the embedded computer technology market was also evident. Key drivers included the partial presence of margin pressure on customers due to large companies' purchasing advantages, and, in particular, critical mass requirements for constantly rising research and development investments. Since embedded computer technologies are being deployed in a rising number of areas – and increasingly complex areas – manufacturers are confronted by constantly higher requirements in terms of technology integration, as well as systems and solutions expertise. Pure production is becoming increasingly less important as a consequence. Kontron will continue to scout for attractive acquisitions in order to further strengthen its portfolio.

Demand for ECT solutions is rising in all areas of commercial and public life as a result of global trends such as energy efficiency, urbanization, mobility and the ageing of industrial countries' populations, as well as new technologies such as cloud computing, machine-to-machine communications, and Advanced RISC Machine architecture. Commercial market impulses had an overall positive impact on the seven different vertical markets in which Kontron operates.

Kontron is broadly positioned: Trends by vertical market

The security & defense vertical market reports a declining order trend since public-sector spending is being subjected to extensive savings campaigns, and planned projects have been postponed due to high levels of indebtedness. This trend is anticipated in all publicly-supported projects due to the economic situation.

The trend in the telecommunications market is positive since additional revenue potential has been tapped through the acquisition of new customers. Although there is a downturn in new infrastructure programs, telecoms operators' existing structures must be adapted to the requirements of constant data volume growth and the need for greater bandwidths. This is feeding through to a continued need for follow-up investments, and growth prospects for 2012 that can currently be described as stable.

The energy market reported strong growth in the ECT market in 2011. This growth is primarily attributable to underlying factors such as emerging economies' growing energy demand, fossil fuel scarcity and the partial retreat from nuclear energy. Due to global energy demand growth, solutions to boost energy efficiency, such as smart grids, are being developed worldwide. Through projects and cooperation ventures in this area, Kontron is making early preparations for its positioning on this future market. The Group achieved strong growth in the energy sector as the result of several large-scale projects in 2011: Kontron is currently working with a Russian energy utility company on the creation of a smart grid, for example. Kontron was also involved in an extensive project with the public utility company of the city of Linz in Austria to equip 100,000 households with smart meters in 2011.

ECT customers in the industrial automation market were exposed to growing cost pressure in 2011, which was primarily triggered by Asian providers. Corresponding outsourcing trends should strengthen over the short to medium term, which could also exert a positive impact on the medium-term order situation. In order to tap further market potential in this area, Kontron has been developing Human Machine Interface (HMI) solutions for industrial automation in North America since 2011, since these important components for customers have not yet been sold there. HMI solutions create interfaces between man and machine, for example for data input and output.

The transportation market continues to report high growth. This is primarily due to investments in the rail technology and vehicle areas. Modernization projects and the trend towards autonomous conveying and fleet management systems are boosting market demand for intelligent systems. Since these systems require increasingly complex ECT solutions, value creation can be deepened further through individual development services. Kontron's management anticipates continued growth in 2012 as a result of these developments.

Strong worldwide growth continues to be expected in the medical technology market due to demographic effects and global population growth. The ECT sector is benefiting primarily from the ongoing trend towards mobile units, and the withdrawal from large stationary equipment. New technologies such as Advanced RISC Machine (ARM) architecture are the primary drivers behind the development of flexible medical technology equipment. Kontron was one of the first ECT providers to include this new, energy-efficient ARM technology in its standard product portfolio in 2011, in order to be well positioned for this promising market at an early stage. The increasing deployment of intelligent medical supply systems also offers further potentials to deepen value creation.

The infotainment market exhibited very heterogeneous trends in 2011. High volatility characterizes market trends in the gaming area, reflecting the generally uncertain economic outlook. Kontron will loose market shares in this sub-segment in the future, primarily due to the enormous competitive pressure exerted by low-price providers from Asia. In this area, too, Kontron aims to differentiate itself from its competitors by offering application-ready systems in the future. A countertrend is nevertheless emerging on the market for systems for so-called Point of Interest (POI) and Point of Sale (POS): demand for embedded computer technology continues to rise since these electronic kiosk-systems, which provide electronic and media information for retail purposes, are integrating an increasing number of control elements and functions. A strong growth market for ECT-based systems will arise in the medium term through their growing application in the automation of sales and offering processes, support for logistics programs, in digital signage systems, and particularly in the service area for interactive infotainment offerings.

2.2 Significant events

The following noteworthy organizational changes occurred within the individual Group companies in the past financial year:

» Far-reaching integration of acquired Kontron companies in North America, and restructuring in Canada: the integration of AP Labs Inc., San Diego/USA, which was acquired in 2010, was concluded. In Canada, the workforce of Kontron Canada Inc., Boisbriand/Canada, was adapted to anticipated business volumes.

» Outsourcing and closure of module and board manufacturing of Kontron Compact Computers AG in Luterbach/Switzerland: as part of the rationalization of production processes, large series production was outsourced to Asia for the future, and smaller volume business was transferred to European subcontractors.

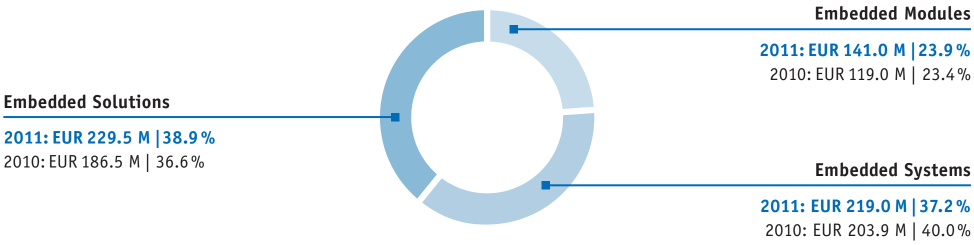
Kontron entered into an agreement with Plexus Corp. at the start of 2012 relating to the sale of significant parts of the business operations of Kontron Design Manufacturing Services Sdn Bhd, Penang/Malaysia. Kontron aims to focus its business to a greater extent on higher-margin systems and customer-specific solutions in the future. Kontron will purchase the modules it requires in the future from Plexus in a volume of approximately USD 100 million per year. This intensifies the strategic partnership that already exists, and exploits the purchasing advantages that Plexus Corp. enjoys.

2.3 Results of operations

Kontron generated record revenues of TEUR 589,570 in 2011. This represented a significant, 15.7 % gain, exceeding the previous year's record revenue of TEUR 509,478.

Product segment revenues

in EUR M

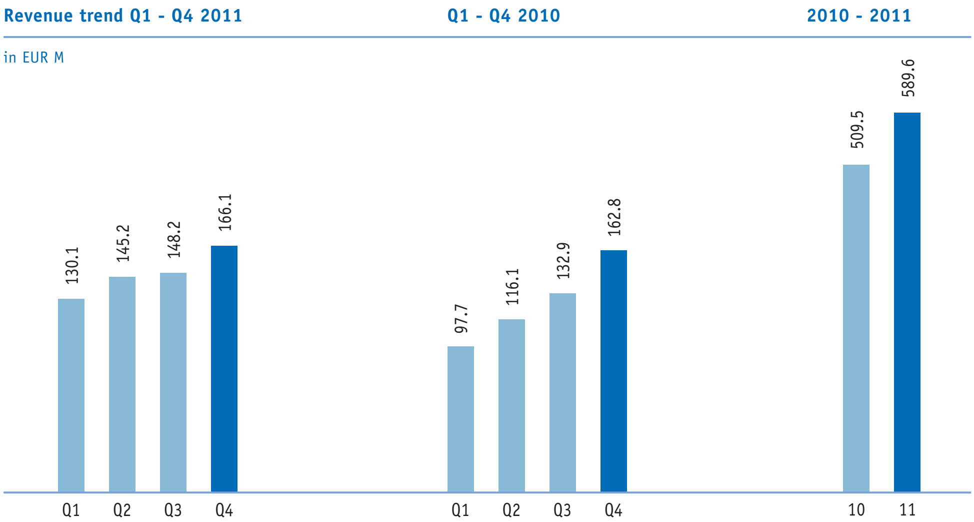


Regional revenue trends

The breakdown of total revenue by sales regions is as follows: EMEA generated revenue of TEUR 258,069 representing 9.8 % growth compared with the TEUR 235,015 generated in 2010. The company achieved 18.4 % revenue growth in the American market (2011: TEUR 223,222; 2010: TEUR 188,480). Kontron grew its revenue by 25.9 % in Emerging Markets, from TEUR 85,959 in the previous year to TEUR 108,247.

Revenue trends over the course of the year

Kontron AG reported a very strong start to the 2011 financial year with TEUR 130,079 of revenue in the first quarter, representing 33 % growth. This trend continued in the second quarter with growth of around 25 % to TEUR 145,245. Although the third quarter of 2011 showed that further growth could be achieved in the ECT market in general, and for Kontron in particular, the growth tempo nevertheless slowed. Revenue between July and September was up by 12 % to TEUR 148,215 accordingly. Despite the high degree of macroeconomic uncertainty, revenue of TEUR 166,032 was achieved in the fourth quarter, which tends to be the strongest quarter in terms of turnover. This is equivalent to 2 % growth. Revenue growth weakened in the fourth quarter as public-sector orders were postponed or cancelled in the infrastructure and telecommunications areas as a consequence of the economic cooling.



Revenue trends in vertical markets

Revenue growth was reported in all vertical markets in 2011, with the main drivers being the energy, industrial automation and transportation areas, each of which delivered 10 % growth. Kontron also reported higher revenue in other sales markets such as infotainment, security & defense, and medical technology.

Gross profit was up by 12.3 % from TEUR 147,881 to TEUR 166,060 in 2011. Gross profit would have stood at TEUR 170,997 when adjusted for these exchange-rate effects.

The fact that Kontron had already withdrawn from the EMS business in 2010 in order to focus to a greater extent on high-margin products exerted a positive impact on gross earnings. This move was also accompanied by a stronger emphasis on the systems and solutions areas compared with modules. Gross profit grew at a slightly lower rate than revenue because of a sharp increase in order-related development costs. Material costs grew slightly faster than revenue. Although Kontron successfully limited the effects of price increases in 2011, higher procurement prices were nevertheless incurred in some individual instances, particularly following the natural catastrophe in Japan when there were some cases of market supply shortages. The revaluation of the Malaysian subsidiary's stocks also had an impact of approximately EUR 2 million. This revaluation was applied in connection with the sale to Plexus.

Other production costs increased in line with revenue. The rise in amortization applied to development projects from TEUR 7,505 to TEUR 9,742, which was greater than the revenue growth, is due to the overall higher capitalized base.

Functional costs (sales, administration, research & development) grew much more slowly than revenue, rising by 8.5 % from TEUR 124,719 to TEUR 135,381, reflecting consistent cost discipline. In particular, past investments in global sales activities meant that sales costs increased by only 4.6 %, despite the high rate of revenue growth. Sales costs as a ratio of consolidated revenue fell from 9.2 % to 8.4 %. The ratio of administrative costs to consolidated revenue also fell from 7.3 % to 7.1 %. The percentage decrease of administration costs compared with the previous year would have been even higher without special effects connected with the sale of the Malaysian production operations of KDMS. These included risk provisions for lease objects that are no longer utilized, and other longer-term agreements, for example.

Directly expensed research and development costs, which increased from TEUR 40,369 to TEUR 44,514, should be considered in connection with TEUR 18,254 of capitalized development projects. Research and development expenses correspondingly totaled TEUR 62,768 in 2011. The R&D ratio on revenue also fell slightly from 7.9 % to 7.6 %.

Operating cost breakdown (in TEUR)

	2011	2010
Personnel costs	83,275	79,020
Rent, building and facility maintenance	12,041	10,705
Depreciation / amortization	8,608	7,471
Legal, consultancy and auditing costs	6,480	4,191
Advertising	4,603	4,726
Third-party services	4,480	4,648
Office material and internal material requirements	4,348	3,502
Travel expenses	3,825	3,508
Insurance policies and bank charges	2,019	1,450
Car fleet	1,986	1,824
Telephone and communications	1,382	1,457
Miscellaneous	2,334	2,217
	135,381	124,719

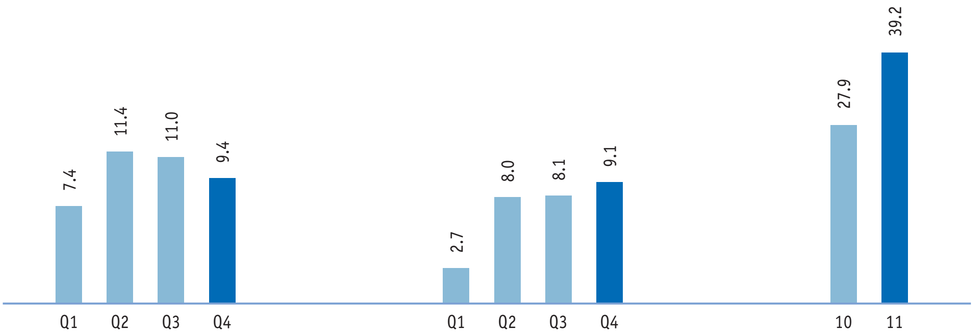
The net balance of other operating income and other operating expenses improved to TEUR 3,414 in 2011. The previous year's comparable figure stood at TEUR 28,997, primarily reflecting the one-off impairment charge and risk provision for Malaysia of TEUR 33,778. The largest individual items in 2011 were TEUR 14,396 of exchange-rate gains, which were offset by TEUR 14,040 of exchange-rate losses. These are mainly exchange-rate differences comprising income and expenses arising in the period between the generation and final payment of foreign-currency receivables and payables.

Earnings trends

Operating earnings before interest and tax (EBIT) rose to TEUR 34,093 in 2011. This represents a 5.8 % EBIT margin. For the purposes of comparison: Kontron generated EBIT of -5,835 in 2010. On a comparable basis, the operating earnings increase amounts to around 40 % when adjusting both the 2010 comparable figure to reflect the one-off negative effects of TEUR 33,778 arising from the valuation adjustments applied to receivables in Malaysia, and 2011 EBIT to reflect one-off costs of TEUR 5,095 connected with the sale of the Malaysian production operations. The earnings increase is primarily attributable to the marked revenue growth and economies of scale. These effects more than compensated for the extremely tangible cost pressure in sub-markets, and the increase in development costs.

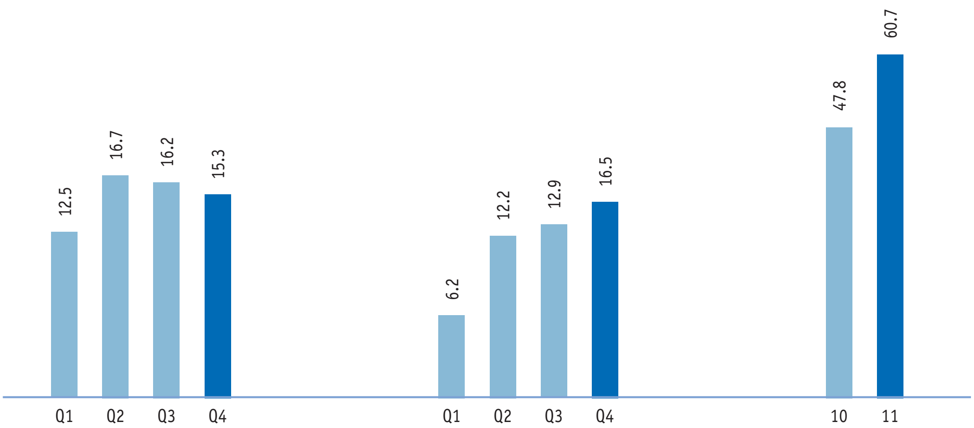
EBIT Q1 - Q4 2011**   EBIT Q1 - Q4 2010*   EBIT 2010* - 2011**

in EUR M



EBITDA Q1 - Q4 2011**   EBITDA Q1 - Q4 2010*   EBITDA 2010* - 2011**

in EUR M



* 2010 figures excluding Malaysia risk provision   ** 2011 figures excluding one-off Malaysia costs

Earnings before interest, tax, depreciation and amortization (EBITDA) increased by 27.1 % during the reporting period, from TEUR 47,798 to TEUR 60,740.

The net financial result mainly reflects the net interest result arising from liquid fund investments and financing expenses. The financial expense was improved from TEUR 3,243 to TEUR 1,881 in 2011. The net financial result in the consolidated financial statements in 2010 included a TEUR 1,830 impairment charge applied to a non-fully-consolidated equity participating interest.
The tax charge shows a significant increase to 29.7 % in 2011. The year-on-year increase in the tax charge, although it is fully in line with the average established over several years, primarily reflects the fact that 2011 earnings were generated predominantly in countries with high tax rates, such as the USA and Germany, while the Malaysian subsidiary's losses could not be offset for tax purposes.

Earnings after tax stood at TEUR 22,911 (previous year: TEUR -13,353), with the share attributable to non-controlling interests amounting to TEUR 1,020 (previous year: TEUR 166). This results in EUR 0.39 of earnings per share in the 2011 financial year, compared with EUR -0.24 in the previous year.

Quarterly business trends in 2011

Revenue

Kontron AG made a very good start to 2011, with a 33 % year-on-year revenue increase to EUR 130.1 million in the first quarter (Q1/2010: EUR 97.7 million). This strong growth was reflected equally across all regions, with broad demand in the industrial automation application market proving particularly strong in Europe. This trend continued in the second quarter with approximately 25 % growth: EUR 145.2 million represented a marked revenue increase compared with the second quarter of the previous year (Q2/2010: EUR 116.1 million). The strongest growth rates were achieved in North America, but also in emerging markets, particularly Russia and China. Despite the increasingly difficult economic environment reflecting the intensification of the Eurozone debt crisis, and uncertainty on the markets, Kontron continued to report double-digit revenue growth of around 12 % in the third quarter to a total of EUR 148.2 million (Q3/2010: EUR 132.9 million). This difficult trend in the environment even intensified a little further in the fourth quarter. Both public-sector customers and corporations were significantly more cautious in awarding orders due to the continuing economic deterioration and the saving paths adopted by many countries, which was reflected in revenue development in the fourth quarter of 2011. At EUR 166.1 million, Kontron nevertheless achieved year-on-year revenue growth (Q4/2010: EUR 162.8 million).

Gross margin

Kontron reported a significant increase in absolute terms of its gross margin over the course of 2011: in the first three months of 2011, Kontron achieved an increase to EUR 39.5 million compared with EUR 28.6 million in the same period the previous year. At 30 % of revenue, it was above the previous year's 29 % average. The absolute gross margin was raised again in the second quarter of 2011, rising from EUR 37.1 million in the prior-year period to EUR 40.3 million. The third quarter also followed this trend with growth to EUR 44.2 million (Q3/2010: EUR 38.5 million). In the fourth quarter, the gross margin in absolute terms fell slightly to EUR 42.1 million (Q4/2010: EUR 43.7 million). This slight slowdown in dynamism was also reflected in the gross margin trend. Relative to revenue, the margin fell over the course of the year from 30 % in the first quarter to 25.3 % in the fourth quarter. The reasons for this are the residual effects arising from the allocation of components, which occurred in 2011, and the start-up of new large-scale projects, which still entail somewhat lower gross margins during this phase. The gross margin in the fourth quarter of 2011 would have been 26.6 % excluding the KDMS effect (revaluation of inventories due to the forthcoming sale of production operations).

EBIT

Kontron reported significant year-on-year EBIT growth in the first quarter of 2011: from EUR 2.7 million in Q1/2010 to EUR 7.4 million in Q1/2011. Kontron continued this trend in the second quarter. At EUR 11.4 million, operating earnings were significantly above the EBIT registered in the prior-year period (EUR 8.0 million, before risk provision for Malaysia). Third-quarter EBIT stood at EUR 11.0 million, reflecting 36 % year-on-year growth (Q3/2010: EUR 8.1 million). Fourth-quarter earnings growth slowed somewhat due to the cooling economy and its corresponding effects on Kontron sales markets. They were also impacted by one-off effects that were implemented in advance of the sale of the significant assets of KDMS in Malaysia, which was carried out in 2012. Consequently, EBIT in the fourth quarter of 2011 was down compared with the comparable period of the previous year, falling to EUR 4.3 million (Q4/2010: EUR 9.9 million).

Design Wins

In line with the positive business trend in the first quarter of 2011, the volume of design wins of EUR 77.8 million was also at a good level (Q1/2010: EUR 79.2 million). The second quarter also reported a gratifying trend in the volume of design wins: Kontron reported a 15 % increase compared with the second quarter of 2010 to EUR 71.2 million (Q2/2010: EUR 62.0 million). The third and fourth quarters increasingly reflected the uncertain economic situation, with companies becoming more restrictive in their tendering policies for specific development projects. As a consequence, the volume of design wins in Q3 2011 fell to EUR 82.9 million, compared with EUR 92.0 million in the third quarter of 2010. This trend continued in the fourth quarter (Q4/2011: EUR 51.9 million; Q4/2010: EUR 72.9 million).

Cash Flow

In the first quarter of 2011, Kontron achieved an improvement in cash flow compared with the comparable prior-year period (Q1/2011: EUR 2.9 million; Q1/2010: EUR -7.7 million). A potential and more significant increase was dampened by the targeted accumulation of inventories of important components and building blocks in advance of the higher new order intake, and uncertainties that prevailed at that time concerning the supply chain following the catastrophe in Japan. Second-quarter cash flow was EUR 3.7 million and also clearly above the previous year's EUR 0.6 million. This trend continued in the third quarter of 2011 (Q3/2011: EUR 3.7 million; Q3/2010: EUR -1.3 million). Fourth-quarter cash flow stood at EUR 21.2 million, compared with EUR 24.6 million in Q4/2010.

2.4 Financial position

Objectives and principles of financial management

A significant objective of the Kontron Group's financial management is to secure the liquidity of the parent company and its subsidiaries. The operating business is the Group's main source of liquidity. Financial activities are also aligned with the operating business. Kontron operates a global financial management system which includes all significant subsidiaries, and which is organized increasingly centrally at Group level. A further aim at Kontron is to constantly improve financial strength, and to minimize financial risks, whether through constant credit checks on debtors, or the deployment of financial instruments. Kontron started in 2011 to create a central treasury function for this purpose.

Liquidity not required is invested directly at banks based on standard market terms. The focus in this context is on short-term availability and respective security and lesser on the maximum of returns. For example, in case of any potential acquisition the financial resources should be directly available.

Development of the financial position

The Group's gearing, which is understood as the ratio between debt and equity, improved to 56.9 % as of December 31, 2011 (previous year: 60.7 %).

Kontron generated TEUR 31,564 of operating cash flow in the 2011 financial year (2010: TEUR 16,234). A key reason for the operating cash flow growth was the good earnings trend in combination with slower working capital growth. Trade receivables were up in line with revenue growth. Although there was a significant cash inflow arising from the change in trade payables and provisions in 2011, it was not as great as in 2010.

An amount of TEUR 28,431 was invested in technology and fixed assets (2010: TEUR 24,912). This increase is equally attributable to these two areas. By contrast with 2010, the company made no acquisitions in 2011. Accordingly, the total cash outflow from investment activities fell from TEUR 48,482 to TEUR 29,278.

Funds of TEUR 22,388 were consumed in financing activities (previous year: TEUR 6,362 of inflows). Significant transactions included the TEUR 11,373 dividend payment (previous year: TEUR 11,212), the net redemption of current loans in an amount of TEUR 21,470 (previous year: TEUR 17,993 inflow), and the net assumption of non-current financial liabilities in an amount of TEUR 10,455. Overall, bank borrowings changed from TEUR 45,513 in 2010 to TEUR 37,000 in 2011. The Kontron Group's liquid resources stood at TEUR 38,165 as of the December 31, 2011 balance-sheet date (2010: TEUR 57,186).

Key financial position figures

Key figure	Definition	2011	2010	Change
Net debt	Cash in hand and bank balances less bank borrowings	TEUR 1.2	TEUR 11.7	TEUR - 10.5
Working capital	Current non-current assets less current liabilities	TEUR 125,575	TEUR 119,167	5.4 %
Cash flow per share	Operating cash flow / number of shares in issue	EUR 0.57	EUR 0.29	96.6 %
Capex ratio	Investments in fixed assets / consolidated revenue	4.8 %	4.9 %	- 2.0 %

2.5 Net assets

The total assets of the Kontron Group stood at TEUR 523,479 as of the balance sheet date (2010: TEUR 515,565). Of the gross assets, TEUR 223,510 were attributable to EMEA (previous year: TEUR 230,270), TEUR 159,779 to America (previous year: TEUR 161,362), and TEUR 106,621 to Emerging Markets (previous year: TEUR 100,024).

Liquid funds amounted to TEUR 38,165 in 2011 (2010: TEUR 57,186). These were offset by TEUR 37,000 of bank borrowings (previous year: TEUR 45,513). The fall in current liabilities from TEUR 44,009 in 2010 to TEUR 23,756 in 2011 results from the repayment of current bank borrowings, and the conversion of the acquisition financing for AP Labs Inc., San Diego/USA, into longer-term liabilities.

As a consequence, the net cash position fell year-on-year due to the repayment of bank borrowings. In addition to liquid funds, Kontron has access to unutilized credit lines, and consequently reports a healthy financing structure that allows it to seize future growth opportunities and reach its corporate objectives.

Inventories (including prepayments) increased from TEUR 110,114 at Group level in 2010 to TEUR 111,476 in 2011. As a consequence, Kontron reports a significant optimization of its inventory position relative to its revenue growth.

Trade receivables stood at TEUR 123,625, compared with TEUR 116,296 in 2010. At 6 %, the change is less than the significant revenue growth.

Miscellaneous current receivables mainly contain tax receivables.

Assets held for sale of TEUR 18,819 (previous year: TEUR 0) arise from the separate reporting of the assets of the KDMS subsidiary that was sold, whose sale and disposal were completed in January 2012.
This reclassification also had an effect on property, plant and equipment, which fell by TEUR 4,291 to TEUR 20,695 in 2011. In this instance, additions due to new investments were also offset by disposals resulting from the reclassification of assets held for sale.

Other intangible assets increased to TEUR 68,756 (2010: TEUR 62,339).
Recognized goodwill of TEUR 111,027 was almost unchanged compared with 2010. The change is mainly attributable to currency effects. There was no requirement to apply impairment charges to goodwill.

Key net assets figures

Key figure	Definition	2011	2010	Change
Equity ratio	Equity / total equity and liabilities	0.64	0.62	3.2 %
Inventory turnover rate	Cost of sales / average inventories	3.8	3.6	5.6 %
Days of Sale Outstanding (DSO)	Trade receivables / consolidated revenue * 360 days	75.5	82.2	- 8.2 %

2.6 Other developments in the 2011 financial year

Potential fraud in Malaysia in 2010 – current status
Due to the suspicion of fraudulent activities of the subsidiary in Malaysia in 2010, a risk provision of EUR 31.1 million was built for doubtful receivables and inventories. Legal costs of EUR 2.6 million were also incurred in this connection in 2010. Impairment charges were required for outstanding receivables due from customers in Malaysia, Taiwan and Hong Kong, since incoming payments were discontinued, and the contractually agreed provision of collateral failed to occur.

Civil lawsuits were brought against all debtors and participants in October 2010 after the conclusion of internal and, in particular, external investigations with the help of lawyers and auditors. There was no further information concerning the results of the investigations in the financial year elapsed. The lawyers who have been employed are currently unable to gauge when a ruling will be made. For this reason, the impairment charges applied to receivables in 2010 remain at an unchanged level.

Solutions for tomorrow

DEMOGRAPHY

PIONEERING
MEDICAL TECHNOLOGIES

Solutions for tomorrow

kontron

DEMOGRAPHY

PIONEERING MEDICAL TECHNOLOGIES

Demographic changes in the industrialized nations and the sharp growth in the populations of developing countries have led to the need for a large-scale expansion of the world's healthcare system. In 2050, one-third of the population in industrialized nations will be aged 60 and over, and in Germany 12.1 % of that group will be made up of the super-elderly, aged 80 and over. As the uptake of medical services soars with age, experts consider that as early as 2013, a growth in market volumes will set in, which will rise from the current level of Euro 240 billion to Euro 300 billion in the German healthcare sector. Conversely, the sharp growth in the populations of developing countries such as India and China will result in huge demand for high performing healthcare systems and continued strong growth in the medical technology markets.

DEMOGRAPHY

MARKET POTENTIAL

With the heavy burdens the ageing populations in industrialized countries are imposing on the one hand, and the huge increases in the populations of developing nations on the other, cost pressures on global healthcare systems are escalating rapidly. A long term solution to this problem calls for the development of innovative yet cost-effective technologies. For example, the digital storage and processing of data, ultra-precise imaging techniques and robot-controlled treatments hold great high cost-savings potential. Embedded computer technologies play a central role in this context.

Thanks to networked practice communication systems, treatment data can be retrieved immediately and stored digitally. X-rays, the latest blood test results and even ECGs can all be sent directly to the consultation room. These capabilities deliver enormous potential for savings in treatment and administration costs. Expensive treatments no longer need to be duplicated, doctors can exchange information freely, and laborious document filing procedures can be completely eliminated.

Innovative treatment and research methods also offer the advantage of reducing the length of hospital stays, or even making them unnecessary.

Robot-controlled radiosurgery systems are already used today, in order to destroy tumor cells while leaving the surrounding healthy tissue unscathed. Thanks to digital imaging systems, the tumor can be identified and removed to sub-millimeter accuracy. This means that operations no longer need to be accompanied by a stay in hospital.

The use of new, energy efficient technologies in the EC market, such as Advanced RISC Processor Architecture (ARM), will lead to a significant reduction of medical costs in the future, while simultaneously assuring improved quality. For example, mobile testing instruments enable the fully-automated collection of data, and then transfer routine test results to a central processing point, which can avoid the need for time-consuming doctor's appointments.

With a global market worth over Euro 170 billion each year, medical technology experts are expecting to see the embedded computer technologies segment expand by 15 % each year, until 2015. Kontron, as an innovation leader in the embedded segment, offers numerous applications for the future of the medical technologies market: Customer-specific implemented solutions combine maximum performance with top precision and application flexibility.

DEMOGRAPHY

KONTRON PRODUCTS

Kontron develops and manufactures standard as well as customer-specific embedded and mobile solutions for high-level applications in the world of modern medical technology. A careful balance between high quality, long-term availability of components and optimal adaptability to new technologies

Medi Client

» Panel PC for Medical Equipment OEMs
» Scalable display sizes 10", 15"
» Robust, light and easy to clean plastic housing
» Designed for medical certification

Embedded Motherboards

» Mini-ITX to full size ATX
» Up to 2nd Generation Intel® i7/ i5/ i3 Dual Core and Quad Core CPUs
» Long-term available up to 7 years
» High graphics performance

is extremely important in the medical market. With these objectives in mind, Kontron offers accurate, failsafe, tailor-made solutions for all segments of the medical technology market.

Computer-on-Modules

- 3 form factors: **basic** (125x95mm), **compact** (95x95mm) and **mini** (84x55mm)
- Scalable performance from Intel® Atom™ to Intel® Core™ i5/i7 Dual/Quad Core
- Based on open standard
- Customized carrier boards

Rackmount PCs – KISS

- Extremely low noise level (< 35 dbA)
- Excellent thermal design
- Hot swap chassis fans
- Medical grade power supply available

DEMOGRAPHY

KONTRON APPLICATIONS

High precision laser technology solutions for ophthalmology

Kontron products are also used in modern ophthalmology treatments, as core components of innovative technologies such as the new laser treatment station.

This high accuracy system offers the largest bandwidth in the world for the treatment of cataracts and other eye disorders with advance femtosecond laser techniques. Eye operations can now be carried out according to safe, minimally-invasive computer-led procedures. The much more expensive, error-prone manual procedure can now be replaced. The advantages for patients undergoing this innovative treatment include a greatly-reduced susceptibility to infection, and faster healing.

Intelligent medical administration solutions

In order to reduce the steadily rising cost of medical care without impairing the quality of treatment, the time and expense involved in administration needs to be reduced in a sustainable, long term manner. In collaboration with a leading provider of automated healthcare solutions, Kontron has developed ECT Components for a kiosk system that is capable of significantly cutting the administration costs of medical insurance companies.

The service terminal is set up in the insurer's lobby, and offers clients the opportunity to access a whole range of services, thanks to the use of electronic medical cards. For example, certain services can be requested online, personal data can be updated, and questionnaires completed. Thanks to the built-in camera, the system can even take a picture of the policyholder for the new medical card automatically, and transfer the picture and the related details directly to the card – all at the single touch of a button.

DEMOGRAPHY

PIONEERING MEDICAL TECHNOLOGIES

Demographic changes in the industrialized nations and the sharp growth in the populations of developing countries have led to the need for a large-scale expansion of the world's healthcare system. In 2050, one-third of the population in industrialized nations will be aged 60 and over, and in Germany 12.1 % of that group will be made up of the super-elderly, aged 80 and over. As the uptake of medical services soars with age, experts consider that as early as 2013, a growth in market volumes will set in, which will rise from the current level of Euro 240 billion to Euro 300 billion in the German healthcare sector. Conversely, the sharp growth in the populations of developing countries such as India and China will result in huge demand for high performing healthcare systems and continued strong growth in the medical technology markets.

3. Non-financial performance indicators
3.1 Staff as a key success factor

Kontron is an attractive employer with interesting job offerings in an international environment. The loyalty of our employees and their outstanding motivation and expertise represent important success factors, and a great competitive advantage. The Group's management culture is characterized by the guiding principle of "trust and respect".

The human resource strategy supports the core objectives of the corporate strategy. Kontron's human resource strategy focuses on internationalization, competitiveness and diversity. Specifically, this strategy entails the forward-looking establishment of expertise through global talent recruitment, and the attractive and flexible structuring of working conditions.

In due consideration of individual qualification and the integrability of an applicant, Kontron aims to enhance the quota of female staff on all hierarchical levels.

A further focus of personnel management consists of supporting employees' personal and specialist development. Due to the intensely competitive environment, special significance is also given to recruiting additional specialist and managerial staff to implement global projects, and to further standardize processes and systems in global functions.

The Group employed 3,057 individuals at the year-end (previous year: 2,892).

Regional development: growth in Asia
In Russia, Kontron has expanded its capacities by 81 employees due to a major project, whereby 54 of these additional members of staff are active in the research and development area.
The slight change in the number of personnel in the EMEA region is due to two offsetting developments. On the one hand, Kontron AG is further expanding the number of employees in Global functions. On the other hand, however, existing structures were reorganized in the year under review, for example, through outsourcing production activities to individual sites. On balance, the workforce in Europe decreased by 9 employees, from 1,021 in 2010 to 1,012 at the end of 2011.

The number of apprentices in technical or commercial vocational training occupations stood at 47 in Germany on a year-average basis. The share of female and male trainees is balanced. At the end of their apprenticeship, most participants transferred to indefinite and permanent employment contracts, or decided to continue studying.

While the development of the number of employees in North America in the previous year was strongly impacted by the acquisition of AP Labs Inc., San Diego/USA, personnel changes in 2011 were limited, despite the integration processes that occurred. At 737 individuals at the end of 2011, the number of employees was slightly below the previous year's level (748 employees).

The change in the number of employees in the Asia region reflects organic growth at the Asian Kontron companies, and the transfer of temporary workers at Kontron Design Manufacturing Services Sdn Bhd, Penang/Malaysia (KDMS) to fixed employment contracts with the aim of improving production stability and quality. With 759 employees at the end of 2011, there were 104 more Group employees compared with the previous year. A marked reduction in the number of employees is anticipated in the new reporting year following the sale of parts of the KDMS operations at the beginning of 2012.

One third of Group employees – 973 individuals (previous year: 942) – were employed in the research and development area. This high figure underpins Kontron's claim to innovation and technology leadership, and its aim to maintain this position in the future.

Employee trends between the reporting dates are as follows, split according to functions exercised within the Group.

Employees by functional area

	December 31, 2011	December 31, 2010	Year-on-year change
Sales & Marketing	477	429	+ 48
Administration & IT	409	382	+ 27
Research & Development	973	942	+ 31
Production & Logistics	1,198	1,139	+ 59
Total	3,057	2,892	+ 165

Employees by region

	December 31, 2011	December 31, 2010	Year-on-year change
EMEA (excluding Russia)	1,012	1,021	- 9
Russia	549	468	+ 81
North America	737	748	- 11
Asia	759	655	+ 104
Total	3,057	2,892	+ 165

3.2 Corporate responsibility

Kontron AG supports projects in the environmental, social and scientific areas, thereby reflecting the Kontron Group's corporate responsibility.

Kontron contributes actively to environmental protection through its careful handling of natural resources, the avoidance and recycling of production waste, and the development of energy-saving products. Product innovations that enable energy supplies to be utilized intelligently and efficiently comprise an example of the Kontron Group's commitment to this area. For example, smart grids allow electricity consumption in private households and industrial plants to be structured efficiently using intelligent measuring equipment.

Kontron also participated in the Carbon Disclosure Project (CDP) in 2011, as in the previous year. As a non-profit organization, the CDP helps companies to reduce CO2 emissions, and to utilize water resources in the production chain on a sustainable basis. The full report is available at www.cdproject.net.

The Kontron Group has operated with a set of Corporate Social Responsibility Guidelines since 2008. These guidelines are based on the SA 8000 standard, and define Group-wide rules of behavior that contribute to both an attractive working environment and sustainable corporate development.

Kontron supports various technical research projects in the scientific area, both financially and through the provision of staff. Examples include research initiatives in cooperation with the Deggendorf University of Applied Sciences in Germany, and with further universities in Russia and the USA.

3.3 Purchasing

The year 2011 reflected the importance of strategic purchasing management for medium-sized companies in a notable manner. The natural catastrophes in Japan and Thailand exerted a major detrimental impact on some global supply chains, particularly those delivering intermediate products. Kontron coped with these challenges with almost no reduction in its own ability to supply. A global purchasing strategy, and forward-looking stock management in combination with a globally active purchasing team contributed to this success.

The continuous reduction in material costs is a further central objective of the purchasing function.

The purchasing situation in 2011 was rendered partly more difficult by the fact that strong global business in individual markets fed through to a supply shortage and rising prices. Kontron largely offset these effects with medium-term supply agreements and active inventory management.

Kontron succeeded in utilizing the 2009 crisis and its after-effects to reduce material costs in other areas. The cost of materials and procurement services increased to EUR 390.5 million as a result of higher total output (previous year: EUR 341.3 million). The cost of materials ratio remained stable (2011 58.9 %; previous year: 58.6 %).

Kontron Group purchasing management has set itself the objective of guaranteeing customers the best quality and an extremely requirements-led supply ability at all times. This is an essential requirement in the competitive environment given close integration with customers' value-creation, and usually long-term supply relationships, particularly in the case of solutions that are developed specifically for individual customers. Kontron constantly audits its important suppliers, or those that are particularly critical to its supplies. A selected random sample of suppliers is also audited annually. An important task in purchasing management is the further bundling of purchasing volumes and a reduction in the number of suppliers. Kontron has not yet been fully exhausted the potentials that it meanwhile enjoys due to its purchasing volumes. The focus in purchasing is on deepening and intensifying cooperation with its top suppliers. Kontron now negotiates somewhat more than half of its material input through its globally oriented purchasing organization. For this reason, primary objectives in optimizing procurement processes include further cost reductions and even greater flexibility.

3.4 Development and technology investments

Technology leadership is one of the Kontron Group's core objectives. Development capacities were further expanded in 2011, and investments were realized in a large number of projects and products. For Kontron, this means an unchanged high level of investments in development and technology, in order to sustainably meet its targets of technology and quality leadership.

Research and development as a central success factor for future growth

The Kontron Group's business model is sustainably based on research and development to expand its market position as a technology leader. Kontron differentiates between two development areas: the development of standard products and the development of customer-specific solutions. Current research and development into new products secures Kontron's future revenue growth. Kontron AG clearly demonstrated its innovative strength with the 44 new product launches in 2011. These new products will allow Kontron to successfully tap further sales potentials, as shown by the following examples:

Promising innovations that have been developed to the market launch stage over the past financial year include new computer-on-module (COM) standards for scalable and deployable solutions based on microprocessors supplied by Freescale, Texas Instruments and Nvidia. The strategic entry into energy-saving ARM technology – ARM stands for Advance RISC Machines – across the entire value chain represents a milestone for Kontron. The company started to develop its first proprietary modules and boards last year based on ARM architecture. They are primarily suitable for utilization in mobile application areas thanks to their compact dimensions accompanied by significantly higher performance.

For this reason, the market potential offered by ARM technology is as great as its potential areas of use: along with mobile telecoms technology, the application range spans mobile applications in industry, medical technology and energy, through to infotainment, transportation, and deployment in tablet and box PCs. Kontron's existing product portfolio, which is largely based on the x86 processors provided by its strategic partner Intel, is being expanded to include this very promising future technology.

Kontron is also extending its product portfolio through the introduction of new processor modules of the AdvancedMC™ product range with Freescale™ QorIQ processors. These universally deployable AdvancedMC™ processor modules are oriented to a broad application spectrum spanning cost-sensitive applications, high-performance data-planes, through to control-plane applications. The Kontron AdvancedMC™ processor module can be adjusted to existing system configurations depending on application requirement. This allows further reductions in development costs and times for applications on markets such as industrial automation, medical technology, telecommunications, security & defense, and transportation. The Kontron module is also available on a project basis in a version for expanded temperature ranges for particularly tough environments such as workshops or production facilities.

Kontron has tapped a further important growth market through the development of its Machine-to-Machine (M2M) Smart Services Developer Kit with a deployable system based on Intel® Atom™ processors. While M2M communications via the mobile telephony networks are already utilized as standard in remote machine maintenance, building management and toll systems, growing digitalization offers new and further-reaching possible applications for this technology, such as in medical equipment, all types of production plants, elevators and energy management. The kit, which is based on standard computer-on-modules (COMs), is a high-performance solution for both the development and production of M2M applications. Developers can test the system's connectivity and rapidly ship the completed solution thanks to its plug & play capacity. With M2M systems, Kontron offers solutions for rapid and secure data exchange at high bandwidth to meet the growing demand for automated information exchange between end-devices such as machines, vending machines and vehicles.

Kontron also presented two FPGA Application Ready Platforms for industrial automation in 2011. The pre-integrated industrial demo platforms allow real-time visualization and management based on a single visualized hardware. Original equipment manufacturers can significantly reduce their hardware development and software integration costs since the solutions already contain pre-validated Linux building blocks, and hardware and software components from third-party providers such as Microsoft, Altera, Softing, 3S, Wind River and Real-Time Systems. Further benefits for customers include comprehensive software support, and the flexible utilization of FPGA interfaces such as industrial Ethernet, field buses or GPIO. Along with production of the application-ready solution, Kontron also undertakes complete first and second level support, thereby further expanding its own value chain.

Important design wins – in other words, customer- and application-specific developments – were reported in the civil aerospace area in 2011, for example. Kontron will in future supply leading technology service-providers and system suppliers to the aerospace industry with on-board infrastructure for wireless LAN in-flight entertainment solutions in airplanes, and other wireless LAN solutions on a PowerPC basis for exchanging large data volumes between aircraft and the operating centers of airlines and airports. Kontron reported an almost stable number of design wins at 456 in total.

Kontron's nomination as a Microsoft Windows Embedded Gold Partner is evidence of its excellent operating system expertise, which Kontron has proved for many years with the development and production of embedded computer platforms based on Microsoft Windows Embedded operating systems.

Kontron's research and development work is organized globally. German, Western European and North American engineers cooperate with engineers in Eastern Europe and Asia, thereby creating global synergies. This global development function is managed centrally in order to identify and realize technology trends at an early juncture, as well as to deploy staff efficiently. This structure allows research and development to be conducted independently of locations, and in alignment with staff qualifications. Customer-oriented solutions are developed and realized through close collaboration between development engineers and sales staff. Research and development at Kontron is covered almost exclusively through internal resources. This secures internal know-how, and ensures that it is continuously developed further. Cooperation ventures with universities and polytechnics will gain further significance in the future, also in order to ensure the recruitment of specialist staff.

The "Software Design Center" in Russia, which was opened in 2010, was further expanded through integrating it with Group software development centers that are already operating worldwide. By strengthening its software development expertise, Kontron is orienting itself to customers' growing demand for deployable system solutions where the software that is integrated is irrelevant for product differentiation. At its Software Design Center, Kontron develops board support packages for all platforms, driver adjustments and middleware (e.g. protocols), as well as parallel software support for its system solutions. Supported operating systems include Windows, Linux, Android and VxWorks.

Kontron also continued to expand its own development capacities in 2011. Due to new appointments, the number of research & development staff increased to 973 in 2011, compared with 942 in the previous year. This group of staff represents one third of Group employees. As a result, Kontron enjoys outstanding potential within the sector in terms of attracting well-trained ECT engineers.

Research and development expenses increased from TEUR 40,369 in the 2010 financial year to TEUR 44,514 in the 2011 financial year. Expressed as a percentage of revenue, this represents a decline from 7.9 % in 2010 to 7.6 % in 2011. Capitalized development costs fell from TEUR 18,887 in 2010 to TEUR 18,254 in 2011.

Research & development: periodic overview of the most important key figures

		2011	2010
R&D staff	Number	973	942
R&D staff as % of Kontron total staff	in %	32%	33%
R&D expenditure	EUR M	44.5	40.4
R&D ratio	in %	7.6%	7.9%
Design wins	Number	456	465

3.5 Brands

The company utilizes its registered main “Kontron” brand for the entire original design manufacturer (ODM) area. In this context, Kontron creates products ordered by other companies – but largely designed and developed itself – that are subsequently sold under the customer's brand name. Kontron utilizes the ubitronix, RTSoft and Parpro brand names for product lines the company markets outside its traditional ECT market.

» ubitronix system solutions gmbh, Hagenberg/ Austria, sells efficient communication, meter-reading and load management products in the energy management area under its ubitronix brand name.

» The Russian company RTSoft ZAO, Moscow/Russia, offers highly specialized integrated software and hardware solutions, mostly for major projects such as optimizing the Russian energy network, under its RTSoft brand name.

» Under the Parpro brand, AP Parpro Inc., San Diego/USA, develops, produces and sells mechanical components such as cable harnesses and specially produced metal products for the aerospace and automotive industries, wholesaling/retailing, telecommunications, the medical and healthcare sector and the defense area.

4. Report on events subsequent to the balance sheet date

With effective date as of January 18, 2012, Kontron AG contractually agreed and completed the sale of the key assets of its wholly-owned subsidiary Kontron Design Manufacturing Services Sdn Bhd, Penang/Malaysia (KDMS) to Plexus Manufacturing Sdn Bhd in Malaysia. The purchaser paid the full purchase price of USD 35.2 million to KDMS in January 2012. As part of this asset deal, Plexus acquired almost the entire production facilities of KDMS and most of its former workforce. The future activities of KDMS will focus on the areas of research, development and supply chain.

One-off charges of around EUR 5 million were recognized as part of the transaction in the fourth quarter of 2011. These consist primarily of the revaluation of inventories, and risk provisions for longer-term agreements that are no longer utilized. In the future, the Kontron Group will purchase modules worth approximately USD 100 million per year in addition to its existing business with Plexus.

5. Forecast
5.1 Management Board's overall statement on prospective trends

The Management Board assesses the Kontron Group's prospects for 2012 and 2013 as positive at the time of the preparation of these annual financial statements. As before, management anticipates continued revenue and earnings growth. Kontron expects stable revenue trends in 2012, which are likely to lie in a range of 3 % above or below the 2011 comparable figure of approximately EUR 574 million, after adjustments reflecting the circumstances in Malaysia.

From today's perspective, we are assuming that most of the vertical markets that we serve will contribute to this stable trend. The international financial environment, economic trends in Kontron's primary markets, and the propensity of the public sector to invest will nevertheless be critical factors.

Due to increasingly volatile markets, and the evolving greater difficulty in forecasting business trends, we will monitor developments very closely, in order to respond rapidly to changes. Kontron will communicate any significant changes to the environment that occur during the course of the current, ongoing business year, and the implications for future business trends.

The expansion of particularly high-value-creating services, in other words, primarily the systems and solutions segments, which offer a particular focus on customer-specific solutions, comprises an important element in the coming years' revenue and earnings growth.

Kontron's Management Board expects that the ECT market will continue to grow, both overall and in terms of vertical markets – albeit with sharply different growth rates. Margin pressure, greater demands placed on companies' research and development capacities, and growing customer demand for global presence and service will primarily favor larger ECT companies in the coming years. This trend could prompt smaller ECT suppliers to seek mergers with larger companies such as Kontron. Strategic acquisitions form an element of Kontron's growth strategy.

5.2 Risk report

Kontron's management of opportunities and risks

The Kontron Group's risk profile is especially affected by the pronounced internationality and strong technological orientation. Mastering and controlling risks connected with entrepreneurial activity is a precondition of corporate success.

The company generally enters into entrepreneurial risks only if they are manageable, and give rise to the expectation of corresponding value enhancement. The comprehensive reporting of opportunities and risks, and their ongoing assessment, are essential to effective risk management. Kontron's Group-wide risk management system is structured along these principles. It aims to enable the management to implement appropriate risk-reducing measures. The risk management system helps to achieve corporate objectives, supports planning and decision-making processes, strengthens risk-awareness, and improves stakeholders' confidence.

The management of opportunities and risks as an integral organizational component

The constructive handling of opportunities and risks forms a central component of management's responsibility, and comprises an integral part of Group-wide organizational processes. This approach ensures that the management of opportunities and risks is firmly connected with operating activities, and the organization's underlying core processes.

Kontron added staff to its existing risk management system last year, and refined it with respect to function, scope and depth of detail. Kontron AG's entire Management Board determines the corporate risk guidelines in coordination with the Supervisory Board, and manages the company in line with the risk principles that have been defined. Kontron AG's global risk manager directs the Group risk management organization in close liaison with the Management Board, and with the local units' managing directors and risk managers.

Kontron AG's risk management process

Kontron's risk management system has two focal points. Firstly, the identification, analysis, measurement and steering of short-term opportunities and risks. The focus in this context is on assessing the impact on the current year's business trends. The second focus is on medium- and long-term structural aspects. The risk management process is divided into five steps: **Identification** entails reporting risks within the respective company or organization. This step occurs monthly for operating risk management, while risk identification for strategic and structural risk management occurred once in the financial year elapsed. The respective Group entity is responsible for ensuring that corresponding individuals are designated for all identified risks, and who are responsible for the management of the individual impacts. The same regulations apply for global functions and projects.

Kontron applies the quantitative approach to **analyze** operational opportunities and risks. This entails determining effects and event probabilities, before calculating the factors' positive and negative financial effects on the attainment of corporate targets. Analysis is primarily quantitative for strategic risk management.

Subsequent **risk measurement** is based on the results of the risk analysis, and provides comments on the necessity and priorities of risk management. Risk measurement enables risks to be classified according to degree of risk. Risk measurement is followed by the **risk steering** and **monitoring** step, which comprises a central element of risk management. Risk steering entails defining and implementing appropriate measures to influence risk on a targeted basis over the course of time. The aim is to positively affect the company's risk profile. A selection of the most appropriate measures is based on comparing implementation costs with the expected benefit, while taking into account legal and regulatory requirements. Risk monitoring includes regular controlling or monitoring of existing risk management measures. In particular, risk monitoring entails assessing whether the steering measures that have been established lead to the expected results with regards to impacts on opportunities and risks. The efficient communication of risk-relevant information, which is ensured through **risk reporting** in the subsequent step, forms the basis of effective risk management. Opportunities are also observed as part of the risk management process.

The Kontron Group's key opportunities and risks in overview

The following section presents the risks that could have a significant impact from today's perspective on the achievement of corporate objectives as well as on the Group's net assets, financial position and results of operations. These are not necessarily the only risks to which the Group is exposed. 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 greatest risk posed to Kontron`s business remains the risk that customers do not place orders or the loss of customers. The growth reported by the Kontron Group nevertheless shows clearly that it continued to successfully win new customers in 2011, and to generate follow-up orders. Revenue reached record levels in the 2011 financial year. Individual risks may exist despite the favorable economic trend, however. The development of the order book position is utilized as a short-term indicator of future revenue. The order book position fell compared with 2010 due to end-customers' continued high level of utilization, although more cautious placing of orders. Kontron measures medium- and long-term sales trends using design wins, which act as an indicator for future orders and revenues. Past experience shows that a higher level of design wins results in order book position growth and, in turn, higher sales in later periods. We use risk discounts to calculate future sales potentials as part of the assessment of design wins. Nevertheless, when and to what extent a design win results in order inflow cannot be predicted exactly, and entails uncertainties. Although the total number of design wins remained almost constant at 456 (previous year: 465), the resultant estimated revenue volume fell in 2011 as a consequence. This decline is due to the economic cooling internationally, and customers' more conservative estimates of coming years' sales connected with the design wins.

Kontron might incur falling margin trend effects due to the intense competitive situation on the ECT market, and rising price pressure from customers. In order to counter this risk, Kontron is continuously reducing its unit costs, and improving efficiency along its value chain, in order to thereby offer competitive prices on the market. Marketing measures should also help to support and delineate Kontron's profile as a technologically and qualitatively leading ECT company.

There is also the risk that Kontron is unable to fully utilize its global sales potentials, thereby failing to optimally deploy its existing capacities. Kontron counters this risk with organizational measures.

Debtor risks

Kontron services a broad customer range that comprises more than 3,000 customers. The ten most important customers accounted for approximately 31 % of 2011 revenue. Various individual agreements of differing durations generally exist with these customers.

Industrial automation and telecommunications are the most important market segments. Relations with most customers have existed for several years. Customers are subjected to internal credit ratings annually, and as occasion requires. This rating process entails examining payment patterns and an examination of external ratings where available. Respective credit limits, and the provision of collateral, where required, are based on the results of these assessments. The relevant units review and monitor significant customer limits. Appropriate valuation adjustments are for potential defaults due to the unexpected deterioration of a debtor's financial position.

Purchasing risks

The purchasing market represents another primary risk are. Kontron supplies its customers on a long-term basis with control systems based on computer production components. Kontron partially guards against this risk by means of long-term supplier contracts, and by storing discontinued parts in close coordination with the customer. The Kontron Group utilizes its global presence to control potential purchasing price rises, and potential production capacity bottlenecks. It is focusing on strengthening its international purchasing management function through a global purchasing team, and an improvement to demand planning. Temporarily higher demand, for example in phases of a dynamic economic upturn, can feed through to short-term risk of price increases for some components, and the risk of restricted supplier delivery capability. Kontron flexibly adjusts its inventory ranges to reduce this risk, and manages its stocks accordingly.

Kontron experienced no significant shortages in its supply chain following the natural catastrophes in Japan in the spring, and the floods in Thailand in the autumn, thereby reflecting this system's effectiveness. Both external influences nevertheless resulted in short-term allocation on the market, which increased both purchasing costs and Kontron's stocks.

Demand fluctuations, the dynamic development of the technological environment, changes to customer requirements and other causes can feed through to a devaluation of inventories. In order to reduce this risk, inventories are appraised continuously with respect to their usability, and valued correspondingly. Appropriate measures are taken in a timely manner in order to minimize such value loss as far as possible.

Technology risks

Risks can arise following the introduction of new cost-intensive technologies and the acceptance of too many customer-specific development projects (design wins). Particularly complex and future-oriented developments are initially cost-intensive. Investments typically generate returns two to three years after design expenditure. A process to manage these risks is in place that records and describes the opportunities and risks relating to a design win. A valuation model is used to appraise development work, and to decide whether to proceed with it. The further development of projects is subject to a standardized review process. Delays during development phases result in late market launches, and competitive disadvantages as a consequence. Adhering to and optimizing the development cycle, and the swift series production-readiness of developed products are important factors for customer satisfaction and the acquisition of new customers. For this reason, the company constantly monitors its internal product development process in order to proactively counter delays. Products that are ready for market launch on time not only represent a technological lead over competitors, but also a better return on investment.

Regional risks
The Kontron Group is also active in emerging markets. For Kontron, these mainly comprise the Russian, Malaysian, Chinese and Indian markets. As their economies are growing much faster than those in other countries, Kontron aims to exploit this potential. However, corresponding risks are incurred when utilizing such opportunities. Kontron continues to aim for above-average growth on these markets in the future. The constant assessment of risk potentials, such as different market circumstances, political changes, cultural differences in the exploitation of inherent opportunities, forms the basis of long-term success in emerging markets.

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. While business in China and India tends to still be in the buildup phase, activities in Russia have already reached larger volumes. Strong growth in Russia is also due to a major customer in the energy sector. The business success of Kontron's Russian subsidiary depends to a considerable extent on this customer's satisfaction. Successfully concluded projects and additional orders are good indicators of a good customer relationship.

Continued growth on these markets – particularly also in Russia – depends on political conditions and circumstances. A change to these political conditions could rapidly exert a detrimental effect on business.

Currency risks
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. For this reason, the currency hedging strategy deploys offsetting and opposite foreign-currency cash flows with the aim of generally hedging the foreign currency amounts of assets and liabilities as they are generated. Kontron's business activities are processed primarily in euros and US dollars. As a global company, Kontron realizes revenues and materials purchases in US dollars or in currencies that are tied to the US dollar. Operating costs also arise in US dollars within the Group. As a consequence, the resultant currency effects are largely offset. Currency risks arising for Kontron AG through granting Group financing to subsidiaries in their local currencies are hedged using forward foreign currency transactions.

Financing and liquidity risks
The liquidity and net cash positions are deemed to be at a satisfactory level. The Kontron Group has sufficient credit lines available at banks to cover its financing requirements. Very good equity backing and sustainably satisfactory earnings trends mean that Kontron enjoys good credit standing with banks, and excellent access to further financing resources. Financing and liquidity risks are categorized as low given the good backing with liquidity and financial resources.

Legal risks
As an internationally operating company, Kontron is exposed to a wide variety of legal risks. These can include risks from the areas of product liability, competition and anti-trust law, patent law, customs and tax law, and environmental protection. Along with complying with legal and statutory requirements, Group corporate policy also includes taking into account the regional etiquette and customs of the various countries in which Kontron operates. Kontron has introduced a Group-wide code of conduct that defines and sets corresponding rules of behavior.

Legal risks are limited through contract management based on fixed order and business terms and legal review by our legal department, which was newly created in 2011, as well as external legal advice. Complying with quality and safety standards, the continuous improvement of product quality, the constant review of complaints, and, where required, the arrangement of insurance cover, comprise further measures to reduce liability risk.

Various litigation cases and regulatory proceedings against Kontron are pending, or could become pending. In our opinion, these are normal and routine cases of litigation relating to the Group's business activities. According to current appraisal, these proceedings give rise to no legal risks that could have a considerably negative impact on the Group's net assets and operating result.

Management Board's overall statement on the Groups risk position
In the opinion of the Managing Board of Kontron AG, the identified risks are manageable from today's perspective. There are no going-concern risks known to the company at a time when this report was compiled. The overall risk position increased in 2011 compared with the previous year due to the intensification of the financial crisis, the historically high level of state indebtedness on the most important markets in Europe and the USA, and the uncertainties with regard to the real economy, fiscal budgets and the macroeconomic factors. Kontron assumes that the overall risk posiition outlined will increase in the coming financial year, particularly as a result of macroeconomic factors.

5.3 Internal, accounting-related controlling and risk management system (disclosures pursuant to section 289 paragraph 5 of the German Commercial Code (HGB), section 315 paragraph 2 Number 5 of the German Commercial Code (HGB) and explanatory report)

Kontron AG ensures the accuracy of the Group financial accounting based on its internal accounting-related control system. This system should ensure that the company complies with statutory regulations, and that both internal and external financial accounting produce reliable information with respect to the numerical reporting of business processes. Accounting errors should generally be avoided with the system's assistance, and significant misjudgments should be identified in time.

The structure of this control system comprises organizational and technical measures covering all Group companies. Centrally issued accounting guidelines provide instructions for the preparation of local financial statements and ensure that International Financial Reporting Standards (IFRS) are applied uniformly across the Group. A standard accounting framework is obligatory for all Group companies. The individual Group companies' IFRS financial statements are reported in a uniform IT based on standard software, before being consolidated at the Group Accounting function. Plausibility checks and the system-based validation rules of financial accounting data form a further component of the control system. Manual checks are also performed regularly: at a decentralized level by the relevant individuals responsible, and centrally by the Group Accounting function.

Along with the aforementioned structures of this control system and risk management, the Group Controlling function and Kontron`s internal Audit function are key elements in the Group's steering and monitoring system. As part of risk-oriented audit procedures, the Group`s Internal Audit function examines and evaluates controls processes of relevance to financial accounting, and reports to the results of its work to the Management Board. Upstream and downstream controls and analyses of the reported data are prepared and reported.

External expertise is called on as required, for example in the case of pension provisions. Finally, conducting the process of preparing financial statements on a standardized basis across the Group and as part of a centrally administered financial statements timetable guarantees that the financial accounting process is efficiently structured.

5.4 Future strategic orientation

Kontron continued to maintain its position as a leading technology company on the embedded computer technology market in 2011. The company aims to further secure and extend this market position, including in circumstances of economic uncertainty.

In order to achieve this objective and generate revenue and EBIT growth, Kontron will focus its future business activities on higher-margin market segments, in line with its long-term strategic orientation. This means that it will largely withdraw from business areas that offer low margins, such as EMS and ODM production, and will turn to segments with greater vertical range of manufacture such as the development of system integration, boards and, in particular, through offering ready applications and customer-specific solutions.

The sale of the significant assets of the Malaysian production facility Kontron Design Manufacturing Services Sdn Bhd, Penang/Malaysia (KDMS) on January 18, 2012, to Plexus Corp. of the USA, represented an important step on this path.

Kontron will continue to invest in well-trained specialist staff and development capacities in order to further expand its innovation and technology leadership. With the sector's largest development and engineering team, Kontron can adopt new technological developments, and rapidly realize them as marketable, customer-specific products.

In contrast to previous years, Kontron acquired no companies in 2011 since potential acquisition targets failed to match Kontron's strategy profile. Kontron nevertheless plans and anticipates further growth through strategic acquisitions over the coming years, as in the past.

5.5 Outlook

Macroeconomic trends

The International Monetary Fund (IMF) forecasts that global production will grow by 3.3 % in 2012. Overcoming economic stagnation or recession in most European countries, as well as resolving the European financial crisis will be decisive for actual developments. It is generally assumed that industrialized and emerging economies will continue to report differing trends. Accordingly, the IMF forecasts 1.2 % growth for industrial countries, and 5.4 % for emerging economies. Economic growth of 1.8 % is forecast for the USA, while China is expected to report growth of between 8.0 % to 9.0 % in 2012 and 2013.

The IMF is predicting a short-lived recession for the Eurozone. The overall economy is consequently expected to shrink by 0.5 % in 2012. This will mainly reflect Spain (-1.7 %), Italy (-2.2 %) and a lack of dynamics from France (+0.2 %). The Kiel Institute for the World Economy (IfW) estimates that Eurozone financial policy will be very restrictive overall in 2012 and 2013, thereby placing a significant dampener on the economy.

The IMF anticipates that Germany will report slight GDP growth of 0.3 % in 2012, while the IfW forecasts 0.5 %, and the German federal government forecasts 0.7 %. The IfW's forecast is subject to a calming of the situation on the financial markets, and a solution emerging for the Eurozone debt crisis. Given these circumstances, experts in Germany anticipate an initial phase of weakness, since the Eurozone state debt crisis will increasingly affect demand from households and companies. The anticipated recession in the Eurozone could also dampen German exports. Recovery in Germany is anticipated from the summer half-year, when the economy should regain momentum.

Sector trends

Further growth is assumed in the ECT environment in 2012, although it will weaken somewhat as a result of the increasingly economic slow-down in Europe and America. Sector studies (NVR, VDC) forecast annual growth rates of between 5.2 % and 14.9 % in the three most important product segments.

The highest growth is forecast for the embedded boards segment, with average 14.9 % growth per year until 2015. Average annual 8.6 % growth is forecast for the boards and modules area over this period, and 5.2 % for the embedded integrated computer systems market, according to sector studies.

Differing growth rates apply to the vertical markets in which Kontron operates:
A long-term growth trend is anticipated in the healthcare market, and particularly in the medical technology segment, due to demographic effects, such as global population growth and the advancing ageing of society in industrial countries. In particular, the trend towards mobile medical technology equipment will drive ECT market growth, since increasingly intelligent ECT solutions are being integrated into medical technology products.

The energy market elicits similarly positive growth forecasts. Important factors in this context include global energy demand growth, fossil fuel scarcity and the promotion of renewable energy sources. Accelerated by the reactor catastrophe in Japan, a drive is underway to expand onshore and offshore wind power plants, solar energy farms and hydroelectric power plants. As a consequence, McKinsey consultants are forecasting that global investment volumes will grow from USD 500 billion today to USD 2.1 billion in 2020, and the renewable energies' share of the electricity mix will experience a massive rise. These positive circumstances are also stimulating the growth of ECT solutions in the energy supply area.

Rising cost pressure from Asian providers could have a positive impact on embedded computer technology in the industrial automation market. ECT customers are under pressure to reduce costs, for example through optimizing their own inventories, and reducing research and development spending. They regularly review whether it makes greater commercial sense to commission a specialist such as Kontron with such activities, also because a company such as Kontron can always offer the most up-to-date technology.

Stable growth is also anticipated in the transportation market, which could be somewhat restrained by tighter state budget in 2012. Modern transportation systems are required to be more efficient due to international logistical networking, with its attendant and ever greater division of labor, and the trend towards urbanization. Such developments will further boost demand for ECT solutions.

Somewhat restrained sector trends are anticipated for the security & defense market segment. It is assumed that public-sector investments in military projects will be restricted due to the debt crisis in Europe and the USA. It is anticipated that large-scale projects will be postponed or cancelled due to difficult state finances.

The BITKOM sector association forecasts that the telecommunications market will report 5.4 % growth globally in 2012. The global IT market should breach the EUR 1 trillion sales barrier for the first time in 2012, according to EITO. Although a reduction in new infrastructure programs is expected, the existing structure must be constantly adapted to data volume growth requirements.

The infotainment market is exhibiting generally volatile trends since this sector is sensitive to the economic cycle. Some market segments nevertheless stand out positively from the trend, such as the market for POI and POS systems. These complex systems offer purely electronic information on products and sales channels such as in the context of kiosk systems. Here, too, demand for suitable ECT solutions will rise due to the large number of functions and control elements.

5.6 Revenue and earnings forecast

Kontron has set itself the objective of continuing its profitable growth path as before. Business trends for 2012 must nevertheless be gauged cautiously due to the sharply differing growth rates reported by individual vertical markets. Kontron anticipates that its revenue will diverge by +/- 3 % compared with the revenue of EUR 574 million that was generated on a comparable basis in 2011. The operational EBIT margin should grow further in 2012. Assuming positive economic trends, the management also expects further revenue and EBIT growth in 2013.

Revenue and EBIT growth in 2012 should be achieved mainly through expanding the share of revenue generated in product segments with greater value-creation depth. This means a withdrawal from ODM and EMS production, and a refocusing on higher-margin segments such as the development of integrated systems and boards, and application-ready and customer-specific solutions.

Revenue from the vertical markets will report differing trends in 2012.

In the energy market, Kontron will focus to a greater extent on solutions geared to boosting energy-efficiency such as smart grid components. Through projects and cooperation ventures in this area, Kontron is making early preparations for its positioning on this future market. The Group also expects the energy area to report growth in 2012 due to major projects that were launched in Austria and Russia in 2011, for example.

On the industrial automation market, Kontron envisages that growing cost pressure on industrial customers from Asian providers will have a positive impact on 2012 revenue trends. Kontron expects medium-term revenue growth from industry's greater outsourcing of ECT development projects. In North America, Kontron has launched an initiative to develop HMI solutions for industrial automation. Since Kontron has not yet sold these essential industrial automation components on the North American market, new market potentials as a result of this expansion of sales areas will be tapped from 2012.

The transportation market segment should continue to report high growth for Kontron in 2012, which will mainly be attributable to revenues generated in rail technology and vehicles. Kontron's management anticipates continued growth in this area in 2012.

Kontron also expects further revenue growth in the medical technology market, assuming that there is no fundamental change to this environment. New technologies such as Advanced RISC Machine (ARM) architecture should act as sales-drivers. Kontron was one of the first ECT providers to include this promising new ARM technology in its standard product portfolio, in order to be positioned at an early juncture for this emerging market. The increasing deployment of intelligent medical supply systems also offers further potentials to deepen value creation, since these include individually produced ECT components.

Kontron's order position in the security & defense market is appraised positively, indicating a stable trend for 2012.

From today's perspective, Kontron believes that the telecommunications market will report stable revenue and order trends.

The infotainment market segment will exhibit differentiated developments. In the gaming area, Kontron must reckon with volatile trends, and expects that it will lose market shares slightly in 2012 due to enormous competitive pressure from low-price Asian providers in this sub-segment. Kontron nevertheless expects positive revenue dynamism in its business entailing components and solutions for Point-of-Interest (POI) and Point-Of-Sale (POS) systems.

5.7 Expected financial position

Liquid funds and short-term bank deposits in a volume of EUR 38.2 million, and up to EUR 57 million of credit lines that are available on a short-term basis, are available for future financing. Kontron expects limited refinancing requirements over the coming two years to support its growth. The refinancing requirements can be satisfied by available liquid funds and with operative cash flow and bank lines.

From today's perspective, interest income and expenses over the next two years should hardly be exposed to changes arising from the general interest rate level. Kontron anticipates a stable development, and no material improvement to the terms on which it invests.

The company is budgeting for a stable operating cash flow for 2012 in 2013 on the basis of steady operating business trends and active working capital management.

5.8 Future dividend policy

Kontron's objective is for its shareholders to participate in the company's success and profitability. Accordingly, the proposal for the utilization of 2011 earnings is to pay again a dividend of EUR 0.20 per share. Given the planned further positive earnings trend, while depending on the actual financial and operational situation, Kontron also aims for its shareholders to participate directly in the company's earnings in the future.

MOBILE COMPUTING

TECHNOLOGIES FOR
A MORE MOBILE WORLD

Solutions for tomorrow

kontron

Solutions for tomorrow

MOBILE COMPUTING

TECHNOLOGIES FOR A MORE MOBILE WORLD

The first purely electronic universal computer (ENIAC) weighed in at 27 tonnes in 1946. The size of the computer was just as colossal: ENIAC (Electronic Numerical Integrator and Computer) was made of 17,468 valves and spanned an area of 10 × 17 meters. Despite its enormous size, the performance of this colossus was very limited. The computer was mainly used by the US military to calculate ballistics tables using simple arithmetical functions such as subtractions, multiplications and additions. The power consumption stood at 174 kW. By comparison: a contemporary smartphone offers complex applications such as a built-in camera, online applications, telephony, games and videos with a battery life of several days, is only a big as your hand, and manages all this with a power consumption of below 5 watts.

MOBILE COMPUTING

MARKET POTENTIAL

Technical progress is advancing the performance of mobile equipment enormously. The demand for flexible solutions in all sectors of industry is increasing accordingly: from medical technology through to the energy segment and including industrial automation, transport and the infotainment market.

The trend for mobile applications is visible everywhere. This applies both to robust tablet PCs for rugged, demanding environments as well as to flexible police computers for the immediate identification of number plates, or portable medical equipment which can be used by emergency doctors for immediate life-saving treatment. There are hardly any limits to the utilization of mobile applications since technological progress is constantly expanding the potential and opportunities for applications.

Cloud services will be a major driving force in the mobile computing markets of the future, for example, and will decentralize private and also corporate networks and allow global access to the information architecture. According to BITKOM, the IT sector association, the German cloud market will grow by 48 % in 2012. This corresponds to a sales increase from EUR 1.2 billion in 2010 to EUR 8.2 billion in 2015 in Germany alone. One-third of the market potential is centred on investments in cloud infrastructures such as computer centers, which are based on embedded computer technologies.

The advanced RISC Machines Processor Architecture (ARM) is another technology of the future in the embedded computer technology market The high energy efficiency of ARM processors enables completely closed, impact and splash-resistant design as components such as fans are not needed. At the same time this energy-saving technology offers particularly long battery life and is therefore suited for mobile usage. Moreover, ARM processors deliver a higher price/performance ratio than traditional processors which further increases the market potential of this technology. According to a current study, the number of ARM processors used in industry will rise from the current level of 7 billion to 15 billion by 2015. The value of ARM technologies sales in 2011 alone amounts to EUR 32 billion.

All these new mobile applications and devices also need to be supplied with the corresponding content. The underlying architecture is therefore being constantly upgraded in order to fulfill the ever-increasing bandwidth requirements of network services such as cloud computing, digital media content delivery and data communications.

New standards such as LTE (long term evolution) also require increasingly powerful computer systems. Kontron is also involved in this area through its extensive offer of standardized open communications platforms. These include for instance, AdvancedTCA and MicroTCA platforms and components as well as the more reliable carrier-grade rack-mount servers. Processor boards for the open AdvancedTCA and MicroTCA modular platforms are the fastest growing form factors of all board-based technology segments.

A study predicts an enormous market potential for AdvancedTCA particularly due to the expansion of the LTE network: The high demand for high bandwidth 40 G installations should raise the market for AdvancedTCA systems from USD 1.1 billion in 2011 to USD 4.4 billion in 2015, equal to a CAGR of 31 %.

MOBILE COMPUTING

KONTRON PRODUCTS

Kontron – Innovative technologies for a more mobile world

In order to be able to offer optimal solutions for every area in the future as well, Kontron integrates promising technologies into its portfolio at an early stage. Kontron has been offering products based on advanced RISC machines processor architecture (ARM) since the end of 2011. The high energy efficiency makes these new technologies of interest to all industrial sectors, but particularly for mobile application scenarios. The considerable cost advantages have, however, until

New Computer-on-Module standard

- » Ultra low power with ARM
- » Scalable building blocks through two module sizes (82mm x 50mm and 82mm x 80mm)
- » Constructed to withstand harsh industrial environments
- » Complete support for Windows, Linux, Android, VxWorks

Industrial Mini Panel PC

- » Compact 5.7" display with ARM9 processor
- » Extremely compact, cost-effective and energy-saving design
- » Use for visualization and control applications
- » Front-side IP65-protected

now been matched by comparatively high development costs on the side of the company. The standardized form factors such as computer-on-modules in check card format, single-board computers and embedded motherboards are the basis of departure for integrated, standardized and customer-specific systems. By further extending development and software services, Kontron is also supporting OEM customers so they can introduce the application as quickly and as cost efficiently as possible.

Embedded Motherboards

» ARM based 2.5" board
» Ultra low power consumption and high CPU performance
» Outstanding graphics performance
» Standard PC interfaces

AdvancedTCA® Platforms

» Standard for high performance telecom applications
» Carrier-grade for high availability (99,999%)
» High density through multiple processor blades
» Up to 40 Gigabit Ethernet data throughput

MOBILE COMPUTING

KONTRON APPLICATIONS

Tablets for all occasions – robust mobile PCs using Kontron hardware

Tablet PCs are enjoying ever-increasing popularity, not just among consumers but also for professional usage. However, consumer devices are not suitable for use in rough factory conditions or for unlimited outdoor usage. These areas need special systems which are specifically adapted to meet these adverse environments. Kontron components are highly reliable and available for long periods so once again are the ideal hardware base for such robust professional tablet PCs.

This robust mobile equipment is tapping into many new markets and uses increasingly-complex applications, again thanks to ever-growing wireless bandwidths and the forthcoming 4G LTE-based wireless networks. Kontron has an extensive offer of components and platforms for the underlying telecoms infrastructure for these. In the automation field for instance, tablet PCs can be used to maintain and service production machinery more efficiently. In the logistics sector, tablet PCs help to improve the coordination of flows of goods. Tablet PCs are ideal all-in-one solutions for outdoor usage such as in forestry or surveying, for digital documentation as well as for determining positions and locations via GPS/GIS. In the medical field, specialist medical personnel with tablet PCs have all the relevant patient information to hand at all times.

Surviving in Death Valley, measurement systems for usage in extreme conditions

Before a vehicle goes into production, several readings must be taken so all the technical components are coordinated. A Kontron CompactPCI card is used in a compact measurement system that evolved in the extreme challenges faced in field tests. The high-performance measurement equipment provides reliable synchronized readings for up to 600 measurement channels.

As soon as the prototype approaches the point of manufacturing, it must prove its suitability for use under extreme conditions. In many instances, high acceleration, braking distances or aerodynamics are extensively tested in rough environments such as Death Valley or at the Arctic Circle. Kontron contributed to this exciting project by developing a sub-system for visualizing data logging and communication through a customer-specific CompactPCI CPU board with rear I/O support. In the past, these test systems often took up the whole of the space in the trunk. As a result of the compact design and the optimum coordination of the components, the measurement system offers the highest precision and performance, and all this at a very compact size.

MOBILE COMPUTING

TECHNOLOGIES FOR A MORE MOBILE WORLD

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II. Consolidated Financial Statements

Contents

This is a translation of the German „Konzernabschluss gemäß § 315a Abs. 1 HGB der Kontron AG zum 31. Dezember 2011“.
Sole authoritative and universally valid version is the German language document.

1. Consolidated Statement of Income (IFRS)

in TEUR	Notes	1-12/2011	1-12/2010
Revenues	(1)	589,570	509,478
Material		-347,053	-298,684
Other production cost		-43,423	-42,663
Amortization of capitalized development projects		-9,742	-7,505
Order-related development cost		-23,292	-12,745
Cost of goods sold		-423,510	-361,597
Gross margin		166,060	147,881
Selling and marketing cost		-49,203	-47,044
General and administrative cost		-41,664	-37,306
Research and development cost		-44,514	-40,369
Subtotal operating costs	(3)	-135,381	-124,719
Other operating income	(4)	18,020	19,382
Other operating expenses	(4)	-14,606	-48,379
Operating income before financial income and income taxes		34,093	-5,835
Finance income	(5)	367	865
Finance expense	(5)	-1,881	-3,243
Income taxes	(6)	-9,668	-5,140
Net income		22,911	-13,353
Thereof account for non-controlling interests		1,020	166
Thereof account for shareholders of Kontron AG		21,891	-13,519
Earnings per share (basic) in EUR	(32)	0.39	-0.24
Earnings per share (diluted) in EUR	(32)	0.39	-0.24

II. Consolidated Financial Statements

2. Consolidated Statement of Comprehensive Income (IFRS)

in TEUR	1-12/2011	1-12/2010
Net income	22,911	-13,353
Other comprehensive income:		
Exchange differences on translation of foreign operations	852	10,704
Net gain/loss on available-for-sale financial assets	0	647
Income tax effects	0	-9
	0	638
Net actuarial gains and losses on pensions	-7	-896
Income tax effects	-23	173
	-30	-723
Other comprehensive income, net of tax	822	10,619
Total comprehensive income	23,733	-2,734
Thereof account for non-controlling interests	904	392
Thereof account for shareholders of Kontron AG	22,829	-3,126

3. Consolidated Cash Flow Statement (IFRS)

in TEUR	Notes	1-12/2011	1-12/2010
Net income		22,911	-13,353
Depreciation and amortization of fixed assets		21,552	18,025
Depreciation of financial assets		9	1,830
Net gain / loss on disposal of fixed assets		351	142
Change in deferred income taxes		2,100	5,276
Interest income	(5)	-367	-865
Interest expense	(5)	1,881	3,243
Risk provision for outstanding receivables / inventories KDMS		0	31,140
Other non-cash items		36	1,252
Change in assets / liabilities:			
Accounts receivable		-6,757	-33,352
Inventories		-15,559	-7,724
Other receivables		-403	-8,018
Accounts payable and provisions		10,457	17,354
Interest paid		-1,103	-1,150
Interest received		432	782
Income taxes paid		-5,551	-2,691
Income taxes received		1,575	4,343
Net cash used in / provided by operating activities	(30)	31,564	16,234
Purchases of property, plant and equipment		-6,732	-4,932
Purchases of intangible assets		-21,455	-19,957
Purchases of financial assets		-244	-23
Proceeds from the sale or disposal of property, plant and equipment		25	58
Proceeds from the sale or disposal of intangible assets		0	18
Proceeds from the sale of a subsidiary		724	0
Acquisitions of subsidiaries, net of cash		0	-23,538
Payment of liabilities from acquisitions		-1,596	0
Acquisition of additional equity in subsidiaries		0	-108
Net cash used in / provided by investing activities	(30)	-29,278	-48,482
Change of current account / overdrafts	(18)	782	2,771
Repayment of short-term borrowings	(18)	-36,267	-12,708
Proceeds from short-term borrowings	(18)	14,015	27,930
Repayment of long-term debt	(18)	-1,823	-419
Proceeds from long-term debt	(18)	12,278	0
Dividends paid		-11,373	-11,212
Net cash used in / provided by financing activities		-22,388	6,362
Effect of exchange rate changes on cash		1,081	2,905
Net change in cash or cash equivalents		-19,021	-22,981
Cash or cash equivalents at beginning of period		57,186	80,167
Cash or cash equivalents at end of period	(7)	38,165	57,186

II. Consolidated Financial Statements

4. Consolidated Statement of Financial Position (IFRS)
Assets

in TEUR	Notes	12,31,2011	12,31,2010
Cash or cash equivalents	(7)	38,165	57,186
Inventories	(8)	111,476	110,114
thereof Advanced payments		7,682	4,458
thereof Receivables from construction contracts		3,383	1,807
Accounts receivable, net	(9)	123,625	116,296
Income tax receivable		2,847	3,829
Other current receivables and assets	(10)	14,228	14,637
Assets held-for-sale	(11)	18,819	0
Total current assets		309,160	302,062
Investments		742	738
Property, plant and equipment	(13)	20,695	24,986
Other intangible assets	(14)	68,756	62,339
Goodwill	(14)	111,027	110,433
Other non-current assets		549	498
Deferred income taxes	(6)	12,550	14,509
Total non-current assets		214,319	213,503
Total assets		523,479	515,565

4. Consolidated Statement of Financial Position (IFRS)
Liabilities

in TEUR	Notes	12,31,2011	12,31,2010
Accounts payable, trade	(15)	86,713	82,507
Short-term borrowings, bank	(18)	23,756	44,009
Current portion of finance lease obligation	(18)	141	328
Current provisions	(19)	4,870	3,003
Deferred revenues		1,250	1,200
Obligations from construction contracts	(8)	1,018	0
Income tax payable		6,228	4,874
Other current liabilities	(16)	23,715	28,508
Total current liabilities		147,691	164,429
Long-term borrowings, bank	(18)	13,244	1,504
Non-current provisions	(19)	3,406	2,638
Pensions	(19)	2,738	3,244
Finance lease obligation long-term	(18)	127	425
Other non-current liabilities	(16)	1,402	1,434
Deferred income taxes	(6)	21,306	21,133
Total non-current liabilities		42,223	30,378
Common stock	(21)-(23)	55,683	55,683
Additional Paid-in Capital	(27)	233,751	233,303
Retained Earnings		71,303	60,557
Other components of equity	(25)	-30,537	-31,505
Treasury stock	(24)	-1,813	-1,813
Equity attributable to Equity Holders of the parent		328,387	316,225
Non-controlling interests	(26)	5,178	4,533
Total equity		333,565	320,758
Total liabilities and equity		523,479	515,565

II. Consolidated Financial Statements

5. Shareholders' Equity (IFRS)

		Equity attributable to Equity Holders of the parent								
in TEUR	Notes	Common stock	Additional paid in capital	Retained earnings	Available-for-sale reserve	Foreign currency translation reserve	Treasury stock		Non-controlling interest	Equity total
January 01, 2010		55,683	232,396	86,505	-638	-41,983	-1,813	330,150	2,757	332,907
Net income				-13,519				-13,519	166	-13,353
Other comprehensive income				-723	638	10,478		10,393	226	10,619
Total comprehensive income		0	0	-14,242	638	10,478	0	-3,126	392	-2,734
Acquisition of non-controlling interests				-494				-494	-145	-639
Acquisition of a subsidiary								0	1,529	1,529
Dividend payment				-11,212				-11,212		-11,212
Stock based compensation	**(31,1)**		907					907		907
December 31, 2010		55,683	233,303	60,557	0	-31,505	-1,813	316,225	4,533	320,758
January 01, 2011		55,683	233,303	60,557	0	-31,505	-1,813	316,225	4,533	320,758
Net income				21,891				21,891	1,020	22,911
Other comprehensive income				-30		968		938	-116	822
Total comprehensive income		0	0	21,861	0	968	0	22,829	904	23,733
Dividend Payment				-11,114				-11,114	-259	-11,373
Exercise of stock options	**(31,1)**		-6					-6		-6
Stock based compensation	**(31,1)**		454					454		454
December 31, 2011		**55,683**	**233,751**	**71,303**	**0**	**-30,537**	**-1,813**	328,387	**5,178**	333,565

II. Consolidated Financial Statements

6. 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

in TEUR	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 12,31,011
I. Intangible assets										
1. Other intangible assets	22,173	452	0	0	5,868	0	348	28,145	18,476	16,261
2. Internally generated intangible assets	22,443	396	0	0	9,314	414	46	32,521	43,863	52,495
3. Goodwill	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
II. Tangible assets										
1. Land, leasehold improvements and buildings including buildings on land owned by others	9,091	6	-546	0	867	0	294	9,124	11,841	10,584
2. Technical equipment and machinery	13,047	27	0	2	3,064	0	3,320	12,820	7,567	5,582
3. Other equipment, factory and office equipment	10,385	62	0	-2	1,704	0	902	11,247	4,336	4,142
4. Leasing assets	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

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

II. Consolidated Financial Statements

7. Consolidated Statement of Assets 2010 (IFRS)

	Acquisition and Manufacturing Cost						
in TEUR	Balance at 01,01,2010	Currency changes	Change of scope of consolidation	Reclassi-fication	Additions	Disposals	Balance at 12,31,2010
I. Intangible assets							
1. Other intangible assets	25,112	1,336	13,682	0	1,054	535	40,649
2. Internally generated intangible assets	46,265	1,259	0	0	18,887	105	66,306
3. Goodwill	147,775	1,355	18,378	0	0	809	166,699
	219,152	3,950	32,060	0	19,941	1,449	273,654
II. Tangible assets							
1. Land, leasehold improvements and buildings including buildings on land owned by others	19,962	304	363	-23	326	0	20,932
2. Technical equipment and machinery	15,589	1,263	1,370	-15	3,069	662	20,614
3. Other equipment, factory and office equipment	12,542	365	703	104	1,494	487	14,721
4. Leasing assets	2,146	202	0	-66	130	165	2,247
	50,239	2,134	2,436	0	5,019	1,314	58,514
	269,391	6,084	34,496	0	24,960	2,763	332,168

	Depreciation								Book value	
in TEUR	Balance at 01,01,2010	Currency changes	Change of scope of consolidation	Reclassi-fication	Additions	Additions unscheduled	Disposals	Balance at 12,31,2010	Balance at 01,01,2010	Balance at 12,31,2010
I. Intangible assets										
1. Other intangible assets	16,862	637	220	0	4,986	0	532	22,173	8,250	18,476
2. Internally generated intangible assets	14,464	485	0	0	7,408	181	95	22,443	31,801	43,863
3. Goodwill	56,262	4	0	0	0	0	0	56,266	91,513	110,433
	87,588	1,126	220	0	12,394	181	627	100,882	131,564	172,772
II. Tangible assets										
1. Land, leasehold improvements and buildings including buildings on land owned by others	7,823	99	310	-6	865	0	0	9,091	12,139	11,841
2. Technical equipment and machinery	9,129	636	1,211	-8	2,613	0	534	13,047	6,460	7,567
3. Other equipment, factory and office equipment	8,367	117	546	70	1,692	0	407	10,385	4,175	4,336
4. Leasing assets	877	36	0	-56	280	0	132	1,005	1,269	1,242
	26,196	888	2,067	0	5,450	0	1,073	33,528	24,043	24,986
	113,784	2,014	2,287	0	17,844	181	1,700	134,410	155,607	197,758

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 (ECs) 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 2011 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 2011 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, results of operations and cash flows 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, 2011 and 2010 were prepared pursuant to § 315a paragraph 1 of the German Commercial Code (HGB). The consolidated financial statements and Group management report as of December 31, 2010 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. An exception was the following new and revised standards and interpretations below which were applied with effect from January 1, 2011:

- IAS 24 *Related Party Disclosures* (amended), applicable with effect from January 1, 2011,
- IAS 32 *Financial Instruments: Presentation* (amended), applicable with effect from January 1 2011,
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (amended), applicable with effect from January 1, 2011
- *Improvements to IFRS 2010* (May 2010)

The application of the standards and interpretations is explained in more detail below:

IAS 24 Related Party Disclosures (amended)

The IASB has published an amendment to IAS 24 which includes a clarification of the definition of related parties. The new definition strengthens the symmetrical approach when ascertaining relationships with related parties and clarifies the circumstances under which people and people in key positions influence the relationships to related persons of a company. Furthermore the amendment brings about partial discharge from the obligations of IAS 24 for transactions with public bodies and with companies which are controlled, jointly managed or significantly influenced by the same public bodies as the reporting company. The application of the amendment had no effects on the Group's net assets, financial position and results of operations.

IAS 32 Financial Instruments: Presentation (amended)

The IASB has published an amendment in which the definition of a financial liability under IAS 32 is changed so that companies can classify specific subscription rights and options or option certificates as equity capital instruments. The amendment applies if the rights to acquire a fixed number of equity capital instruments of the company carry entitlement to a set amount in any currency and the company offers them proportionately to all existing owners of the same class of its non-derivative equity capital instruments. This amendment has no effect on the Group’s net assets, financial position and results of operations as Kontron does not have any such instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (amended)

The change removes the unintended consequences of cases where a company is subject to a minimum funding requirement and makes prepayments in order to meet this payment obligation. The change allows the company to classify a prepayment for the future provision of services as a plan asset. The Group is not subject to any minimum funding requirements so this change of interpretation does not affect the presentation of the Group's net assets, financial position and results of operations.

Improvements to IFRS 2010

In May 2010, the IASB published its third collection of standards amending various IFRS with the primary objective of eliminating inconsistencies and of clarifying the wording. These collections of standards provide for separate transitional regulations for each amended IFRS. Although the application of the following new regulations resulted in a change to the notes information, there were no effects on the Group's net assets, financial position and results of operations:

» IFRS 7 *Financial Instruments: Disclosures:* The purpose of this change was to simplify the disclosures by reducing the scope of the disclosures on collaterals held and to bring about an improvement through additional qualitative information to supplement the quantitative information.

The other new regulations published under *Improvements to IFRS 2010* listed below did not affect the consolidated financial statements:

IFRS / IFRIC	Amendment
IFRS 1 – First Time Adoption of IFRS	Changes to accounting policies for first-time adoption
	Revaluation basis as deemed cost
	Use of deemed cost in operations subject to rate regulations
IFRS 3 – Business combinations	Transitional requirements for contingent considerations from a business combination that occurred before the effective date of IFRS 3 (2008)
	Measurement of non-controlling interests
	Unreplaced and voluntary replaced share-based payment awards
IAS 1 – Presentation of Financial Statements	Clarification of statement of changes in equity
IAS 27 – Consolidated and Separate Financial Statements as a result of IFRS	Transitional requirements of IAS 27 (2008) amendments
IAS 34 – Interim Financial Reporting	Significant events and transactions
IFRIC 13 – Customer loyalty programs	Fair value of award credit

Published but non-mandatory standards

The following provides a list of standards that had been published by the time of publication of the consolidated financial statements, but which do not yet require mandatory application. This list only refers to those standards and interpretations which Kontron expects, having given reasonable consideration, will affect disclosures and the net assets, financial position and results of operations if applied in future. The Group intends to apply the standards as soon as they come into force.

IAS 1 Presentation of the financial statements – Presentation of components of other comprehensive income

The changes to IAS 1 give rise to a change in the grouping of the items shown under other comprehensive income. Accordingly components which it is intended in the future to reclassify as comprehensive income (known as recycling) are required to be presented separately from components which remain in equity. These changes only relate to the method of presentation in the financial statement and therefore do not affect the Group's net assets, financial position and results of operations. The amendment is applicable to financial years commencing on or after July 1, 2012.

IAS 19 Employee benefits (amended)

The IASB has thoroughly revised IAS 19. The amendments extend from basic changes such as ascertaining the expected return on plan assets and abolition of the corridor approach up to mere clarifications and rewording. The amendment is applicable to annual periods commencing on or after July 1, 2013.

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

The amendment stipulates extensive new disclosures on transferred financial assets that are not derecognized to enable users of the financial statements to understand these assets and the associated liabilities. It also requires disclosures to be made of the existing continuing involvement of transferred and derecognized financial assets on 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 is applicable to annual periods commencing on or after July 1, 2011. This amendment only refers to the disclosures and does not affect Kontron'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 is applicable to annual periods commencing on or after July 1, 2015. IASB will at later stages of the project deal with the treatment of hedge accounting and the impairment of financial assets. At present, this project is not expected to be completed before the end of 2012. The application of the reforms of 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 financial liabilities. In order to present a comprehensive picture of potential effects, Kontron will not quantify the effects until it does so in connection with the other phases as soon as these are completed.

IFRS 10 Consolidated 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 governed 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 large amount 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 standard is applicable to annual periods commencing on or after July 1, 2013.

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 jointly ventures and associated companies that were previously contained in IAS 31/IAS 28 as well as structured entities. Other new disclosure requirements are also included. The standard is applicable to annual periods commencing on or after July 1, 2013.

IFRS 13 Fair value measurement

The standard sets out a single framework for measuring fair value. The scope of the standard does not cover the matter of when assets and liabilities must or can be measured at fair value. IFRS 13 gives guidelines, however, on how to technically ascertain the fair value under IFRS where this is required or permitted. The Group is currently examining the effects that the new standard will have on the Group's net assets, financial position and results of operations. The standard is applicable to annual periods commencing on or after July 1, 2013.

The following standards were also published before the date of preparation of these financial statements but probably do not affect the Group's net assets, financial position and results of operations:

» IAS 12 *Income tax – Recovery of underlying assets,* applicable from January 1, 2012
» IAS 27 *Separate Financial Statements (revised 2011),* applicable from January 1, 2013
» IAS 28 *Investments in associates and joint ventures (revised 2011),* applicable from January 1, 2013
» Amendment to IAS 32 *Offsetting financial assets and financial liabilities,* applicable from January 1, 2014
» Amendment to IFRS 7 *Financial Instruments: Disclosures - Offsetting of financial assets and financial liabilities,* applicable from January 1, 2013
» IFRS 11 *Joint arrangements,* applicable from January 1, 2013

Scope of consolidation

The scope of consolidation changed as follows in the 2011 financial year:

Kontron AG and fully consolidated companies	
January 1, 2011	**29**
Retired as a result of disposal in 2011	2
December 31, 2011	**27**

All significant German and foreign subsidiaries where Kontron AG directly or indirectly possesses control have been included in the consolidated financial statements in accordance with the principles of full consolidation. Inclusion in the consolidated entity begins when such control arises, and concludes when control no longer exists. Equity shares in subsidiaries that are not held by Group companies are reported separately as non-controlling interests.

The following subsidiaries were included in the consolidated financial statements in addition to Kontron AG as of December 31, 2011, in accordance with the provisions of full consolidation:

Name and location of the company	Calculated equity interest
EMEA	
Kontron Embedded Computers GmbH, Eching / Germany	100 %
Kontron UK Ltd., Chichester / UK	100 %
Kontron ECT design s.r.o., Pilsen / Czech Republic	100 %
Kontron Modular Computers GmbH, Kaufbeuren / Germany	100 %
Kontron Modular Computers S.A.S., Toulon / France	100 %
Kontron East Europe Sp.zo.o., Warsaw / Poland	97.5 %
Kontron Modular Computers AG, Cham / Switzerland	100 %
Merz s.r.o., Liberec / Czech Republic	70 %
Kontron Embedded Modules GmbH, Deggendorf / Germany	100 %
Kontron Technology A/S, Hørsholm / Denmark	100 %
Kontron Business GmbH & Co. KG, Kaufbeuren / Germany	100 %
Kontron Verwaltungs-GmbH, Kaufbeuren / Germany	100 %
Kontron Compact Computers AG, Luterbach/Solothurn / Switzerland	96.59 %
ubitronix system solutions gmbh, Hagenberg / Austria	51.00 %
North America	
Kontron America Inc., San Diego / USA	100 %
Kontron Canada Inc., Boisbriand / Canada	100 %
AP Parpro Inc., San Diego / USA	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 Design Manufacturing Services Sdn Bhd, Penang / Malaysia	100 %
Kontron (Beijing) Technology Co. Ltd., Beijing / China	100 %
Kontron Australia Pty. Ltd., Sydney / Australia	90 %
Kontron Technology India Pvt. Ltd., Mumbai / India	51 %

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

Acquisitions and disposals

Business Center RT Soft

In an agreement dated December 21, 2011 RT Soft ZAO sold all its shares in Business Center RT Soft as at December 31, 2011 to the CEO of RT Soft ZAO. The selling price was TEUR 1,465. The Business Center RT Soft consists almost exclusively of the buildings it owns which will continue to be rented by RT Soft ZAO after the sale. The profit from the sale of the Business Center was TEUR 316 (before tax) and is shown under other operating income.

The second company that was deconsolidated was an inactive company.

There were no acquisitions during 2011.

AP Labs Group (acquired 2010)

Kontron America Inc. acquired 100% of the shares in AP Labs Group based in San Diego, USA in May 2010. Kontron agreed with the seller of AP Labs Group, in addition to a set purchase price of TEUR 26,711, a variable purchase price component depending on the future revenue of AP Labs Group ("earn-out") which was due in May 2011. The conditional purchase price on December 31, 2010 was based on the expected revenues at the time of acquisition. The earn-out was calculated in the second quarter of 2011. Due to shifts in revenues, the revenue figure estimated at the time of the acquisition was not achieved. Therefore the estimated conditional purchase price payment was reduced from TEUR 3,328 on December 31, 2010 to TEUR 2,005. An adjustment of TEUR 1,365 was carried in profit and loss under other operating income. Due to currency effects, the change in provisions differs from the amount contained in the profit and loss statement. Negotiations on the conditional purchase price payment had not yet been completed on the date of the accounts. There is currently a dispute between Kontron America Inc. and the seller regarding the interpretation of the agreement and the method of calculation of the variable purchase price payment. The purchase price component of TEUR 507 held back as well as the set part of the conditional purchase price payment of TEUR 1,221 are shown under other liabilities. A provision amounting to TEUR 730 (see point 19) was created for the uncertain portion of the conditional purchase price payment.

ubitronix system solutions gmbh (acquired 2010)

In July 2010, Kontron AG acquired 40 % of the shares in ubitronix system solutions gmbh in the form of a share exchange. In accordance with a contractual agreement, the seller is required to exercise the remaining voting rights (11 %) according to Kontron's instructions. As a result of a contractual call option, Kontron is entitled to acquire the remaining 11 % of the shares in ubitronix system solutions gmbh until December 31, 2014. The acquisition of the seller's shares is already taken into consideration when first consolidated as the purchase price can already be ascertained as a result of the unilateral option only exercisable by Kontron and no further cash from the share will be received by the seller until the option is exercised. The plan EBIT for 2012 was taken as a basis at the time of the acquisition in order to calculate the acquisition cost of TEUR 368 for the 11 % of the seller's shares. The call option was recalculated based on the current planning on December 31, 2011 and estimated at an amount of TEUR 57. The income of TEUR 311 arising from the adjustment is carried in the income statement under other operating income.

Two further call options entitle Kontron to acquire an interest in the company of 10 % from each of the founders (totaling 20 %) in 2014 and 2015. At the same time, the founders are entitled to exercise three put options of 10 % each (totaling 30 %) provided Kontron has not already acquired the shares through the exercise of the call options. The market value of these options is not, however, deemed or calculated to be significant as the fair value is the same as the exercise price or is considered as a corresponding surrogate thereof.

The fair values of the assets and liabilities acquired at the respective date of acquisition were as follows:

in TEUR	2010 fair value	
	AP Labs Group	ubitronix system solutions gmbh
Cash or cash equivalents	83	287
Accounts receivable	3,280	165
Inventories	5,978	318
Deferred revenues and other assets	380	13
Deferred tax assets	897	0
Property, plant and equipment	319	87
Intangible assets	9,868	4,214
	20,805	5,084
Trade accounts payable	1,527	595
Current bank borrowings	0	29
Other liabilities	0	232
Other provisions	1,123	0
Deferred tax liabilities	3,793	1,053
	6,443	1,909
Net assets	14,362	3,175
Non-controlling interests	0	1,556
Goodwill	15,677	2,701
Purchase price (total)	30,039	4,320
Purchase price not yet paid	6,131	0
Acquired company's cash position	83	287
Purchase price paid	23,908	Share exchange
Inflows/outflows	-23,991	287

An amount of TEUR 538 was spent in 2010 on other small acquisitions (of non-controlling interests). The purchase prices of the shares acquired were settled primarily through cash transfers.

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* applying 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 Group-internal 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 the foreign subsidiaries are converted into euros as follows: Income and expenses are converted using the annual average rate. 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)	
	12,31,2011	12,31,2010	**2011**	2010
US Dollar	**1.29**	1.33	**1.39**	1.33
British Pound	**0.84**	0.86	**0.87**	0.86
Taiwan Dollar	**39.22**	38.72	**40.90**	41.73
Russian Rouble	**41.63**	40.45	**40.86**	40.29
Danish Crown	**7.43**	7.45	**7.45**	7.45
Swiss Franc	**1.22**	1.25	**1.23**	1.38
Australian Dollar	**1.27**	1.30	**1.35**	1.45
Chinese Yuan	**8.23**	8.75	**8.97**	8.99
Malaysian Ringgit	**4.11**	4.08	**4.26**	4.28

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, for example, varying payment arrangements such as prepayments, milestone and similar payments, a review is performed to assess whether, if required, several 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 transferred 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. In particular 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 revenue
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 cost or net realizable value, whichever is lower; the average method is generally applied. 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 receivables and trade 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 on which the asset is delivered; by 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,
» Financial assets held to maturity,
» Loans and receivables and
» Available-for-sale financial assets.

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

Kontron AG enters financial instruments in the balance sheet at either amortized cost or fair value. An amount of a financial asset or a financial debt is designated as being at amortized cost,
» at the amount with which a financial asset or financial debt was measured when it was first reported,
» minus any repayments,
» plus or minus cumulative amortization of any potential 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 nonrecoverability.

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.

Shares in equity holdings are treated as financial assets available 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 the financial assets 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 of a financial asset to third parties and has (a) essentially transferred all opportunities and risks connected with ownership of the financial assets, or (b) neither transfers nor retains essentially 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 cancelled 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. Normally the Kontron group 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
Plant & Machinery	3 - 25
Office and operating equipment	3 - 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 book value 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 book value 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 12 months 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 the 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, in other words, 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 - 15
Capitalized development costs	3 - 15

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 instance of such indications, or where 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 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 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.

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 carry-forwards.

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 carry-forwards 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 carry-forwards 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 carry-forwards 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 ownership for 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 line 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 (stock 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. Stock option plans measured at fair value are reported among personnel expenses and in equity. All stock option plans are described below in Note 31.1 "Employee stock option plans – Stock Options".

The Kontron group also makes cash-settled share-based remunerations to specific employees. The costs of cash-settled transactions are valued firstly using the binominal 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 31.2).

When the Group calculates earnings per share, it performs an additional calculation to reflect the dilutive effects of outstanding stock options. This gave rise to no dilutive effect in 2011 (for further details, please refer to Note 32 "Earnings per Share").

Discretionary assessments and estimates used when applying accounting policies

In applying the Group's accounting methods, management made the following discretionary decision which significantly influences the amounts in the consolidated financial statements:

In November 2011 the Management Board decided to sell the production assets and the majority of the inventories of Kontron Design Manufacturing Services Sdn Bhd. The corresponding fixed assets and inventories were then classified as a disposal group held for sale in the consolidated financial statements at December 31, 2011. The company management was of the opinion that the property, plant and equipment and inventories at December 31, 2011 met the criteria for the held for sale classification for the following reasons:

» The property, plant and equipment and inventories can be immediately sold to a potential buyer in their existing condition.
» The company's management had already commenced negotiations before the year end date and it was highly probable that a purchase agreement would be made on the year end date.
» The purchase agreement for the assets was signed on January 18, 2012.

See comments in Note 11 for further information.

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 life of capitalized development projects;
» when assessing the necessity and measurement of an extraordinary write-down or valuation adjustment;
» 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. Valuation allowances for allocated goodwill were not required in any unit in 2011.

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	2011	2010
Revenue from the sale of goods	517,391	489,466
Revenue from the sale of services	62,694	16,525
Revenue from construction contracts	9,485	3,487
Total revenues	589,570	509,478

The classification by division and region can be found in the segment reporting in Note 34.

2. Personnel expenses

in TEUR	2011	2010
Wages and salaries	109,991	101,978
Severance payments	1,305	3,070
Social security expenses	19,881	19,207
Personnel expenses	131,177	124,255

Social security expenses contain income of TEUR 532 for employee retirement benefits (previous year: expenses of TEUR 139). 2011 fiscal year contains income due to planned cuts and a reduction of the number of pensionable employees. Further details can be found in Note 19 to the financial statements.
The company issues share-based remuneration in the form of stock option plans and performance share units plans (as components of long-term remuneration).
Contributions to statutory pension insurance amounted to TEUR 3,197 (previous year: TEUR 3,351).

Average number of employees	2011	2010
Western Europe	1,001	1,017
America	754	668
Emerging Markets	1,223	1,057
Annual average	2,978	2,742

3. Current operating expenses

in TEUR	2011	2010
Personnel costs	83,275	79,020
Rents, building and facility maintenance	12,041	10,705
Depreciation / amortization	8,608	7,471
Legal, consultancy and auditing costs	6,480	4,191
Advertising	4,603	4,726
Third-party services	4,480	4,648
Office material and internal material requirements	4,348	3.502
Travel expenses	3,825	3,508
Insurance policies and bank charges	2,019	1,450
Car fleet	1,986	1,824
Telephone and communications	1,382	1,457
Other	2,334	2,217
	135,381	124,719

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 2011, TEUR 18,254 fulfilled IFRS capitalization criteria (previous year: TEUR 18,887).
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 2011 financial year, these expenses totaled TEUR 44,514 (previous year: TEUR 40,369).

The depreciation and amortization contained in current operating expenses relates exclusively to scheduled depreciation to non-current assets, with the exception of capitalized development costs. The amortization/impairment charges applied to capitalized development costs in the reporting year (of which unscheduled impairment charges: TEUR 414; previous year: TEUR 181) 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	2011	2010
Exchange rate gains	14,396	17,960
Income from adjustment of AP Labs Group earn-out	1,365	0
Income from the release of provisions	566	290
Income on sale of Business Center RTSoft	316	0
Income from the adjustment of the call option ubitronix system solutions gmbh	311	0
Income from disposal of assets	108	23
Subsidies	100	1
Rental agreements	46	206
Refunds/compensation	26	32
Other income	786	870
Other operating income	**18,020**	**19,382**

in TEUR	2011	2010
Exchange rate losses	14,040	14,089
Losses from disposal of fixed assets	71	41
Formation of provisions	5	0
Value impairments and investigation costs KDMS	0	33,778
Other expenses	490	471
Other operating expenses	**14,606**	**48,379**

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	2011	2010
Interest income	317	856
Dividends	17	0
Other interest similar income	33	9
Interest income	**367**	**865**
Impairments applied to equity interests/subsidiaries	0	1,830
Losses from disposal of financial assets	12	0
Interest and similar expenses	1,869	1,413
Interest expense	**1,881**	**3,243**
Financial result	**-1,514**	**-2,378**

6. Income tax

Income tax expense is broken down as follows:

in TEUR	2011	2010
Actual income tax	7,540	5,533
Origination and reversal of temporary differences	2,128	-393
Tax expense reported in consolidated income statement	**9,668**	**5,140**

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 0 % to 39.55 %.

Changes in consolidated equity

in TEUR	2011	2010
Net losses from available for sale financial assets	0	-9
Actuarial gains/losses from pensions	-23	173
Losses from net investments	-1	0
Income taxes recognized in other comprehensive income	**-24**	**164**

The following table shows a reconciliation of the expected income tax expense 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	2011	2010
Earnings before income tax	32,578	-8,213
Group - Income tax rate	28.4%	28.4%
Expected tax effect	-9,252	2,335
Effect of other tax rates applied to companies operating abroad	-113	-1,004
Share of tax for differences and losses for which no deferred tax has been reported	-87	-262
Tax-free income	0	1,415
Tax-free public-sector grants and subsidies	861	906
Non tax-effective loss of subsidiary in Malaysia	-1,246	-7,785
Non-deductible expenses	-591	-682
Tax refunds	918	27
Other	-158	-90
Reported tax expense	-9,668	-5,140
Income tax charge	29.7%	n.a.

The income tax charge in 2011 amounted to TEUR 9,668. The tax figure of TEUR -1,246 arising from the non-tax-effective losses was attributable to the operating loss at Kontron Design Manufacturing Services Sdn Bhd and is not effective in taxation terms due to the pioneer status of the company and its related tax exemption. The tax refunds are primarily from RT Soft ZAO. A provision for additional tax demands from 2006 was created in 2010 financial year. This provision was released again in 2011 financial year as the legality of the tax demand was not upheld.

The tax-free public-sector grants arise from research and development credits for Kontron America Inc. and Kontron Modular Computers S.A.S..

Deferred tax assets and liabilities as of December 31, 2010 and December 31, 2011 are allocated to the following items:

in TEUR	Deferred tax assets		Deferred tax liabilities	
	2011	2010	2011	2010
Property, plant and equipment	340	366	1,038	1,051
Intangible assets	362	1,909	17,297	17,396
Inventories	1,983	2,133	294	278
Receivables/other receivables	2,139	654	2,588	2,270
Provisions and deferred liabilities	1,373	2,689	1,223	1,291
Liabilities/other liabilities	1,805	708	2,480	1,724
Loss carried forward	4,172	4,876	0	0
Tax credit for research and development	3,868	3,742	0	0
Other	176	309	26	0
	16,218	17,386	24,946	24,010
Net deferred tax liabilities			8,728	6,624

in TEUR	2011	2010
Status January 1	6,624	2,007
Tax charge/income expensed in the reporting period	2,128	-393
Tax charge/income in other comprehensive income in the reporting period	-24	164
Deferred tax acquired under business combinations	0	4,846
Status December 31	8,728	6,624

The companies Kontron America Inc., Kontron Embedded Computers GmbH, Kontron Compact Computers AG, Kontron Technology A/S and Merz s.r.o. have formed deferred tax assets for tax loss carry-forwards to the level of 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 are identical and offsetting is possible. Deferred tax assets were offset against deferred tax liabilities of TEUR 3,640 in 2011. The consolidated balance sheet reported a deferred tax asset of TEUR 12,550 and a deferred tax liability item of TEUR 21,306.

The unutilized tax loss carry-forward position is as follows:

in TEUR	2011	2010
Can be carried forward up to 1 year	1,400	1,285
Can be carried forward for up to 10 years	13,053	13,284
Can be carried forward beyond 10 years	2,324	1,158
Can be carried forward for an unlimited period	11,000	13,767
	27,777	29,494
Loss carry-forwards recognized	-14,902	-17,373
Unutilized loss carry-forwards	**12,875**	**12,121**

Deferred tax assets are formed for loss carry-forwards over a planning period of four years on the basis of current corporate planning.

The unrecognized loss carry-forwards result from the subsidiaries Kontron America Inc., Merz s.r.o. and Kontron Compact Computers AG.

7. Cash and cash equivalents

Cash and cash equivalents of TEUR 38,165 (previous year: TEUR 57,186) comprise cash in hand, checks, and bank balances with terms of less than three months. These accrue short-term rates of interest.

in TEUR	2011	2010
Bank deposits, cash in hand, checks	36,576	53,710
Short-term deposits at banks	1,589	3,476
Total cash and cash equivalents	38,165	57,186

8. Inventories

The reported inventories item consists of the following:

in TEUR	2011	2010
Raw materials, consumables and supplies	37,294	48,941
Work in progress	25,046	15,346
Finished goods and merchandise	38,071	39,562
Advanced payments rendered	7,682	4,458
Receivables from construction contracts	3,383	1,807
	111,476	110,114

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.

An amount of TEUR 14,899 was removed from inventories and reclassified under the assets held for sale position (see also Note 11) in 2011.

Expensed impairments to inventories amount to TEUR 5,764 (previous year: TEUR 4,379). This contains non-plan impairment for the inventories classified as held for sale in an amount of TEUR 1,959. 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	2011	2010
Order revenue	9,485	3,487
Costs incurred	-5,871	-2,577
Profit	**3,614**	**910**

The rise of construction contracts results exclusively from the growth in customer-specific software developments at RT Soft ZAO.

Amounts receivable on construction contracts totaled TEUR 3,383 (previous year: TEUR 1,807). Liabilities due on construction contracts were included in an amount of TEUR 1,018. Advance payments on construction contracts were received in an amount TEUR 7,944 (previous year: TEUR 383).

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. 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	2011	2010
Trade receivables	158,371	148,773
Value adjustments	-34,746	-32,477
Total trade receivables	**123,625**	**116,296**

As of December 31, 2011, impairment losses were applied to trade receivables with a nominal value of TEUR 35,521 (previous year: TEUR 33,135).
The following table shows the changes in the impairment account:

in TEUR	2011	2010
Value adjustments January 1	-32,477	-2,658
Additions expensed through income statement	-1,860	-30,288
Addition due to consolidation scope change	0	-143
Utilization	1,133	168
Release	539	565
Exchange rate differences	-2,081	-121
Value adjustments December 31	**-34,746**	**-32,477**

The amount carried forward from 2010 of TEUR 32.477 includes impairments at Kontron Design Manufacturing Services Sdn Bhd, which were formed during 2010 when there was a suspicion of fraudulent activity.
The additions in 2011 of TEUR 1,860 (previous year: TEUR 30,431) are made up of additions due to specific adjustments of TEUR 935 (previous year: TEUR 29,571) and lump-sum individual adjustments of TEUR 925 (previous year: TEUR 860).
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 ranges					
in TEUR	Nominal amount	of which: neither overdue nor impaired	less than 30 days	between 31 - 60 days	between 61 - 150 days	between 151 - 240 days	between 241 - 330 days	more than 330 days
12,31,2011	158,371	98,513	14,007	2,728	5,637	1,023	533	409
12,31,2010	148,773	83,704	23,543	3,028	3,832	975	249	307

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 current receivables and assets

The other current receivables and assets item consists of the following:

in TEUR	2011	2010
Other current assets		
VAT receivables	6,029	5,736
Prepayments and accrued income	2,592	3,621
Bonus receivables due from suppliers	1,552	1,887
Receivables due from shareholders	721	179
Short-term securities	677	235
Other tax receivables	648	736
Deposits	432	873
Receivables due from employees	261	255
Creditor accounts in debit	219	36
Other	1,097	1,079
	14,228	14,637

11. Assets held for sale

The consolidated financial statements at December 31, 2011 include fixed assets of TEUR 3,920 and inventories of TEUR 14,899 shown as assets held for sale in the emerging markets segment. The assets comprise production plants and inventories belonging to Kontron Design Manufacturing Services Sdn Bhd. The Kontron Design Manufacturing Services Sdn Bhd plants primarily produce standard components with low margins to sell within the Kontron Group. Kontron's strategy focuses, however, on expanding core expertise in higher margin systems and customer-specific solutions. On January 18, 2012 in the framework of an asset deal, the production plants along with the related inventories were sold to Plexus Corp.. On December 31, 2011 negotiations on the sale had not yet been completed, but it was highly probable that the activities would soon be sold. The production plants as well as the related assets were therefore classified as a disposal group held for sale. They are shown at their book values. An impairment of the fixed assets was not necessary. Please refer to Note 8 for the amount of impairment contained in the inventories.

12. Deferred tax assets

Further notes about deferred tax can be found in Note 6 below (Income tax).

13. Property, plant and equipment

Impairment losses are determined in accordance with IAS 36 *Impairment of Assets*. No impairment losses were applied to property, plant and equipment, neither in the reporting year nor in the previous year.

Also included are production facilities and vehicles of TEUR 387 (previous year: TEUR 1,242), which qualify as Finance Leases and which must be attributed to the Group as their economic owner due to the structure of the lease contracts on which they are based. 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	2011	2010
Due within one year	154	354
Due between one and five years	119	456
Due after five years	6	0
	279	810
Share of interest contained in minimum lease payments	11	57
Sum of future minimum lease payments	268	753

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

in TEUR	2011	2010
Due within one year	141	328
Due between one and five years	121	425
Due after five years	6	0
	268	753

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.

14. Intangible assets, goodwill

Internally generated intangible assets
A total of TEUR 62,974 was spent on research and development in 2011 (previous year: TEUR 59,256). Of this amount, TEUR 18,254 satisfies IAS 38 capitalization criteria (previous year: TEUR 18,887).

The amounts capitalized mainly concern customer-specific development projects and are explained in more detail below:

Capitalized development costs, products in development in TEUR	2011	2010
Cost 01,01,	21,705	16,015
Currency changes	455	1,259
Additions	18,254	18,887
Reclassification of completed projects	-17,333	-14,456
Book value 12,31,	23,081	21,705

Capitalized development costs, products currently in use in TEUR	2011	2010
Cost 01,01,	44,601	30,250
Additions	17,333	14,456
Disposals	-76	-105
Book value 12,31,	61,858	44,601

Amortization of capitalized development projects	in TEUR	2011	2010
01,01,		22,443	14,464
Currency changes		396	485
Additions (scheduled)		9,314	7,408
Unscheduled amortization		414	181
Disposals		-46	-95
Book value 12,31,		32,521	22,443
Book value of capitalized development costs as of 12,31,		52,418	43,863

Unscheduled impairment losses of TEUR 414 (previous year: TEUR 181) were applied to internally generated intangible assets (capitalized development costs) in 2011. 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; growth for each product is determined using available market analyses. A 12.5 % pre-tax discount rate is applied to the cash flow forecasts.

The unscheduled impairment expense of TEUR 414 is reported under capitalized development cost impairments, and arises from the EMEA segment in an amount of TEUR 46 (previous year: TEUR 95) and North America in an amount of TEUR 368 (previous year: TEUR 86).

In the current financial year, the Kontron Group received public grants and subsidies amounting to TEUR 337 (previous year: TEUR 103), which reduce the production costs of the capitalized development projects, as well as further subsidies in an amount of TEUR 519 (previous year: TEUR 636), which reduced research and development costs.

Furthermore the additions to the internally generated intangible assets contain TEUR 77 for programming work on the new global SAP system, which will be introduced in connection with restructuring of the IT systems.

Rights and licenses, other intangible assets
In 2011 financial year an amount of TEUR 1,429 was capitalized as an advance payment for the new global SAP system under intangible assets.

Intangible assets also include rights and licenses, and other intangible assets, arising from acquisitions (e.g. customer base, technology, brand name and order book position) totaling TEUR 14,832 (previous year: TEUR 18,476).

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

in TEUR	2011	2010
Other production costs	9,745	8,989
Research and development costs	3,045	1,229
General administrative costs	2,123	752
Selling and marketing costs	682	1,605
	15,596	12,575

Goodwill

The goodwill results from corporate acquisitions and is apportioned to cash-generating units as of December 31, 2011 as follows. In the Kontron Group, the following individual companies/groups correspond to the cash-generating units:

Goodwill in TEUR	2011	2010
Kontron America	43,385	42,886
Kontron Modular Computers Group	18,362	18,362
Kontron Embedded Modules	10,169	10,169
Kontron Compact Computers	9,129	8,911
Kontron Embedded Computers Group	9,055	9,055
RT Soft Group	8,594	8,697
Kontron Canada	7,487	7,487
ubitronix	2,701	2,701
Kontron Asia Group	2,145	2,165
	111,027	110,433

The change in goodwill is exclusively attributable to currency fluctuations.

No extraordinary write-downs were applied to goodwill in 2011.

Goodwill impairment tests

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 (2012-2015). No growth is imputed to cash flows following the four-year planning period compared with the last individually planned year (2015). The pre-tax discount rate applied to the cash flow forecasts is presented in the following table:

		Pre-tax discount rate	
Cash-generating units	in %	2011	2010
Kontron America		12.8	13.3
Kontron Modular Computers Group		11.1	11.7
Kontron Embedded Modules		11.2	11.5
Kontron Embedded Computers Group		10.0	11.4
Kontron Compact Computers		9.1	9.5
Kontron Canada		12.0	12.2
RT Soft Group		12.6	13.0
ubitronix		10.4	10.9
Kontron Asia Group		12.8	12.9

Basic assumptions for calculation of value in use

Uncertainties surrounding estimates exist with respect to the following assumptions used to calculate the value in use of the cash generating units:

» Gross profit margins,
» Discount rates,
» Growth rates during the budgeting timeframe.

Gross profit margins – These are calculated using average values achieved in the financial years preceding the budgeting timeframe. Gross profit margins are adjusted over the course of the budgeting timeframe to reflect expected efficiency enhancements.

Discount rates – The discount rates reflect current market assessments with respect to specific risks allocable to each of the cash generating units. The discount rate was estimated based on sector-typical weighted average costs of capital. This interest rate was adjusted further to reflect the market estimates relating to all risks specifically allocable to the cash generating unit for which the estimate of future cash flows was not adjusted.

Estimate of growth rates – Growth rates are based on published, sector- related market research.

Sensitivity of assumptions used

The management is of the opinion that no change generally considered reasonable, that is applied to one of the assumptions used to calculate the value in use of the cash generating units, could result in the carrying amount of the cash generating unit significantly exceeding its recoverable amount.

The changes in intangible assets are presented in the schedule of movements in fixed assets.

15. Trade accounts payable

The trade accounts payable item consists of the following:

in TEUR	2011	2010
Trade payables	70,881	62,860
Customer prepayments	15,832	19,647
	86,713	82,507

The accounts payable have the following residuals terms:

	Residual term of up to 1 year	Residual term of 1-5 years	Residual term of more than 5 years	Total
12,31,2011	86,113	600	0	86,713
12,31,2010	82,507	0	0	82,507

16. Other liabilities

Other liabilities were broken down as follows:

Other current liabilities in TEUR	2011	2010
Amounts owed to personnel	14,183	11,928
Other taxes	2,199	4,479
Outstanding bills	2,085	1,279
Liabilities from acquisitions	1,785	6,131
Legal and consultancy costs	980	944
Debtors accounts in credit	746	1,061
Social security	249	303
Rental obligations	210	379
Interest liabilities	51	196
Other	1,227	1,808
	23,715	28,508

Other non-current liabilities in TEUR	2011	2010
Onerous contracts	1,217	1,357
Other	185	77
	1,402	1,434

Liabilities from acquisitions are described in more details in the Note on acquisitions.

17. Deferred tax liabilities

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

18. Financial liabilities

All interest-bearing liabilities of the Kontron Group as of the balance sheet date are shown under financial liabilities. They consist of the following:

2011 in TEUR	Maturity up to 1 year	Maturity 1 - 5 years	Maturity over 5 years	2011 Total
Non-current				
Non-current liabilities (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

2010 in TEUR	Maturity up to 1 year	Maturity 1 - 5 years	Maturity over 5 years	2010 Total
Non-current				
Non-current liabilities (bank borrowings)	0	1,023	481	1,504
Finance lease obligations	0	425	0	425
Non-current finance liabilities	0	1,448	481	1,929
Current				
Bank borrowings	44,009	0	0	44,009
Finance lease obligations	328	0	0	328
Current finance liabilities	44,337	0	0	44,337
	44,337	1,448	481	46,266

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

in TEUR	2011	2010
Loan with an interest rate of 4.45 % repayable semi-annually from 1999 bis 2019	0	1,083
Other loans with interest rates between 5.0 % and 10.2 %	130	91
Variable rate loan repayable semi-annually from 2004 to 2014	0	700
Loan with an interest rate of 3.35 % repayable annually from 2011 to 2013	9,653	0
Loan with an interest rate of 3.9 % repayable annually from 2011 to 2013	9,653	0
	19,436	1,874
Short-term portion of non-current bank loans	-6,192	-370
	13,244	1,504

Current account borrowing facilities, short-term loans

As of December 31, 2011 the Group had at its disposal total credit and guaranteed credit lines of TEUR 89,674 (previous year: TEUR 79,208), which were utilized to an amount of TEUR 17,564 (previous year: TEUR 43,639). An amount of TEUR 15,571 (previous year: TEUR 21,754) for letters of indemnity reduces the unrestricted credit facility correspondingly. Consequently, an amount of TEUR 56,539 is available for further unrestricted loan and guarantee drawings (previous year: TEUR 13,815). TEUR 3,048 of the short-term credit lines is secured by assignments.

Fixed interest-rate loans

Of the non-current bank borrowings totaling TEUR 19,436 (previous year: TEUR 1,874), TEUR 19,306 are guaranteed by Kontron AG (Kontron America Inc.) and TEUR 15 (previous year: TEUR 65) by assignments of other assets (Merz s.r.o.).

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	2011	2010
Minimum lease payments from lease agreements	7,072	6,759

In 2011 SAP licenses with a total value of TEUR 278 and in previous financial years SAP licenses with a total value of TEUR 14,241 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.

19. 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 16.

Movements in provisions were as follows:

Current provisions in TEUR	Carried forward 01,01,2011	Currency changes	Change of scope of consolidation	Additions	Utiliza-tion	Release	Status 12,31,2011
Warranties	2,048	113	0	1,774	1,515	73	2,347
Litigation	56	0	0	288	127	44	173
Contingent losses	0	0	0	373	0	0	373
Restructuring	330	2	0	182	68	0	446
Other	569	65	0	907	10	0	1,531
Total	3,003	180	0	3,524	1,720	117	4,870

Non-current provisions in TEUR	Carried forward 01,01,2011	Currency changes	Change of scope of consolidation	Additions	Utiliza-tion	Release	Interest	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
Other	24	0	0	6	0	0	0	30
Total	2,638	20	0	2,321	319	1,314	60	3,406

Current provisions in TEUR	Carried forward 01,01,2010	Currency changes	Change of scope of consolidation	Additions	Utiliza-tion	Release	Status 12,31,2010
Warranties	1,899	93	76	424	246	198	2,048
Litigation	99	0	0	60	103	0	56
Contingent losses	22	0	0	0	0	22	0
Restructuring	161	32	0	330	193	0	330
Other	17	4	0	550	2	0	569
Total	2,198	129	76	1,364	544	220	3,003

Non-current provisions in TEUR	Carried forward 01,01,2010	Currency changes	Change of scope of consolidation	Additions	Utiliza-tions	Release	Status 12,31,2010
Warranties	585	80	0	568	193	0	1,040
Contingent losses	84	16	0	1,474	0	0	1,574
Other	23	1	0	0	0	0	24
Total	692	97	0	2,042	193	0	2,638

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. 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.

Contingent losses

The TEUR 373 in additions to the current provisions and TEUR 2,025 to non-current provisions under the "contingency losses" items relates to current lease obligations for the Kontron Design Manufacturing Services Sdn Bhd SAP system with duration until 2014 and 2015. Due to the sale of the production plant, most of the SAP system can no longer be used. As a result the respective lease agreements qualify as onerous contracts from the middle of 2012 financial year.

The release of TEUR 1,289 in the "contingency losses" position in the non-current provisions relates to the provision for leasing obligations created in 2010 financial year for the SAP systems of the German companies. Due to delays in the remodeling of the IT systems, the leasing obligations only qualify as onerous contracts with effect from the middle of 2014. The provisions were proportionately released.

Restructuring

In 2011 financial year an amount of TEUR 142 was transferred to the short-term provisions for restructuring as the module and board production at Kontron Compact Computers AG was transferred to a contract manufacturer. Back in 2010 financial year a provision of TEUR 330 was created for the transfer of production from Kontron Modular Computers GmbH at the Kaufbeuren site to a Kontron Embedded Computers GmbH factory in Augsburg. A further TEUR 40 was transferred during the reporting year and an amount of TEUR 68 utilized.

Other

An amount of TEUR 730 was contained in the transfers to the other short-term provisions for some of the variable purchase price component of AP Labs Group. Further information is described in the dedicated Note on acquisitions.

Pensions and other post-employment benefits

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

	in TEUR
Pension commitments as 01,01,2010	**2,114**
Pension expenses	423
Actuarial gains/losses reported in other comprehensive income	896
Employer contribution	-239
Benefits paid	-109
Conversion differences on pensions in other currencies	159
Pension commitments as 12,31,2010	**3,244**

	in TEUR
Pension commitments as 01,01,2011	**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 12,31,2011	**2,738**

In the past, the Group introduced various defined benefit pension schemes 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: 98 employees). In 2011 financial year a commitment for anniversary bonuses and special leave to employees depending on specific service periods was cancelled. This reduced the scope of the obligations by TEUR 219.

Two other subsidiaries introduced defined benefit pension schemes in the past that grant post-retirement pension benefits to 112 employees (previous year: 125). The benefit plans depend on both salary and service period criteria. These comprise direct pension commitments. Due to the reduction of the personnel numbers by 25 at one of these companies, the scope of obligations in 2011 fell by TEUR 526.

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 671 as of the 2011 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	2011	2010
Current service cost	397	373
Interest expense	272	285
Actuarial gains/losses	0	-7
Past service cost	32	32
Expected return on plan assets	-216	-226
Income on plan curtailments	-745	-33
Pension expenses/income	**-260**	**424**

The actual gains on plan assets in 2011 financial year amounted to TEUR 325 (previous year: losses of TEUR 268).

The expenses/income are reported in the consolidated income statement under general administrative costs. For the 2012 financial year, the Group anticipates contributions relating to defined benefit obligations totaling TEUR 258, TEUR 33 of which are in the form of expected direct pension payments.

Defined benefit obligations (at December 31):

in TEUR	2011	2010	2009	2008	01,01,2008
Present value of defined benefit obligation (full or partially fund financed plans)	8,710	8,049	5,971	1,654	138
Fair value of plan assets	-6,872	-6,034	-5,174	0	0
	1,838	2,015	797	1,654	138
Present value of defined benefit obligation (non-fund financed plans)	1,099	1,460	1,579	0	0
Unrecognized past service cost	-199	-231	-262	-294	0
Defined benefit obligation liability	**2,738**	**3,244**	**2,114**	**1,360**	**138**

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, 2010	**7,550**
Interest expense	285
Current service cost	373
Employee contributions	524
Benefits paid	-751
Actuarial gains/losses	293
Plan curtailments	0
Conversion differences on plans in foreign currencies	1,235
Present value of defined benefit obligation at December 31, 2010	**9,509**

	in TEUR
Present value of defined benefit obligation at January 1, 2011	**9,509**
Interest expense	272
Current service cost	397
Employee contributions	253
Benfits 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**

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

	in TEUR
Fair value of plan assets at January 1, 2010	**5,174**
Expected return on plan assets	226
Gains/losses on plan assets	-494
Employee contributions	524
Employer contributions	239
Benefits paid	-643
Conversion differences on plan assets in foreign currencies	1,008
Fair value of plan assets at December 31, 2010	**6,034**

	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**

Experience based gains and losses adjustments to plan obligations amounted to TEUR -294 in the reporting period (previous year: TEUR -6).

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

	in %
Shares	16
Bonds	33
Real estate	18
Cash and other financial assets	33

Plan assets do not contain any Kontron AG shares or real estate utilized by the Group itself.

Expected total income from plan assets is calculated on the basis of bond rates as of the balance sheet date plus historical risk premiums for the other asset categories.

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

in %	2011	2010
Discount rates		
Germany	5.40	5.10
France	5.00	4.80
Switzerland	2.35	2.65
Salary trend	2.03	2.12
Pension trend	0.52	0.53
Expected return on plan assets	3.02	3.44

20. Disclosures concerning litigation

Various legal disputes are pending in the Group within the scope of its business activities. With the exception of the proceedings pending in Malaysia (active legal dispute) and the USA, 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.
Kontron has initiated legal proceedings for compensation against several respondents for a sum of TEUR 29,348 in Malaysia but no claims have yet been recognized. 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.
Kontron is currently in a legal dispute in the United States against the seller of AP Labs Group. The point of contention is the variable purchase price component for AP Labs Group (see section on acquisitions). It is not yet known when a decision will be returned.

21. Equity capital and stock subscriptions

The number of nil par value shares issued by Kontron as of December 31, 2011 was 55,683,024. Each share represents a share of subscribed capital of EUR 1. Preference shares or different classes of stock do not exist.

The capital reserve contains the surplus from the issue of shares, and expenses relating to stock option plans (Note 31).

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.

22. Conditional Capital

The company's conditional capital as of December 31, 2011 was as follows:

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 stock options. The conditional capital increase will be performed only to the extent that owners of option rights from the 2003 stock option program exercise them. As of December 31, 2011, there were 409,500 (previous year: 443,500) related stock 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 performed only to the extent that owners of option rights from the 2007 stock option program exercise them. As of December 31, 2011, there were 1,235,592 (previous year: 1,299,891) related stock options.

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

The Conditional Capital 2011 increases the company's share capital by up to TEUR 16,877 through the issue of up to 16,876,662 ordinary 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, 2011.

23. 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 stock market price and the shares issued, to the exclusion of the subscription right in accordance with § 186 sentence 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 § 186 paragraph 3 sentence 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 § 186 paragraph 3 sentence 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.

24. Treasury shares

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

No treasury shares were acquired by the company during the reporting year.

During the 2010 financial year the company transferred 542 treasury shares to employees due to the exercise of stock options entailing total proceeds of TEUR 0. No treasury shares were transferred to employees as a result of the exercise of stock options during the reporting year.

As of December 31, 2011, Kontron holds 111,976 (previous year: 111,976) treasury shares, which corresponds to a nominal amount of TEUR 112 (previous year: TEUR 112) of the issued share capital. The arithmetic share of the issued share capital is 0.22 % (previous year: 0.22 %).

25. Other equity components

Other equity components changed from TEUR -31,505 to TEUR -30,537 due to currency exchange rate changes.

26. Non-controlling interests

The minority interest in the equity of TEUR 5,178 is attributable to the following subsidiaries:

in TEUR	2011
RT Soft ZAO, Moscow	3,661
ubitronix system solutions gmbh, Hagenberg	1,194
Merz s.r.o., Liberec	130
Kontron East Europe Sp.zo.o., Warsaw	107
Kontron Australia Pty. Ltd., Sydney	54
Kontron Technology India Pvt. Ltd., Mumbai	32
	5,178

No non-controlling interest was recognized for Kontron Compact Computers AG in the past, due to its negative equity. The negative portion was reported, as a reduction of the revenue reserve, directly in equity attributable to shareholders.
In accordance with current IFRS rules, non-controlling interests must be shown within shareholders' equity.

27. 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 31 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.

28. Contingent liabilities

Kontron sold inventories of a value of TEUR 1,397, which have a return obligation if they cannot be sold by the purchaser by June 30, 2012, to a supplier. The conditions for the realization of the revenues were met in 2011. Also a guaranteed annual order value of TEUR 4,109 was granted to the purchaser for the years between 2012 and 2014. If the guaranteed order volume is not utilized, Kontron is required to pay a penalty.
Kontron did not issue any guarantees in the past year.

29. 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	Maturity up to 1 year	Maturity 1 - 5 years	Maturity over 5 years	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
				2010 Total
Operating lease obligations	5,710	17,474	6,556	29,740
Other rental obligations	1,862	5,644	1,044	8,550
Miscellaneous obligations	50	81	0	131
	7,622	23,199	7,600	38,421

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

30. Notes to the Consolidated Cash Flow Statement

The statement of cash flows shows the sources and use of cash flows in 2010 and 2011 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.

31. Share-based payments

31.1 Stock option programs

Program 2003

Type of agreement	Share-based payment for Management board, senior employees and employees			
	(Program 4C)	(Program 4D)	(Program 4E)	(Program 4F)
Day of granting	08,22,2005	04,06,2006	11,30,2006	04,30,2007
Options outstanding January 01, 2011	40,000	73,500	166,000	164,000
Options granted 2011	0	0	0	0
Options forfeited 2011	0	25,000	0	9,000
Options exercised 2011	0	0	0	0
Options expired 2011	0	0	0	0
Options outstanding December 31, 2011	40,000	48,500	166,000	155,000
Options exercisable as of December 31, 2011	40,000	48,500	166,000	155,000

Program 2007

Type of agreement	Share-based payment for Management board, senior employees and employees			
	(Program 5A)	(Program 5B)	(Program 5C)	(Program 5D)
Day of granting	11,12,2007	08,12,2008	11,12,2008	08,11,2009
Options outstanding January 01, 2011	669,500	415,802	26,500	188,089
Options granted 2011	0	0	0	0
Options forfeited 2011	19,000	33,799	3,000	0
Options exercised 2011	0	0	8,500	0
Options expired 2011	0	0	0	0
Options outstanding December 31, 2011	650,500	382,003	15,000	188,089
Options exercisable as of December 31, 2011	650,500	191,002	7,500	94,045

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 stock option program), the following exercise conditions apply:

(1) 50 % of the stock 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 ordinary Shareholders' meeting of the company and

b) after publication of the quarterly report for the third quarter of the financial year of the company

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 financial year of the company.

(3) It is also not permitted to exercise the stock options during 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 share price of Kontron AG in the 2011 reporting period was EUR 7.05 (previous year: EUR 7.06).

The fair values of the stock 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 Years Vesting Period)	Program 4C (4 Years Vesting Period)	Program 4D (2 Years Vesting Period)	Program 4D (4 Years Vesting Period)	Program 4E (2 Years Vesting Period)	Program 4E (4 Years Vesting Period)
Share price on valuation date	EUR 6.10	EUR 6.10	EUR 9.36	EUR 9.36	EUR 10.88	EUR 10.88
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	EUR 7.15	EUR 7.15	EUR 10.51	EUR 10.51	EUR 12.52	EUR 12.52
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	EUR 1.53	EUR 1.53	EUR 1.34	EUR 1.62	EUR 1.50	EUR 2.23

	Program 2003		Program 2007			
	Program 4F (2 Years Vesting Period)	Program 4F (4 Years Vesting Period)	Program 5A (2 Years Vesting Period)	Program 5A (4 Years Vesting Period)	Program 5B (2 Years Vesting Period)	Program 5B (4 Years Vesting Period)
Share price on valuation date	EUR 13.69	EUR 13.69	EUR 15.27	EUR 15.27	EUR 8.96	EUR 8.96
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	EUR 16.34	EUR 16.34	EUR 19.35	EUR 19.35	EUR 10.18	EUR 10.18
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	–	11%	–	13%	–	25%
Option value	EUR 1.62	EUR 2.70	EUR 1.51	EUR 2.74	EUR 1.55	EUR 2.22

Program 2007

	Program 5C (2 Years Vesting Period)	Program 5C (4 Years Vesting Period)	Program 5D (2 Years Vesting Period)	Program 5D (4 Years Vesting Period)
Share price on valuation date	EUR 6.61	EUR 6.61	EUR 7.90	EUR 7.90
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	EUR 7.57	EUR 7.57	EUR 9.10	EUR 9.10
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	–	62%	19%	29%
Option value	EUR 1.09	EUR 1.52	EUR 1.72	EUR 1.97

By resolution of the Shareholders' meeting of June 9, 2010, the duration of the stock 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 stock option programs. 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 stock option program and that of the original stock option program, 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	EUR 7.33	EUR 7.33	EUR 7.33	EUR 7.33	EUR 7.33	EUR 7.33
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	EUR 7.15	EUR 7.15	EUR 10.51	EUR 10.51	EUR 12.52	EUR 12.52
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	EUR 7.33	EUR 7.33	EUR 7.33	EUR 7.33	EUR 7.33	EUR 7.33
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	EUR 16.34	EUR 16.34	EUR 19.35	EUR 19.35	EUR 10.18	EUR 10.18
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	–	5%	–	5%	–	–

The expected duration of the stock 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.

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.

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

	Date of issue	12,31,2011	12,31,2010
Program 4C	08,22,2005	2.00	3.00
Program 4D	04,06,2006	2.00	3.00
Program 4E	11,30,2006	2.00	3.00
Program 4F	04,30,2007	2.00	3.00
Program 5A	11,12,2007	2.00	3.00
Program 5B	08,12,2008	2.00	3.00
Program 5C	11,12,2008	2.00	3.00
Program 5D	08,11,2009	2.58	3.58

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

in TEUR	2011	2010
Total expense	7,495	7,041
Expense for the period	454	907

A total of 8,500 options were exercised in 2011 financial year. The balance of TEUR 6 was paid in cash and booked to the additional paid-in capital reserve.

31.2 Performance Share Unit Plan

In the framework of the 2011 Performance Share Unit Plan (2011 PSU-Plan) performance share units (PSUs) were issued to Management Board members and employees of Kontron AG and its subsidiaries in January 2011. 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 until 2014 inclusive.

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 4 years from the day of issue of the PSUs based on the fact that the beneficiaries work for the company over this period;

» 80 % of the PSUs granted are subject to a performance condition. The performance condition is that for the financial year in which the PSUs are granted, revenue growth of at least 13 % and an EBIT margin 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.

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 2011 financial year, a total of 123,350 PSUs were granted to the beneficiaries under the 2011 PSU Plan, which corresponded to an allocation volume of TEUR 950 at the time of granting.

	Performance Share Units-Plan 2011
Day of granting	01,03,2011
PSUs granted 2011	123,350
PSUs forfeited 2011	0
PSUs outstanding December 31, 2011	123,350
PSUs outstanding assuming achievement of performance targets December 31, 2011	104,848

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 binominal model.
The valuation as of December 31, 2011 was based on the following parameters:

	Performance Share Units Plan 2011
Share price on valuation date	EUR 5.06
Remaining term of PSUs	3 Years
Expected dividend yield	2.85%
Risk-free interest-rate for the duration	0.36%
Imputed volatility for the duration	35%
Imputed fluctuation of beneficiaries for the duration	11%
Fair value per PSU	EUR 4.60

The future volatilities were estimated based on annualized historical 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 book value of the liability recorded and the expense for the period amounted to TEUR 106 on the year end date. The expense was allocated to the appropriate functional divisions.

32. 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 stock 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 stock options into ordinary shares.
The outstanding stock options in 2011 financial year did not have a diluting effect as their intrinsic value during the reporting period was negative.

	2011	2010
Earnings (in TEUR)		
Undiluted earnings	21,891	-13,519
Effect of potentially dilutive ordinary shares:		
Share-based payments (after tax effects)	0	0
Diluted earnings	21,891	-13,519
Weighted average number of shares outstanding (in thousand pieces)		
Undiluted	55,571	55,571
Effect of potentially dilutive ordinary shares (stock options)	0	0
Diluted	55,571	55,571

33. Financial instruments and risk management

33.1 Financial instruments

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

in TEUR	Category IAS 39**	Book value 2011	Book value 2010	Fair value 2011	Fair value 2010
Financial assets					
Cash and cash equivalents	LaR	38,165	57,186	38,165	57,186
Accounts receivable	LaR	123,625	116,296	123,625	116,296
Other financial assets	LaR	5,758	5,989	5,758	5,989
Total loans and receivables		167,548	179,471	167,548	179,471
Financial assets available for sale	AfS	146	146	146	146
Held-to-maturity financial assets	HtM	39	302	39	302
Total financial assets		167,733	179,919	167,733	179,919
Financial liabilities:					
Interest-bearing loans	FLAC	37,000	45,514	35,754	45,514
Trade accounts payable	FLAC	70,881	62,860	70,881	62,860
Other financial liabilities	FLAC	21,151	24,101	21,151	24,101
Total financial liabilities		129,032	132,475	127,786	132,475

** LaR: Loans and receivables
AfS: Available-for-sale financial assets
HtM: Financial assets held to maturity
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 results from financial instruments

	From interest	From subsequent measurement		Net result	
in TEUR		Currency conversion	Impair-ment	2011	2010
Loans and receivables	251	854	-656	449	3,377
Available-for-sale financial assets - booked through equity	0	0	0	0	0
Available-for-sale financial assets - booked through P&L	0	0	0	0	-1,830
Held-to-maturity financial assets	0	0	3	3	5
Financial derivative instruments	0	-20	0	-20	0
Financial liabilities	-665	-1,482	0	-2,147	-2,679
	-414	-648	-653	-1,715	-1,127

The interest and interest effects from the valuation of derivative financial instruments are shown in the financial result. The other components of the net result were reported in operating earnings.

33.2 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 its operations.

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

No speculative derivative trading was conducted in 2011 and 2010, 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 currency movement risk (transaction risk) in respect of several 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 company, Kontron realizes revenues and material purchases in USD and in currencies that are tied to the USD. Furthermore the Group incurs production and operating costs in USD. As a consequence, the resultant currency effects are mainly offset over time. Currency risks that arise for Kontron AG from the issue of group finance to subsidiary companies in local currencies are hedged through currency futures transactions. Currency transactions are conducted either centrally or decentrally in agreement with the central treasury department exclusively with banks with good ratings.

The currency futures contracts conducted in 2011 financial year 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 currency futures contract is made is equal to the period during which the foreign currency transaction risk exists, which is normally between one and twelve months. The amount of the currency futures contract varies according to the amount of the expected sales and purchases in foreign currencies as well as fluctuations in exchange rates.
The fair value of the existing currency futures transactions at the year end amounts to TEUR -20.

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 exchange rate of USD	Effects on earnings before tax and equity capital in TEUR
2011	+10 %	-1,962
	-10 %	2,662
2010	+10 %	608
	-10 %	-653

The difference compared with the previous year results mainly from the repayment of all short term USD loans which amounted to TEUR 26,064 (TUSD 34,543) on December 31, 2010.

Interest rate risks

The interest expense is managed by the Group through a combination of fixed and variable interest loans. In order to diversify risk, Kontron group obtains finance through long-term fixed interest loans as well as through variable interest liabilities. The risk pertaining to fluctuations in market interest rates to which the Group is exposed mainly results from short-term variable-rate financial liabilities. At December 31, 2011 around 52 % (previous year: 2 %) of the financial liabilities were at fixed interest rates. Due to the lower level of variable-rate financial debt and in view of the current market environment, the risk of interest rises to the group can be classified as low. The risk of interest movement is analyzed regularly by the central treasury department.
The variable-interest bank loan of a domestic subsidiary that existed last year was repaid early during the financial year.

Liquidity risk

In order to ensure Kontron Group's solvency and financial flexibility, a liquidity preview is prepared for a fixed planning horizon and the liquidity reserve is held in the form of credit lines and, if required, cash resources. Liquid funds are either provided for subsidiaries through local credit lines or included in the Group's central cash management system. Further details can be found under Note 18 "Financial liabilities".

The Group's financial liabilities have the following maturities as of December 31, 2011. This information is based on contractual, undiscounted payments.

December 31, 2011	in TEUR	Due at call	up to 3 months	3-12 months	1-5 years	Over 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**

December 31, 2010	in TEUR	Due at call	up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-bearing loans		60	39,641	4,489	1,144	180	45,514
Trade payables		3,311	59,547	2	0	0	62,860
Other financial liabilities		1,976	10,084	9,698	2,029	314	24,101
Total		**5,347**	**109,272**	**14,189**	**3,173**	**494**	**132,475**

Future interest payments in 2010 were minimal.

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 over 3,000 customers. The ten largest customers account for around 31 % 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.

In 2010, the need to apply significant valuation adjustments on accounts receivable in Malaysia was not due to shortcomings in the monitoring systems of the company and Group, or due to a lack of guidelines, but instead to non-compliance with internal and Group-wide regulations by the local company, and the presentation and conveying of false data and information regarding the financial circumstances of the parties involved. Measures have meanwhile been taken that result in greater global risk monitoring, and which boost monitoring activities at Group level.

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	2011	2010
Equity capital	333,565	320,758
Total capital	523,479	515,565
Equity ratio	**63.7 %**	**62.2 %**

The Group manages and adjusts its capital structure while taking into account changes in the economic environment. The Group can adjust its dividend payments to shareholders or issue new shares in order to maintain or adjust its capital structure. The share capital was increased in 2009.

The Group's objectives, guidelines and procedures were not amended as of December 31, 2011 or December 31, 2010.

34. 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*. The markets are split between EMEA, North America (including Canada) and Emerging Markets (mainly Russia, China and Malaysia), all of which exhibit significantly different levels of economic growth. 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. Finance income and expenses, and income tax, represent an exception since they are managed on a Group-wide basis and are not allocated to individual business segments.

Kontron AG (the holding company) and companies Kontron ECT design s.r.o., RTSoft Project, Affair 000 and Kontron Business GmbH & Co. KG 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 2011 in TEUR	EMEA	North America	Emerging Markets	Other segments	Consolidation	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
Operating profit						
Scheduled depreciation/amortization	11,386	6,892	2,678	182	0	21,138
Unscheduled depreciation/amortization	46	368	0	0	0	414
EBIT	29,026	14,345	4,424	-15,164	1,462	34,093
Financial result						-1,514
Earnings before tax (EBT)						32,579
Assets						
Segment assets	223,510	159,779	106,621	329,354	-295,785	523,479
Investments	13,527	7,464	4,275	2,921	0	28,187
Liabilities	3,746	19,306	13,772	176	0	37,000
Non-cash items	230	143	-355	18	0	36

Segment information 2010 in TEUR	EMEA	North America	Emerging Markets	Other segments	Consolidation	Consolidated financial statement
Revenue						
External customers	235,015	188,480	85,959	24	0	509,478
With other segments	36,851	16,927	77,193	1,204	-132,175	0
Total revenue	271,866	205,407	163,152	1,228	-132,175	509,478
Operating profit						
Scheduled depreciation/amortization	9,659	5,932	2,157	96	0	17,844
Unscheduled depreciation/amortization	95	86	0	0	0	181
EBIT	13,573	13,747	-20,625	-12,061	-469	-5,835
Financial result						-2,378
Earnings before tax (EBT)						-8,213
Assets						
Segment assets	230,270	161,362	100,024	354.788	-330,879	515,565
Investments	14,734	8,624	1,426	105	0	24,889
Liabilities	4,883	0	12,457	28.173	0	45,513
Non-cash items	164	1,873	52	-837	0	1,252

Notes on segment information:

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

Segment profit is the difference between segment revenue and segment expenses resulting from the operating activity of Kontron Group (earnings before interest and tax). Segmental earnings are adjusted to reflect costs centrally incurred at Kontron AG, which are then allocated to the individual companies.

Segment assets include all current and non-current assets.

Segment liabilities contain current and non-current bank borrowings.

The investments comprise additions to tangible assets and other intangible assets in the reporting period.

Group-internal items are eliminated under "consolidation" as well as income, expenses, assets and liabilities that are not directly attributable to the segments.

Segment information on products and services:

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	2011	2010
External customer revenues:			
Modules (EMD)		141,004	118,988
Systems (ESD)		219,043	203,941
Solutions (SOD)		229,523	186,549
Total		589,570	509,478

Geographical segment information

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

35. Related parties 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 2011 (previous year: TEUR 0).

Related parties

in TEUR	2011	2010
Managing Director		
Rental cost (Eurointel, RTS-Center)	965	877
Goods and services received (SKB-RT Soft & SPA)	4,396	2,304
Goods and services rendered (SKB-RT Soft, RTS-Center & Eurointel)	0	62
Purchase of shares in subsidiaries	0	450
Derecognition of receivables from Managing Director	170	0
Interest on shareholder loan	12	3
Supervisory Board		
Consultancy costs	31	23

The rental expenses result primarily from rental agreements with the companies LLC Eurointel, Moscow, and LLC RTS-Center, Moscow, where the managing director and shareholder of one Kontron AG subsidiary is the sole shareholder. Both companies rent buildings to this subsidiary. As of December 31, 2011, there were no receivables (previous year: TEUR 0.3) and no liabilities outstanding (previous year: TEUR 0.4).

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. Receivables of TEUR 273 (previous year: TEUR 52) were outstanding with respect to SBK-RT Soft as of December 31, 2011 while on the 2011 and 2010 year end date no liabilities were outstanding. As of December 31, 2011, there were no receivables outstanding from CJSC SPA (previous year: TEUR 3) and no liabilities (previous year: TEUR 0).

A shareholder loan was made by a person in a senior position at a subsidiary to that company. Amounts of TEUR 125 (previous year: TEUR 113) were outstanding on this loan at December 31, 2011. The minority shareholders at the same company are liable for credit and guaranteed credit lines of the company in an amount of TEUR 900.

There are also receivables due from the chief executive of a subsidiary in an amount of TEUR 7 as of December 31, 2011 (previous year: TEUR 1) from advances and short-term loans.

In 2011 financial year the existing claims against a chief executive of a subsidiary at 31 December, 2010 of TEUR 170 were derecognized.

In a purchase agreement dated December 21, 2011, the subsidiary Business Center RTSoft was sold to the chief executive of a subsidiary of Kontron. The purchase price of TEUR 1,465 was established by three independent experts and is payable in three installments. At December 31, 2011 Kontron had outstanding purchase price claims of TEUR 721. In 2011 Kontron made a profit of TEUR 316 from the sale of the Business Center RTSoft, which is shown in other operating income. The sole activity of Business Center RTSoft is the rental and management of the building which it owns. This building was and will continue to be rented by RTSoft ZAO. The rental agreement has a term of one year and is renegotiated each year. The current rental price is guaranteed by the purchaser until 2014 and is in line with market conditions. At December 31, 2011 Kontron did not have any liabilities as a result of the rental agreement.

Details of Management Board and Supervisory Board remunerations are described in more detail in Note 37.

36. Auditors' fees reported as expenditure

The fees of the auditor of the Group financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, amounted to a total of TEUR 465 in the reporting year. TEUR 360 of this amount was attributable to auditing services, TEUR 77 to other validation services, TEUR 12 to tax advisory services and TEUR 16 to other services.

37. Information about the Management and Supervisory Board

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 divided as follows:

in TEUR	Remuneration 2011		Remuneration 2010	
	fixed*	variable	fixed*	variable
Ulrich Gehrmann	391	165	378	64
Thomas Sparrvik	259	138	271	66
Dr. Jürgen Kaiser-Gerwens (since 02,15,2011)	233	60	0	0
Dirk Finstel	217	105	200	45
Dr. Martin Zurek (to 12,31,2010)	–	–	245	31
Dieter Gauglitz (to 12,31,2010)	–	–	225	71
Supervisory Board	193	0	113	33**

* Incl. monetary benefit of other emoluments   ** Variable remuneration for the 2009 financial year

In addition, the following expenses from share-based payment were incurred in the reporting year relating to members of the Supervisory and Management boards:

in TEUR	2011		2010	
	Stock options	PSU-Plan	Stock options	PSU-Plan
Ulrich Gehrmann	56	28	98	0
Thomas Sparrvik	38	17	72	0
Dr. Jürgen Kaiser-Gerwens (since 02,15,2011)	0	11	0	0
Dirk Finstel	16	17	25	0
Dr. Martin Zurek (to 12,31,2010)	–	–	58	0
Dieter Gauglitz (to 12,31,2010)	–	–	33	0

No share-based payment in the form of stock 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 2011 Performance Share Units Plan (long-term remuneration components):

	Number of Performance Share Units
Ulrich Gehrmann	32,500
Thomas Sparrvik	19,500
Dr. Jürgen Kaiser-Gerwens (since 02,15,2011)	12,400
Dirk Finstel	20,200
Supervisory Board	0

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 Dirk Finstel and Dr. Jürgen Kaiser-Gerwens are entitled to terminate their employment early in the event of a takeover. Correspondingly the Management Board members have received a guarantee that they will continue to receive their annual salaries until the regular end date of the Management Board contracts subject to a maximum of three years' annual salary.
There were no pension obligations to members of the Management and Supervisory boards, or to former members of these bodies in the reporting year.

Shares and stock options owned by the Management Board and Supervisory Board:

	Shares	Stock options
Supervisory Board		
Helmut Krings	40,000	0
Prof. Georg Färber (until 06,07,2011)	1,126	0
Hugh Nevin	189,366	0
David Malmberg	12,000	0
Michael Wilhelm (until 06,07,2011)	0	0
Lars Singbartl	0	0
Mathias Hlubek (since 06,07,2011)	0	0
Chris Burke (since 06,07,2011)	0	0
Management Board		
Ulrich Gehrmann	280,000	200,000
Thomas Sparrvik	50,000	151,111
Dr. Jürgen Kaiser-Gerwens (from 02,15,2011)	0	0
Dirk Finstel	3,000	45,000

Memberships of the Management and Supervisory boards of other controlling bodies

Management Board	
Ulrich Gehrmann Chief Executive Officer Member of controlling body: Kontron East Europe Sp.zo.o., Warsaw / Poland Kontron Technology A/S, Hørsholm / Denmark RTSoft ZAO, Moscow / Russia Kontron America Inc., San Diego / USA Kontron Compact Computers AG, Luterbach / Switzerland	
Thomas Sparrvik Chief Sales & Marketing Officer Deputy 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., Beijing / China Kontron Australia Pty. Ltd., Sydney / Australia Kontron Technology India Pvt. Ltd., Mumbai / India Kontron Technology Japan Inc., Tokyo / Japan	
Dirk Finstel Chief Technical Officer	
Dr. Jürgen Kaiser-Gerwens Chief Financial Officer	**since 02,15,2011**

Supervisory Board	
Dipl.-Ing. Helmut Krings Chairman Management-Consultant	
Prof. Dr. Ing. Georg Färber Professor emeritus at the Technical University of Munich Member of controlling body: SEP Logistik AG, Weyarn	**until 06,07,2011**
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	
Mathias Hlubek Management-Consultant Member of controlling body: Riemser Arzneimittel AG, Greifswald Interactive Data Managed Solutions AG, Frankfurt Arcus Capital AG, Munich Euroclear SA/NV, Brussels / Belgium Euroclear plc, Baar / Switzerland	**since 06,07,2011**

Supervisory Board	
Chris Burke Entrepreneur Member of controlling body: Buster Burke Ltd., Henley-on-Thames / UK Dialog Semiconductor GmbH, Kirchheim / Teck-Nabem One Access Inc., Fontenay aux Roses / France Tranzeo Wireless Technologies Inc., Pitt Meadows / Canada Liquid Payment Solutions Pte. Ltd., Singapore Mimedia Inc., Port Chester / USA Navmii, London / UK Muzicall, London / UK Dtex Systems Pty. Ltd., London / UK BBL - Thomas & Young, Solihull / UK	**since 06,07,2011**
David Malmberg Entrepreneur Member of controlling body: Kontron America Inc., San Diego / USA Marshall and Ilsley Bank, Minnesota / USA Rotherwood Corporation, Minnesota / USA DCMI, Inc., Minneapolis / USA Daystar Life Center Inc., Florida / USA	 **until 01,25,2011**
Michael Wilhelm Auditor and Tax Consultant Member of controlling body: mwb fairtrade Wertpapierhandelshaus AG, Gräfelfing Softing AG, Munich	**until 06,07,2011**
Lars Singbartl Investment Director	

38. Approval of the consolidated financial statements

On March 16, 2012 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.

39. Associated and consolidated companies in the Kontron Group

	Equity interest in %	Local currency	Equity (Local currency in Thousand)	Net income (Local currency in Thousand)
KONTRON Embedded Computers GmbH, Eching	100	EUR	41,534	6,537
indirect via KONTRON Embedded Computers GmbH				
KONTRON ECT design s.r.o., Pilsen / Czech Republic	100	CZK	24	-425
KONTRON UK Ltd., Chichester / UK	100	GBP	2,073	-817
KONTRON Embedded Modules GmbH, Deggendorf	100	EUR	20,015	4,468*
KONTRON Modular Computers GmbH, Kaufbeuren	100	EUR	50,101	13,137*
indirect via KONTRON Modular Computers GmbH				
KONTRON Modular Computers S.A.S., Toulon / France	100	EUR	13,708	-160
KONTRON Technology A/S, Hørsholm / Denmark	100	DKK	40,359	-6,388
KONTRON EAST Europe Sp.zo.o., Warsaw / Poland	97,5	PLN	18,894	2,494
KONTRON Modular Computers AG, Cham / Switzerland	100	CHF	6,019	24
indirect via KONTRON Modular Computers AG				
Merz s.r.o., Liberec / Czech Republic	70	CZK	11,103	177
KONTRON Verwaltungs GmbH, Kaufbeuren	100	EUR	24	0
indirect via KONTRON Verwaltungs GmbH				
KONTRON Business GmbH&Co. KG, Kaufbeuren	100	EUR	168	162
KONTRON Compact Computers AG, Luterbach / Switzerland	96,6	CHF	-5,658	-882
indirect via KONTRON Compact Computers AG				
Digital Logic GmbH, Siegen i.L	96,6	EUR	160	-3
ubitronix system solutions gmbh, Hagenberg / Austria	40**	EUR	2,436	-684
KONTRON America Inc., San Diego / USA	100	USD	59,868	2,261
indirect via KONTRON America Inc.				
AP Parpro Inc., San Diego / USA	100	USD	6,737	1,471
KONTRON Canada Inc., Boisbriand / Canada	100	USD	44,972	-4,371
Affair 000, Moscow / Russia	100	RUB	319,227	49
indirect via Affair 000				
RTSoft Project, Moscow / Russia	100	RUB	360,127	30,417
indirect via RTSoft Project				
RTSoft ZAO, Moscow / Russia	74,5	RUB	637,758	209,914
Training Center RTSoft, Moscow / Russia	74,5	RUB	6,870	2,990
KONTRON Ukraine Ltd., Kiev / Ukraine	74,5	RUB	1,596	584
KONTRON Design Manufacturing Services Sdn Bhd, Penang / Malaysia	100	MYR	-63,001	-25,200
KONTRON (Beijing) Technology Co. Ltd., Beijing / China	100	CNY	72,937	-2,292
KONTRON Australia Pty Ltd., Sydney / Australia	90	AUD	866	-66
KONTRON Technology India Pvt. Ltd., Mumbai / India	51	INR	4,647	4,303

* Before profit/loss transfer

** 51% of voting rights

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 2011 financial year, the subsidiary companies Kontron Embedded Computers GmbH, Kontron Embedded Modules GmbH and Kontron Modular Computers GmbH utilized the releasing provision stated in § 264 paragraph 3 of the German Commercial Code (HGB).

Reference date rate	12,31,2011	Reference date rate	12,31,2011
AUD	1.27	INR	70.45
CHF	1.22	MYR	4.11
CNY	8.23	PLN	4.43
CZK	25.70	RUB	41.63
DKK	7.43	USD	1.29
GBP	0.84		

40. Key events following the end of the financial year

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. under an asset deal. A profit of TEUR 2,356 was made from the sale in 2012 financial year. A negative profit effect of TEUR 5,096 was recorded for 2011 financial year as a result of the fall in value of the inventories and the formation of provisions (see also explanations under Notes 8 and 19). 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. Kontron is also required to repurchase inventories sold to Plexus Corp. under specific terms and set periods.

41. German Corporate Governance Code statement

The Management Board and Supervisory Board of Kontron AG issued their statement of compliance with the German Corporate Governance Code in accordance with § 161 AktG on December 28, 2011. It was made available to shareholders by publication on the company's website on January 2, 2012 with a supplement dated March 6, 2012.

Eching, March 16, 2012

Kontron AG
Members of the Management Board

Ulrich Gehrmann	Thomas Sparrvik
Dirk Finstel	Dr. Jürgen Kaiser-Gerwens

III. Independent Auditor's Report

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 2011 to 31 December 2011. 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, 16 March 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Spannagl	Christ
German Public Auditor	German Public Auditor

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kontron
URBANIZATION
EFFICIENT
INFRASTRUCTURE TECHNOLOGIES
Solutions for tomorrow

kontron

Solutions for tomorrow

URBANIZATION

EFFICIENT INFRASTRUCTURE TECHNOLOGIES

50 % of the world's population now live in cities, and studies have shown that by 2050 this figure will rise to 70% of 9.1 billion people. Urbanization will continue to increase on a massive scale, due to the rise in the global population. Consequently, there will not only be more cities and regions, they will also be larger: In 1800, the 100 largest cities in the world had an average of 187,000 inhabitants. By 1900 that figure had already risen to 725,000. 50 years later, the average number of inhabitants in the 100 largest cities stood at 2.2 million, and by the year 2000 that figure had risen to 6.3 million. This has posed enormous challenges for the sustainability of urban development – which is exactly what the infrastructure of ‘megacities’ and high density areas depends on.

URBANIZATION

MARKET POTENTIAL

Water and energy supplies, disposal systems, the safety and mobility of millions of people living in a small space: these issues will present increased problems for town planners in the future.

Even today, cities account for approximately 70 % of greenhouse gases, two-thirds of the world's energy requirements, and 60 % of water consumption. The CO2 output of China, the most populous country in the world with 175 million city dwellers, has increased by 150 % as a result of the economic boom of the past two decades. The consequences of this are the smog-choked large cities, which represent a negative economic factor for the government and are causing serious health problems for the population. In order to prevent adverse effects on the economy and to make these cities livable, the Chinese government has invested over USD 7 billion in the development and construction of CO2-neutral, energy efficient infrastructure technologies, in 2010 alone.

Another key requirement for the growing number of urbanized areas is the development of a high-performance transport system. For example, during rush hour in Tokyo, 4 million commuters need to make their way to and from work, while millions of tons of consumer goods have to be transported from factories to the supermarket shelves.

The Yurikamome – a fully automated transport system controlled entirely by computer – greatly reduces the amount of downtime and keeps the impact on the economy to a minimum.

This example clearly shows that the large cities of the future require smart solutions in every area of urban development. Over the next 30 years, USD 350 billion will be invested in the design and operation of urban infrastructure, according to a study by the international strategy consulting firm Booz & Company. As embedded computer technologies can be implemented in every area of the control system, through to the energy distribution network, industry experts have estimated that globally, this market will grow by more than 12 % between now and 2015. With its leadership of technology and innovation, Kontron has already secured an excellent position in this market of the future.

URBANIZATION

KONTRON PRODUCTS

Kontron is engaged in the development of futuristic solutions for a wide range of infrastructure projects all over the world. From installations for the provision of basic services through to extremely robust, reliable local passenger transport and public security systems, Kontron offers turnkey solutions for all sectors.

Machine to Machine (M2M)

» Versatile wireless and wired connectivity
» Data aggregation, compression and processing
» Cooperation with global carriers
» Extended temperature available

Light Rail / Vehicle Management System

» Hardware platform fitting to many applications
» Flexible set of subsystems
» Rugged, shock & vibration proof
» Designed for transportation certification

Kontron's high-innovation solutions offer long-term availability, catering for both economic and ecological requirements. In sensitive areas such as these, it is also essential to have failsafe components which offer the greatest possible safety and reliability.

CompactPCI® Modular Platform

» Open modular systems based for harsh environments
» Internet-on-train
» Train management
» Videosurveillance with wireless data transmission

PanelPC for Transportation

» 10.4" rugged, low power display computer
» Keypad or touch screen
» Extended temperature range
» Designed for transportation certification

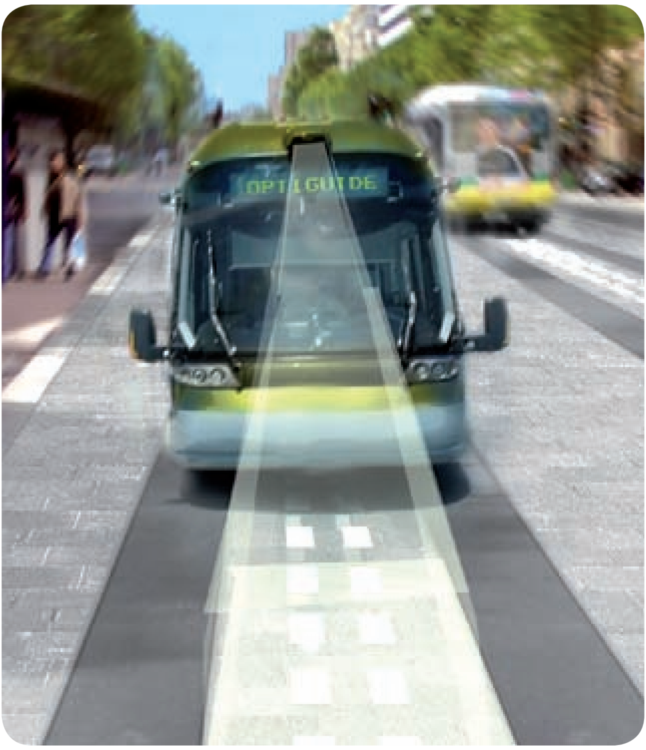
URBANIZATION

KONTRON APPLICATIONS

Like driving by rail: safety and efficiency with the bus lane guidance system

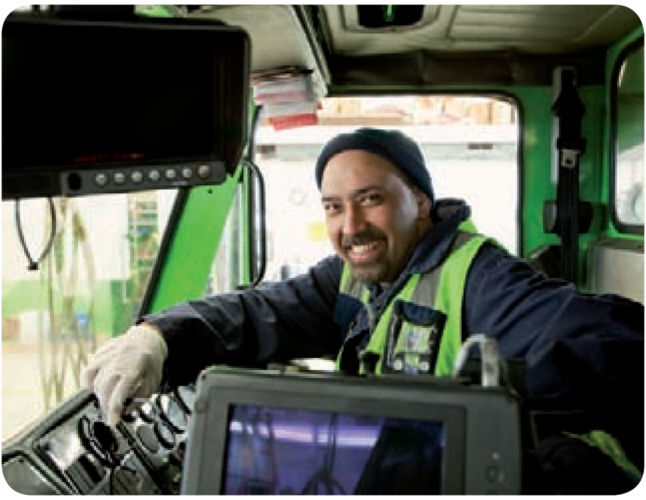
In collaboration with a leading transport manufacturer, Kontron has developed an ECT application to optimize guidance systems used on public bus services. The control system follows the lane markings on the road, and automatically steers buses to within less than 5 cm of the bus stop. This means that buses can drive as if they were on rails, and it is now easier for passengers to get on and off the bus. The system also relieves the driver of the considerable burden imposed by critical situations.

The system consists of a video camera, placed at the front of the vehicle, which continuously records a defined area of the road. The video signals are instantly processed by a control computer which recognizes the traffic lane markings. The system also relies on other parameters such as traffic speed, wheel alignment and steering angle, in order to calculate the optimal driving route. The manufacturer of the control computer has chosen to use Kontron's robust, compact and durable PC/104-Plus board.



M2M communications for modern urban development

The rapid rise of digitalization is leading to strong growth in the field of automatic machine-to-machine data exchange (M2M communications). In some countries, waste management companies already use automatic communications systems in order to enhance their process efficiency. For example, in some large American cities, the waste disposal tax is now calculated automatically, according to each kilogram of waste disposed of. The waste disposal truck allocates the tons of waste produced by each household and even weighs the contents when the waste is fed in to the truck. This data is automatically transferred to a central processing point where it is analyzed. This is just an example of the way in which M2M communications can meet the challenges posed by modern urban development.



Kontron has developed a new product which is designed to manage complex infrastructure in the fast growing M2M market. The M2M Smart Services Developer Kit assists the providers (OEMs) of intelligent M2M services in testing the performance and connectivity of their applications. Starting with the data endpoint, via cloud through to the data integration point, the kit simplifies the introduction of M2M communications solutions developed for providers in all sectors of industry.

URBANIZATION

EFFICIENT
INFRASTRUCTURE TECHNOLOGIES

50 % of the world's population now live in cities, and studies have shown that by 2050 this figure will rise to 70% of 9.1 billion people. Urbanization will continue to increase on a massive scale, due to the rise in the global population. Consequently, there will not only be more cities and regions, they will also be larger: In 1800, the 100 largest cities in the world had an average of 187,000 inhabitants. By 1900 that figure had already risen to 725,000. 50 years later, the average number of inhabitants in the 100 largest cities stood at 2.2 million, and by the year 2000 that figure had risen to 6.3 million. This has posed enormous challenges for the sustainability of urban development – which is exactly what the infrastructure of 'megacities' and high density areas depends on.

IV. Report of the Supervisory Board

Dear shareholders,

In the 2011 financial year, the Supervisory Board of Kontron AG exercised the responsibilities incumbent upon it according to the law, the German Corporate Governance Code, and the company's bylaws. The Management and Supervisory boards worked together in a trusting and constructive atmosphere. The Supervisory Board regularly advised the Management Board on the management of the company, and carefully supervised its activity. The Supervisory Board was directly involved in all decisions of key significance for the company. The Management Board continued to provide information to the Supervisory Board on a regular, prompt, and comprehensive basis in 2011. The performance and the economic position of the Kontron group and its individual business units were explained, both at our respective meetings by way of detailed presentations on the current position and through the medium of regular reports. Particular events, which for reasons of timing could not be dealt with at meetings, were reported on, and coordinated, either in writing or by telephone conference call.

In addition, the Supervisory Board concerned itself with business planning, particularly with respect to the possible acquisitions and disposals realized in the reporting year, and discussed the resultant measures with the Management Board. To the extent that the Management Board was dependent on the approval of the Supervisory Board, this approval was granted following in-depth consideration.

Focus points of Supervisory Board consultations

During the course of the 2011 financial year, the Supervisory Board held six meetings, five of which were attended in person (March 28, June 6-7, August 18-19, October 13 and November 28, 2011), and one of which was conducted via telephone conference (December 28, 2011). Further resolutions were passed by telephone or by way of circular.

Some of the meetings were joined by the Management Board or its individual members to discuss the position of the company, the integration and ongoing strategic development of the individual business units and forward planning for the following year.

In its meeting of March 28, 2011 the Supervisory Board approved the 2010 parent company and consolidated financial statements for Kontron AG as well as the long-term finance of the AP Labs Inc., San Diego acquisition.

Topics covered at the Supervisory Board meeting on June 6 and 7, 2011 included in particular the expected performance, further potential acquisitions or joint ventures as well as potential future methods of finance.

The Supervisory Board meeting of August 18 and 19, 2011, was held in San Diego and was mainly devoted to the organizational structure in North America, the integration of the functions in Canada and the USA, cross-border business areas and marketing.

The meeting of October 13, 2011 focused on the research & development structure with the secondary subjects of product strategy, organisation and internal measurement parameters. The subjects of risk management, liquidity planning and IT were also discussed.

The main subject of the meeting of November 28, 2011 was the annual planning for 2012 financial year and the related medium-term performance. Other topics also included the possible sale of production activities at Kontron Design Manufacturing Services Sdn Bhd in Malaysia and a property in Moscow.

Between the specific Supervisory Board meeting dates, the Management Board also reported immediately and extensively on the current business position or matters of particular importance for assessing the company's position and development.

Audit committee

The Supervisory Board's work is supported by the audit committee. The committee held nine meetings in 2011. Its work focused on auditing Kontron AG's parent company and consolidated financial statements including involvement of the independent auditors, and annual planning for the 2012 financial year. In March 2011, it examined the financial statements for 2010 financial year and recommended that the Supervisory Board approve these statements.

At other meetings, the audit committee discussed the quarterly reports and the course of business with the Management Board and was kept constantly informed of their view of the business position.

During the further growth of the Company in 2011 financial year, the audit committee also dealt with the financing and financial resource planning.

Other key aspects of the committee's work in 2011 financial year consisted of advising the Management Board on revising various planning and reporting systems, the introduction of additional guidelines as well as a restructured risk management system. Further topics included risk reports, internal audit reporting, the allocation of the audit assignment to the auditor as well determining key audit areas. In this connection, the auditor's independence statement pursuant to Figure 7.2.1 of the German Corporate Governance Code was obtained, and the auditing and consultancy fees that had been incurred during the relevant financial year were presented to the Supervisory Board.

Personnel affairs committee

The personnel affairs committee set up last year by the Supervisory Board was involved in changes to the composition of the Management Board, the distribution of business plan, regularly conducted telephone conferences and was frequently in contact with consultancy firms.

Corporate governance

No Supervisory Board member participated in fewer than half of the Supervisory Board meetings.

There were no conflicts of interest in connection with their membership of Kontron AG's Supervisory Board.

The Supervisory Board did not conduct the efficiency audit in 2011, as recommended by Figure 5.6 of the German Corporate Governance Code, due to time constraints. The Supervisory Board considers that it is necessary and meaningful to conduct the efficiency audit at a meeting only if all the Supervisory Board members are in attendance. At the time planned by the Supervisory Board in the second half, it was not possible to conduct the 2011 efficiency audit due to time constraints. The Supervisory Board has therefore decided to conduct the efficiency audit at its meeting of March 20, 2012.

In December 2011, the Management and Supervisory boards issued their joint declaration of compliance pursuant to § 161 of the German Stock Corporation Act (AktG), which was supplemented in March 2012. The declaration was made permanently available to the public on the company's website. Further information can be found in the Corporate Governance Report, which is included in the Annual Report 2011.

Personnel changes within the Management Board and Supervisory Board

On January 11, 2011, the Supervisory Board appointed Dr. Jürgen Kaiser-Gerwens as the new Chief Financial Officer for a period of 4 years with effect from February 15, 2011.

At the Shareholders' General Meeting held on June 7, 2011, Messrs Mathias Hlubek and Chris Burke were appointed as members of the Supervisory Board to succeed departing members Michael Wilhelm and Prof. Dr. Ing. Georg Färber.

Annual parent company and consolidated financial statements

The annual financial statements of Kontron AG prepared in accordance with the principles of the German Commercial Code (HGB) as of December 31, 2011, including the underlying accounting and the management report, have been audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. This also applies to the consolidated financial statements, which were prepared in accordance with IFRS accounting principles, and the Group management report. The Supervisory Board's audit committee issued the audit mandate on the basis of the resolution of the Shareholders' General Meeting of June 7, 2011. The audit conducted by the external auditor did not give rise to objections. The auditor did not identify any significant weaknesses in the internal controlling and risk management system. The auditor conducted the audit in accordance with § 317 paragraph 4 of the German Commercial Code (HGB), and found that the Management Board had established a monitoring system which is suited to recognizing developments that could endanger the continuity of the company at an early stage.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft awarded both the parent company annual financial statements and the consolidated financial statements unqualified audit opinions.

These financial statements, the audit reports and the proposal for the application of unappropriated retained earnings were presented to the audit committee and subsequently to the Supervisory Board. They were discussed in the joint meeting of the Supervisory Board and the Management Board held in the auditor's presence on March 20, 2012. In-depth responses were provided to all of the Supervisory Board's questions.

We concur with the results of the audit. In line with the audit committee's recommendation, and following our own audit of the parent company annual financial statements, the management report, the consolidated financial statements, and the Group management report, we raise no objections. We approved the annual financial statements that have been prepared by the Management Board, which are thereby adopted. We also approved the consolidated financial statements prepared by the Management Board.

The Supervisory Board would like to thank the Management Board and all Kontron Group staff members for their dedicated commitment in the past financial year, and wishes them every success in achieving the annual targets planned for this year.

Eching, March 20, 2012
The Supervisory Board

Dipl.-Ing. Helmut Krings
Chairman

V. Corporate Governance & Remuneration Report

Corporate governance in the Kontron Group

The Management Board reports – as well on behalf of the Supervisory Board – in accordance with paragraph 3.10 of the „Deutsche Corporate Governance Kodex" (DCGK) about the corporate governance of Kontron AG. The section includes further information regarding Corporate Governance and the Remuneration Report.

Corporate Governance Report

For Kontron AG, corporate governance signifies the implementation of a responsible form of company management and control orientated towards continuous value creation with the required transparency in all areas of the business. We also comply with the national regulations as well as the recommendations of the German Corporate Governance Code and international standards. The Management Board and the Supervisory Board are convinced that good corporate governance, which includes company and sector specific aspects, forms a true cornerstone of Kontron AG's success. Kontron AG has therefore taken suitable measures to comply with and implement good corporate governance.

Corporate governance 2011

Over the past financial year Kontron AG met all recommendations apart from the exceptions announced to the declaration of compliance of December 2010 and the updates published in April 2011, December 2011 and March 2012. There were no conflicts of interest on the Management Board or the Supervisory Board during 2011. The by-laws for the Boards were revised and rewritten during 2011. The Company's articles of association were amended pursuant to a resolution of the Shareholders' General Meeting as regards §4 (share capital) authorizing the Management Board and Supervisory Board to create a new approved capital and a conditional capital. § 20 (remuneration of the Supervisory Board) was also rewritten.

Around 80 shareholders and guests attended the Kontron AG Shareholders' General Meeting on June 7, 2011 in Freising. With an arithmetical presence of 67.13% of the share capital, all nine resolutions on the agenda were approved by a large majority.

Kontron AG also kept all capital market participants informed on a timely and concurrent basis in 2011. Also during the year, five ad hoc announcements, in accordance with § 15 WpHG, five voting rights thresholds announcements and five directors´ dealings announcements were published.

Declaration of compliance with the German Corporate Governance Code in accordance with § 161 AktG

The Management Board and the Supervisory Board of Kontron AG hereby issue the following declaration of compliance statement in accordance with § 161 AktG on the recommendations of the Commission on the German Corporate Governance Code.

Kontron AG will comply with the recommendations of the German Corporate Governance Code in its version of May 26, 2010 with the following exceptions:

1. Support of the shareholders for postal voting (Code Figure 2.3.3 sentence 2)
In view of the still ongoing internal discussions at the time this declaration of compliance was issued as to whether the company will make use of the authorization at the next Shareholders' General Meeting to allow shareholders to cast their votes by post, we have therefore provisionally included an exception. Kontron AG already offers shareholders the option to authorize one of the voting proxies appointed by the company to exercise their voting rights. Therefore the shareholders already have the option of casting their votes before the date of the Shareholders' General Meeting.

2. The company has not to date agreed a deductible for the Supervisory Board in respect of D&O insurance (Code Figure 3.8 paragraph 3)
A D&O insurance policy does exist for members of the Supervisory Board but it does not provide for a deductible. The Management Board and Supervisory Board of Kontron AG are generally not of the opinion that the motivation and responsibility with which the Supervisory Board members exercise their responsibilities could be improved by such a deductible. The legal provisions concerning the Management Board are met.

3. Publication of the Corporate Governance Report in the Annual Report (Code Figure 3.10)
By way of exception to Figure 3.10 of the German Corporate Governance Code (DCGK), the Corporate Governance Report does not appear in the Annual Report. Instead, the Corporate Governance Report, along with the declaration regarding company management pursuant to § 289a HGB, can be found on the Internet under http://de.kontron.com/unternehmen/investor-relations.

4. Occupation of management functions (Code Figure 4.1.5)
No female members of staff are represented on the Management Board of Kontron AG. Within the Kontron AG group of companies, one woman is currently employed at the first level of management. The Management Board and the Supervisory Board plan to take into consideration the diversity aspect in their decisions regarding any required new recruitment and to aim for a reasonable quota of female members of staff with equal qualifications.

5. The setting of concrete targets for the membership of the Supervisory Board (Code Figure 5.4.1 paragraphs 2 and 3)

The Supervisory Board of Kontron AG does not set any concrete targets for its membership. To date, the Supervisory Board has allowed itself to be guided in its proposed choices for the Supervisory Board exclusively on the basis of the candidates' suitability, with the objective of composing the Supervisory Board in such a way that its overall membership has the knowledge, abilities and specialist experience required to properly fulfill its responsibilities. The Supervisory Board is convinced that this approach has proved its worth. We therefore do not see any need to change this practice. As a consequence, there is no need to comply with the related recommendations pursuant to Figure 5.4.1 paragraph 3.

6. Supervisory Board remunerations (Code Figure 5.4.6 sentences 4 and 5)

By way of exception to Figure 5.4.6 sentences 4 and 5 of the DCGK, the Management Board and Supervisory Board consider a fixed remuneration to be more suitable to reflect the control function exercised by the Supervisory Board which is independent of the success of the company. This is because the scale of the workload and the liability risk do not in general develop in parallel to the business success of the company. In fact often, particularly in difficult times during which variable remuneration applies, it is necessary for the members of the Supervisory Board to undertake a particularly intensive monitoring and advisory function. The proposed waiver of a performance-related remuneration of the Supervisory Board is therefore approved in the current corporate governance discussion from various sides and better complies with international best practice.

7. Efficiency audit (Code Figure 5.6)

By way of exception to Figure 5.6 of the DCGK, the Supervisory Board did not conduct the efficiency audit in 2011, as recommended by Figure 5.6 of the German Corporate Governance Code, due to time constraints. The Supervisory Board considers that it is necessary and meaningful to conduct the efficiency audit at a meeting only if all the Supervisory Board members are in attendance. At the time planned by the Supervisory Board in the second half, it was not possible to conduct the 2011 efficiency audit due to time constraints.

Eching, March 20, 2012
The Management Board and Supervisory Board of Kontron AG

Remuneration Report for Kontron AG

This report follows the recommendations of the May 26, 2010 version of the German Corporate Governance Code (DCGK). It explains the basis on which the remuneration of the Management Board and Supervisory Board of Kontron AG is determined, as well as the income levels of the individual members of both the Management and Supervisory boards.

1. Management Board Remuneration Report

The Supervisory Board is responsible for setting the remuneration of the Management Board. The criteria for determining the remuneration of the Management Board of Kontron AG include the duties and services of the individual Management Board members, the size, global orientation and economic position of the company, giving consideration to the scale and structure of management board remuneration at comparable companies both in Germany and abroad. In accordance with the requirements of the Stock Corporation Law and the recommendations of the German Corporate Governance Code, the remunerations structure is orientated towards a sustained business performance. The remuneration of the members of the Management Board consists of fixed and variable components as well as incentive criteria. It is composed of the following individual key components:

The fixed remuneration corresponds to the basic annual salary that is paid in equal monthly installments after deduction of statutory charges.

The variable performance-related remuneration which is linked to the company results is made in the form of a bonus and its payment is dependent on the achievement of result targets set beforehand. The result targets of the individual Management Board members are set annually in advance by the Chairman of the Supervisory Board. The point of departure is a target bonus which may be of a higher or lower amount. In 2011, the performance-related remuneration was based on Kontron AG Group's sales growth and operating profit (EBIT) as well as function-specific targets relating to the individual members of the Management Board. The variable remuneration relating to the achievement of targets has upper limits and is also dependent on the achievement of a specific minimum target.

The Management Board members received the following remuneration in the 2011 financial year:

in TEUR	Basic remuneration		Performance-related remuneration**	Total remuneration
Director	**Salary**	**Other***	**Bonus**	**Total**
Ulrich Gehrmann	365	26	165	556
Thomas Sparrvik	251	8	138	397
Dr. Jürgen Kaiser-Gerwens (from Feb. 15, 2011)	210	23	60	293
Dirk Finstel	210	7	105	322
Total	1,036	64	468	1,568

* Remuneration components listed in the "Other" column comprise benefits in kind relating to the provision of company cars, additional payments to the private pension plan and additional payments in connection with a second residence.

** Excluding remuneration components of the Stock Option Programs and the Performance Share Units Plan.

Kontron AG stock options from the 2003 Stock Option Program (in the modified version of September 2004) and that of 2007 represent the variable remuneration component with long-term incentive effect and risk character for the Management Board.

According to the 2003 Stock Option Program, a maximum of 3,000,000 stock options ("total volume") can be issued during the period of the stock option program up to 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 stock options have been issued to members of the Management Board of Kontron AG.

From the 2007 Stock Option Program, a total of 1,500,000 stock options ("total volume") are available for issue during the period of the stock option program up to December 31, 2011 to members of the Management Board of Kontron AG and to employees of Kontron AG and its Group companies. A total of 376,889 stock options have been issued to members of the Management Board of Kontron AG.

Both programs have been completely utilized. At the year-end date, a total of 107,000 stock options were outstanding from the 2003 stock option program and 289,111 from the 2007 stock option program for the members of the Management Board. There are no other stock option programs or other management participation programs.

Expenses totaling TEUR 111 were attributable to members of the Management Board from share-based remunerations (2003 and 2007 stock option programs) in 2011 (further details can be found in the group notes to Kontron AG).

The main characteristics of 2003 and 2007 stock option programs are as follows:

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

» Stock options may be offered four times a year on a given date and may only be exercised after the expiry of a waiting period. The waiting period begins on the date of issue and, for 50 % of the stock options issued to subscription beneficiaries, 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 stock options issued to subscription beneficiaries, at the start of the first exercise period after the expiry of four years following the issue date.

» Stock options may only be exercised against payment of an exercise 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 directly consecutive stock exchange trading days prior to the issue date. Each purchase of shares results, on the basis of the relevant share price, in an increase in value that is derived by deducting the corresponding exercise price.

In 2011 the members of the Management Board did not receive any stock options and no stock options were exercised by members of the Management Board.

In place of the former stock options, for the first time in 2011 financial year, the members of the Management Board received promises for virtual stock options as a long-term remuneration component under a Performance Share Units Plan. The final value of these depends on the sustainability of the company's performance. This sustainability is reflected in the 40 % growth in sales and the EBIT margin and a 20 % higher retention component. A cash payment will be made after four years, so for the first time in 2015, in the amount of the average share price of Kontron AG over a period of 30 calendar days before the payment date.

In financial year 2011, the Management Board members received the following promises under the 2011 Performance Share Units Plan:

	Number of Performance Share Units
Ulrich Gehrmann	32,500
Thomas Sparrvik	19,500
Dr. Jürgen Kaiser-Gerwens (from feb 15, 2011)	12,400
Dirk Finstel	20,200
Total	84,600

A total of 123,350 Performance Share Units with an allocation volume when awarded (100 %) of TEUR 950 were issued to the members of the Management Board and to employees of Kontron AG and its group companies. Thereof an amount of TEUR 650 is attributable to the members of the Management Board.

The provision created in the 2011 financial year to pay the long-term remuneration components includes an amount of TEUR 73 for the members of the Management Board.

Further details on the arrangements for the 2011 Performance Share Units Plan can be found in the group notes to Kontron AG.

Pension and benefit commitments of the Management Board in 2011

No company pension commitments comprising fixed amounts have been agreed with the members of the Management Board. For this reason, no pension provisions were required as at December 31, 2011.

Additional payments to private pension plans in 2011 financial year amounted to TEUR 6 for Mr. Ulrich Gehrmann, TEUR 3 for Dr. Jürgen Kaiser-Gerwens and TEUR 7 for Mr. Dirk Finstel.

Ancillary payments and other commitments to the Management Board in 2011

- Mr. Thomas Sparrvik has received a guarantee that in the event of the early termination of his employment he will continue to receive his 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, Mr. Dirk Finstel and Dr. Jürgen Kaiser-Gerwens are entitled to terminate their employment early in the event of a takeover. Correspondingly the Management Board members have received a guarantee that they will continue to receive their total annual salaries until the regular end date of the Management Board contracts subject to a maximum of three years' annual salary.

- Besides the remuneration components listed in the "Other" column, Management Board members receive no ancillary payments.

- Members of the Management Board received no loans from the company.

- The company has taken out a D&O (Directors & Officers) insurance policy for the Management Board. In the event of a damages claim, the Management Board renders a deductible of 10 % of the damage up to one and a half times the annual fixed 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.

2. Supervisory Board Remuneration Report

Supervisory Board remuneration is based on the size of the company, the duties and responsibilities of the members of the Supervisory Board, as well as the economic position and performance of the company. The remuneration of the Supervisory Board is regulated in Article 20 of the articles of association. Accordingly, each member of the Supervisory Board receives, besides the reimbursement of expenses incurred as a result of exercising his or her office, a fixed remuneration of TEUR 34 per financial year (Article 20 paragraph 1 of the articles of association).

The Chairman of the Supervisory Board also receives a remuneration of TEUR 32 per financial year (Article 20 paragraph 2 of the articles of association). The Chairman of the Audit Committee receives an additional remuneration of TEUR 16 per financial year and the other members of the Audit Committee TEUR 4 (Article 20 paragraph 3 of the articles of association). The members of the Personnel and Nomination Committee receive a remuneration of TEUR 4 per financial year (Article 20 paragraph 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 paragraph 5 of the articles of association).

The members of the Supervisory Board are covered by a damage liability insurance policy arranged by it in the interest of the company in a reasonable amount for officers and certain managers where this exists. The premiums are paid by the company (Article 20 paragraph 7 of the articles of association).
In addition, the members of the Supervisory Board are refunded any value added tax amounts that may be incurred in respect of the reimbursement of expenses and their Supervisory Board remuneration, to the extent that they are entitled to invoice the company separately for value added tax (Article 20 paragraph 6 of the articles of association).

The Supervisory Board members received the following remuneration in the 2011 financial year:

Member of Supervisory Board in TEUR	Basic remuneration	Performance related remuneration*	Total remuneration
Helmut Krings (Chairman)	50	0	50
Hugh Nevin	32	0	32
David Malmberg	26	0	26
Prof. Dr. Georg Färber (until June 7, 2011)	7	0	7
Michael Wilhelm (until June 7, 2011)	7	0	7
Lars Singbartl	26	0	26
Mathias Hlubek (from June 7, 2011)	27	0	27
Chris Burke (from June 7, 2011)	18	0	18
Total	193	0	193

* No performance related remuneration for the 2010 and 2011 financial years

Ancillary payments in 2011

» The members of the Supervisory Board did not receive any loans from the company.

» The company has entered into a D&O (Directors & Officers) insurance policy for the members of the Supervisory Board. This does not, as explained in the Management Board and Supervisory Board Compliance Statement of December 28, 2011, currently provide for any deductible as the Management and Supervisory boards of Kontron AG are generally not of the opinion that the motivation and responsibility with which the Supervisory Board members exercise their responsibilities could be improved by such a deductible.

» Supervisory Board Member David Malmberg also received a consultancy fee of TEUR 23. Supervisory Board Member Chris Burke also received a consultancy fee of TEUR 9.

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

VI. 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."

Ulrich Gehrmann
Chief Executive Officer

Dr. Jürgen Kaiser-Gerwens
Chief Financial Officer

Thomas Sparrvik
Deputy Chairman of the Managment Board
CEO Kontron America & Asia-Pacific

Dirk Finstel
Chief Technical Officer

Glossary

A

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.

B

Bussystem – System for data transfer (e.g. PCI; PCI Express)

C

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

E

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

F

FPGA – Field programmable gate array: Flexible configuration of I/O functionality and algorithms via IP cores

H

HMI – Human Machine Interface is a hardware and software-based user interface through which humans can interact with machinery. HMI solutions, for example, offer comfortable usage of the equipment and the observation of machine conditions through a touch-based screen.

I

Intel® Atom™ Processor – Energy-efficient and cost-effective CPU, for example, for implementation in Netbooks and mobile devices.

Intel® Core™ Processor Family – 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.

M

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.

O

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.

P

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 multi-media 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).

R

RAID _ High-speed mass storage technology for redundant systems

S

SBC _ Single Board Computer: Compact computer with on-board I/O functions & connectors

SSD _ Mass storage devices (Solid-State-Disk) Rugged mass storage technology without rotating media such as hard disks

Smart Grid _ Intelligent electricity/power network utilizing digital technology

T

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.

V

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

X

XSCALE _ Single core Processor architecture with extreme low power consumption

Wikipedia, ITWissen Online, and Gablers Wirtschaftslexikon Online

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Comparative figures – Kontron Group

Key figures in TEUR	2007	2008	2009	2010	2011
Revenues	446,504	496,739	468,912	509,478	**589,570**
EBIT	46,312	46,914	30,089	-5,835	**34,093**
EBITDA	57,717	58,319	42,342	12,190	**55,645**
EBT	47,442	48,036	29,627	-8,213	**32,579**
Non-current assets	140,134	147,231	171,192	213,503	**214,319**
Intangible assets	100,953	110,831	131,564	172,772	**179,783**
Property, plant and equipment	21,958	21,605	24,043	24,986	**20,695**
Financial assets	377	6,538	5,118	738	**742**
Current assets	241,776	247,291	290,151	302,062	**309,160**
Inventories	69,359	71,444	91,728	110,114	**111,476**
Cash & cash equivalents	79,821	53,149	80,167	57,186	**38,165**
Equity capital	288,135	288,138	332,907	320,758	**333,565**
Subscribed capital	51,788	50,788	55,683	55,683	**55,683**
Additional paid-in capital	207,616	199,140	232,396	233,751	**233,303**
Retained earnings	51,879	74,989	86,350	71,303	**60,557**
Net income	32,610	34,938	21,895	-13,353	**22,911**
Borrowings	93,775	106,384	128,436	194,807	**189,914**
Provisions	4,063	6,406	5,004	8,885	**11,014**
Current liabilities	77,788	93,886	109,862	164,429	**147,691**
Balance sheet total	381,910	394,522	461,343	523,479	**515,565**
Number of personnel	2,567	2,536	2,487	2,892	**3,057**
Profitability data					
EBIT / revenue	10.4 %	9.4 %	6.4 %	-1.1 %	**5.8 %**
EBT / revenue	10.6 %	9.7 %	6.3 %	-1.6 %	**5.5 %**
Equity capital yield (Net income / equity capital)	11.3 %	12.1 %	6.6 %	-4.2 %	**6.9 %**
ROI (EBT / total capital)	12.4 %	12.2 %	6.4 %	-1.6 %	**6.2 %**
Revenues per employee (revenues / number of personnel)	174	196	189	176	**193**
Balance sheet data					
Equity capital / total capital	0.75	0.73	0.72	0.62	**0.64**
Borrowings / total capital	0.25	0.27	0.28	0.38	**0.36**
Asset structure (non-current assets / current assets)	0.58	0.59	0.59	0.71	**0.69**
Capital structure (equity capital / borrowings)	3.07	2.71	2.59	1.65	**1.76**

Financial calendar for 2012

Wednesday March, 21

Financial press conference in Munich

Wednesday April, 25

Publishing of Q1 figures

Wednesday June, 6

Shareholders Meeting

Tuesday July, 24

Publishing of Q2 figures + analyst conference in Frankfurt

Thursday October, 25

Publishing of Q3 figures

Find out more on:

www.kontron.com/about-kontron/investor-relations

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Solutions for tomorrow

KONTRON GROUP ANNUAL REPORT 2011

If it's embedded, it's Kontron.