



kontron

Annual Report 2022

01

NEW KONTRON GROUP OVERVIEW

Key Figures 2022 | 2021

IN EUR MIO.	2022 CONTINUING OPERATIONS	2021 CONTINUING OPERATIONS
Revenues	1,096.1	1,002.9
EBITDA (reported)	70.0	90.1
EBITDA (adjusted) ¹⁾	109.5	90.1
Result after non-controlling interests (adjusted) ¹⁾	55.5	29.7
Earnings per share (in EUR cent) ²⁾³⁾	3 EUR 65 cent	75 cent
Operating cash flow ³⁾	44.4	95.3
Operating cash flow from continuing operations	58.8	64.5

1) Adjusted for extraordinary effects in connection with the sale of the IT service companies and the realignment of the Group

2) Earnings per share undiluted

3) Including discontinued operations

IN EUR MIO.	31.12.2022	31.12.2021
Cash and cash equivalents	437.8	296.5
Net Cash (+) / Net debt (-) ⁴⁾	118.3	-14.2
Equity	635.7	423.3
Equity ratio	44.1%	31.3%
Backlog ⁵⁾	1,459.6	1,159.7
Project-pipeline ⁵⁾	3,407.2	2,969.5
Employees ⁵⁾⁶⁾	4,475	4,541

4) Cash and cash equivalents less non-current and current financial liabilities

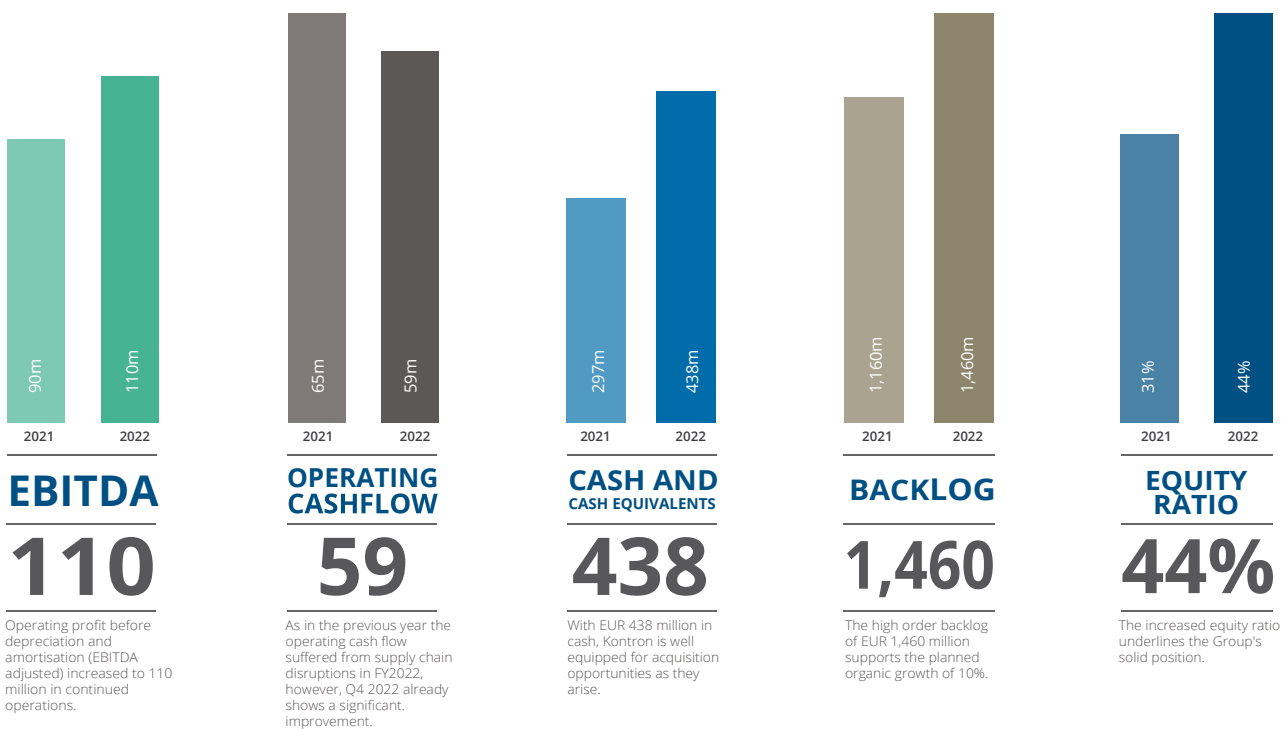
5) Prior year adjusted, from continuing operations

6) Number of employees on full time equivalent basis without employees on parental leave, trainees and apprentices

NEW KONTRON GROUP OVERVIEW

Key Figures 2022 | 2021

RECONCILIATION 2022 IN EUR MIO	2022 CONTINUING OPERATIONS OPERATING - ADJUSTED	2022 DISCONTINUED OPERATIONS OPERATING - ADJUSTED	2022 EXTRAORDINARY EFFECTS	2022 TOTAL
Revenues	1,096.1	387.4	-	1,483.5
EBITDA	109.5	40.5	189.9	339.9
Result after non-controlling interests	55.5	26.3	150.7	232.5





susietec®: Ai-based K-PORT solution for monitoring and early detection of problems in the field

IoT Solutions Europe

Kontron successfully established a complex K-PORT solution from its susietec® portfolio at leading international supplier of industrial sealing technology with locations in 86 countries.

With the K-PORT solution featuring hardware and software, Kontron offers its customer a secure platform to operate Docker container-based projects in the field. Hereby, the existing Docker containers are being transferred into the K-PORT system and then managed by using a web-based management portal. The focus was on modifying the existing container build chain to reduce excessive bandwidth usage and minimize roaming costs as a result.

The basis was a complex solution with 30 Docker containers per gateway - for OpenThread Border Routers as well as for AI inference. The solution delivers many benefits for the customer. It is possible to test updates in small groups before an automated mass rollout and to check them on the relevant device in real-time using the remoting function. Another advantage is that susietec® SecureOS runs on the components that are actually needed: in its hardened state, the operating system transmits only delta updates by comparing the current status in the device with the latest version on the server. This ensures that all devices contain exactly the same software status and that there are no longer any systems where partial updates are carried out too late or not at all. As a result, not only is the bandwidth of the integrated LTE modems and the roaming costs incurred reduced, but also problems and failures in the field that can be traced back to different states.



2022 – a pivotal year in the history of Kontron AG

The most exciting year in the company's history to date is behind us. Today's "new" Kontron bears little resemblance to the old S&T AG from 2021. Since the beginning of the financial year 2023, Kontron AG has been fully focused on the Internet of Things (IoT) segment. This step, accompanied by the decision to discontinue the "IT Services" division, was part of a long-term plan and was successfully implemented in 2022. We sold the "IT Services" division – around 30% of our total business – to the Vinci Group for EUR 392 million in the last financial year. Vinci is a French group with over 200,000 employees that wants to expand its IT service activities in Central and Eastern Europe.

By focusing on IoT, we are concentrating on a market that is growing at rates of over 15% a year. By 2025, 50 billion devices are expected to be networked worldwide. Kontron already generated the majority of its revenues in the Industrial IoT (IIoT) product area in previous years and is one of the three largest suppliers worldwide in this fragmented market.

Kontron is showcasing its new focus to the outside world with a rebranding – with the change of the company name to "Kontron AG", which was passed at the Annual General Meeting 2022, as well as an Executive Board made up of mostly new members. As a result of the strategy shift, Kontron AG expects a significant improvement in profitability and in net profit in particular – comparable to our competitors in this current environment.

In operational terms, 2022 was a successful year for Kontron. Revenue of EUR 1,483.5 million was 10.6% higher than in 2021, whereby EUR 1,096.1 million of this was generated by continuing operations and EUR 387.4 million by the IT service companies divested. Net profit in 2022 was EUR 232.5 million, with EUR 55.5 million generated by the operating business, before special effects, in continuing operations and around EUR 26.3 million in the divested companies. The divestment gains and other special effects amounted to an additional EUR 150.7 million. In comparison: In the financial year 2021, net profit stood at EUR 29.8 million (from continued operations) and EUR 18.5 million (from discontinued operations); thereby totalling EUR 48.3 million. The 4th quarter of 2022 alone saw an operating cash flow of EUR 109 million generated; the cash balance at the end of 2022 was thereby EUR 438 million, with Kontron still due an additional EUR 138 million in purchase price payments from Vinci. We thereby have a very strong cash position compared to many competitors – an enormous advantage in times of rising interest rates.

The market environment in 2022 was characterised by multiple adverse developments:

- › The Covid pandemic has turned the working world upside down. Many employees no longer want to go to the office every day, and the shortage of skilled workers became much more acute in 2022. Kontron, however, has largely been spared from employee resignations. For example, we offer people in many positions the opportunity to work from home, to name just one of our flexible working time models.
- › The war in Ukraine began in February 2022. This led operating income in the affected region to fall from EUR 3.1 million (2021) to minus EUR 2.8 million in 2022; the number of employees decreased by half from over 600 to just over 300. We will, as planned, largely withdraw from Russia.
- › The chip shortage and the disruptions to supply chains had a strong impact on our business performance. At the end of 2021, we were unable to deliver EUR 77 million of ordered products. This figure had increased to EUR 124 million by September 2022. Not until Q4 2022 did we see noticeable improvements. We were able to reduce the volume of delayed deliveries to around EUR 96 million by the end of the year 2022. By the end of 2023, the delivery delays are expected to go back to normal.

We expect a very good year for Kontron in 2023. The order backlog in continuing operations increased from EUR 1,160 million to EUR 1,459 million, yielding a book-to-bill ratio of 1.28. This means robust growth far exceeding the planning – and for the seventh quarter in a row already. However, higher revenue alone is not everything. In future we will increasingly focus on enhancing profitability and reducing low-margin turnover. For 2023, we thereby expect organic revenue growth of around 10% to EUR 1,200 million. Net profit should be significantly stronger, rising to EUR 66 million. We have thereby raised our January 2023 guidance on net profit by 10%. We also expect strong inorganic growth. We will use our high liquidity and make significant acquisitions from our pipeline in 2023. Organically and non-organically, we are standing by our target of revenue of EUR 2,000 million in 2025 – and with significantly increased profitability.

Hannes Niederhauser, CEO





susietec®: IIoT service solution speeds up commissioning

IoT Solutions Europe

The German Fabmatics GmbH is an experienced specialist in automating material flows and handling processes in the semiconductor industry and other high-tech production environments. For the commission of its globally used mobile handling system HERO®FAB, an automated guided vehicle (AGV) to transport jobs between process tools and handling tasks in loading and unloading process tools without manual assistance, Fabmatics relies on the IIoT service solution EquipmentCloud® from Kontron AIS.

Automating material flows and handling processes require solutions that are tailored to the customers' processes down to the smallest detail. The transport and handling systems must fit exactly. The documentation is complex and predestined for loss of information, which makes the commissioning of the systems correspondingly challenging.

Fabmatics, therefore, turned to Kontron AIS to solve the following tasks: involve all participants at the right time and keep them up to date, always make all equipment information available completely and on time, standardize and digitize all checklists and work processes to create a system file for the entire life cycle of the machine in the long term. For this purpose, Kontron AIS implemented with the EquipmentCloud® a complete machine database with standardized work processes using digital checklists and an automate master data upload via an integrated application programming interface (API). This way Fabmatics speed up process speed by 30%. Additionally, they gain full transparency about the work process in the team and reduce their in-house efforts for commissioning and final acceptance by 50%. The complete transparency of processes and the efficiency gained through automation also creates trust among customers.

Source: Fabmatics GmbH
Photo: Sven Claus

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MANAGEMENT TEAM OVERVIEW



Hannes Niederhauser
CEO

Hannes Niederhauser started his Kontron (prev. S&T) engagement in 2011. Following his studies in Electrical Engineering at the Graz University of Technology, the Austrian-born manager progressed in the fields of microchips and embedded computing. Before joining S&T, Hannes Niederhauser was the main shareholder and CEO of Kontron AG from 1999 to 2007, which became the world's largest provider in the field of embedded computing. Hannes Niederhauser is consistently driving Kontron's transformation from an IT service provider to a leading provider of IoT solutions.



Clemens Billek
CFO

As a proven expert, Clemens Billek is responsible for finance, law, compliance, internal audit, risk management and corporate governance since his appointment to Chief Financial Officer in October 2022. After starting his career as an investment banker at an international investment bank and at the stock exchange supervisory authority in the Austrian Takeover Commission, he was most recently Head of the Office for the Takeover Commission. He has extensive professional experience in the fields of compliance, legal and IR at listed companies and the field of digitalisation as the founder of a telemedicine platform.



Michael Riegert
COO, IoT Solutions Europe

Michael Riegert has worked as an engineer and manager in the embedded industry for over 25 years. For most of his career, he has held several senior positions at Kontron. He led the Kontron Transportation Group from 2019 to 2021 and is leading Kontron Europe GmbH since 2021. Effective January 1, 2022, Michael Riegert was appointed to the Kontron AG Executive Board.



Peter Sturz
COO, Services EE

Peter Sturz has been with Kontron since 2007 and became a member of the Executive Board in 2008. Prior to that, he managed the Adriatic Region. Peter Sturz began his career at Allgemeine Bausparkasse as a member of the board responsible for Sales, Marketing and IT. Before joining Kontron he was responsible for Austria and Central Europe as member of CSC's managing board.



Michael Jeske
CIO & EVP, Services Austria

Michael Jeske gathered broad experience in the area of Operations at Kontron AG after obtaining a technical degree. He has extensive management experience in the IT industry and has distinguished himself professionally in the areas of development, production and quality assurance. He was a member of the Executive Board of Kontron AG until September 2022, after which he assumed operational responsibilities within the Group.



Steve Chen
EVP, Asia

Steve Chen has degrees in international business management and accounting. He has more than 15 years of experience in IT management, particularly in the areas of business strategy, development, restructuring, M&A and finance. He joined Kontron in 2002, and since held various management positions at the company, such as chairman/CEO of Kontron Asia, of Quanmax and of Kontron China.



Robert Courteau
EVP, America

Robert Courteau has been with Kontron since 2000. Holding a degree in Mechanical Engineering, he began his career in design and management positions in the aerospace industry before joining Kontron. He has managed Kontron's Communications business since 2013 and is responsible for Kontron's operations in Canada.



Bernhard Günthner
EVP, IoT Software

Bernhard Günthner, Managing Director of Kontron Technologies GmbH, took over the position of VP Smart Factory in October 2019. He has been with Kontron for more than 10 years and worked a.o. as VP Customer Programs for system solutions in industrial automation and medical. The IoT pioneer started his career in software development after graduating with a degree in electrical engineering.



Bernd Eder
EVP, Transportation

Bernd Eder has been Chief Operational Officer of Kontron Transportation Group since 2019. Bernd has a degree in business administration and teaches in this field at a University of Applied Sciences. He has more than 15 years of experience in corporate management, specifically in the areas of strategy, turn-around management, M&A and finance.



Sašo Berger
EVP, Communications

Sašo Berger has been with Kontron group for more than 20 years and joined the company via S&T Slovenija as deputy Chairman of the Executive Board and Executive Director of Defense Industry, Finance, IT and legal matters. Since September 2022 he serves as Managing Director of S&T Iskratel.



Robert Kuzmič
EVP, Communications

Robert Kuzmič has been with Iskratel since 1999. Holding a degree in Electrical Engineering he started his career in technical sales. Until 2014, he held various management positions in the companies of the Iskratel Group. From 2021 he has been the Chief Executive Officer of Iskratel Group and since September 2022 serves as the Managing Director of the newly merged S&T Iskratel company.



Olga Sinenko
EVP, Smart Energy

After receiving her PhD in engineering, Olga Sinenko worked for various leading companies in the fields of industrial automation, software development, and embedded computing. Olga Sinenko has been working for Kontron Group in management positions since 2014 and chairs the D2 RNC CIGRE, an international initiative for collaboration of energy experts in the field of modern power supply.



Philipp Schulz
EVP, Interim Management

Philipp Schulz joined Kontron in October 2022 as EVP Interim Management and CEO Kontron USA Inc. in San Diego. After studying commercial science, he worked as a consultant and made his career with the company voestalpine, where he held various management positions in over 15 years.



Nicole Nagy
VP Corporate Finance & Investor Relations

Nicole Nagy joined Kontron in 2019. In addition to business administration at the Vienna University of Economics and Business Administration, she studied Engineering Management at the Vienna University of Technology. Before joining Kontron, she worked for 15 years in corporate banking at an international bank. At Kontron, she is in charge of Corporate Finance, Investor Relations, Communications and ESG Management.



Hannes Griesser
VP, Group Accounting

Hannes Griesser has been responsible for Group Accounting at Kontron since October 2014. Before joining Kontron, he worked for 13 years at a listed IT services company as Head of Group Accounting and Managing Director responsible for finance at the operating units in Austria, and most recently as Chief Financial Officer from 2012 to 2013.



Christoph Neumann
VP, Technology

Christoph Neumann has been with Kontron for 15 years. After a degree in electrical engineering, he worked at Digitec, the US-headquartered Diamond Multimedia and later as VP Engineering at Giga Stream, which was acquired by Kontron in 2004. Since then, Christoph Neumann has held various management positions at Kontron in addition to managing the Saarbrücken Design Center, e.g. as VP Engineering for Kontron's EMEA engineering teams.



Jochen Gimple
VP, ODM

Jochen Gimple has been with Kontron Electronics since 1997 and has 25 years of experience in the field of embedded electronics. The focus of his career has been in the areas of purchasing, logistics and production. Since 2015, he has been the managing director of Kontron Electronics.



Deutsche Bahn opts for Kontron Transportation Technology

IoT Solutions Europe

As part of an EU-wide award procedure for the „Gefo Reinvest“ project, Deutsche Bahn (DB Netz AG) has signed a framework contract with Kontron Transportation Deutschland GmbH for the construction of a state-of-the-art communication system.

DB Netz AG operates the telecommunications for railway communication and ensures secure and reliable voice transmission between the dispatchers, the operating centers and the train drivers with the corresponding infrastructure. With „Gefo Reinvest“, a new state-of-the-art communication system will be introduced in the next few years under the leadership of Kontron Transportation Germany. The new system is based on the next generation of communication systems for mission-critical networks and will interoperate with the existing GSM-R network (Global System for Mobile Communication-Railway). The technical core of the system is an IMS (IP Multimedia Subsystem) based switching platform as well as the MCx (Mission Critical Services) application of Kontron Transportation, which is implemented on a NFVI (Network Function Virtualization Infrastructure) from the Kontron subsidiary Iskratel. Long Live Carrier Grade Server from Kontron will be used for this purpose. Furthermore, the obsolete TDM (Time-Division Multiplexing) based data network infrastructure will be replaced by a modern IP/ MPLS (Internet Protocol / Multiprotocol Label Switching) transmission network for networking the central components and the new IP Gefos (GSM-R stationary telephones), which is part of the contract.

PORTFOLIO OF PRODUCTS AND SERVICES

Kontron – a multinational technology group

Kontron AG (formerly S&T AG) is a leading Austrian technology group based in Linz, Austria, and offers its customers intelligent IoT solutions in a variety of vertical markets. In financial year 2022, Kontron was present in 24 countries worldwide and employed an average of 6.081 people. With the completion of the “Focus” project and the associated sale of the “Focus” companies in the IT service sector, Kontron employed 4,475 people as of December 31, 2022.

In June 2022, following a resolution passed by shareholders at the Annual General Meeting, the name of the company was changed from S&T AG to Kontron AG. The background for this decision is the focus of Kontron AG and its subsidiaries on technologies related to the Internet of Things (IoT), which have been marketed under the Kontron brand for many years. As part of the refocus, significant parts of the IT services business were also sold to the French group VINCI Energies S.A., a group of information and communication technology companies that operates globally (brand name: Axians). The sale contract was signed in August 2022. The legal transfer of the IT services companies sold in the Czech Republic, Slovakia, Poland, Croatia, Serbia, Albania, Montenegro, North Macedonia, Germany and Switzerland to the buyer took place on December 29, 2022.

Kontron AG operated in the three business segments “IoT Solutions Europe”, “IoT Solutions America” and “IT Services” until the closing of the sale of its IT service companies on December 29, 2022. With its business segments “IoT Solutions Europe” and “IoT Solutions America”, Kontron is a leading international provider of hardware and software products and innovative services in the field of Industry 4.0 and Internet of Things (IoT) as well as Embedded and Edge Computing Technologies (ECT). In addition, with the business units under the S&T brand, the Group was a renowned provider of IT services in the DACH region and Eastern Europe. Through its “IT Services” segment, the company offered a broad range of services in the areas of IT consulting, integration and outsourcing, corresponding to the plan, build, run principle. After completing the sale of the majority of its IT service companies on December 29, 2022, Kontron plans to change the composition of its business segments starting in financial year 2023. In future, business activities will be reported in the three segments “Europe”, “Global” and “Software & Solutions.” This report has been prepared in accordance with previous segment reports.

Overview: The three business segments of the Kontron Group in financial year 2022

- › **“IoT Solutions Europe”:** This segment focuses on developing secure and intelligent solutions through a combined portfolio of hardware, software and services in the areas of Internet of Things (IoT) and Industry 4.0 and is focused on the markets in Europe and parts of Asia, particularly China.
- › **“IoT Solutions America”:** This segment includes the business activities of the former “Embedded Systems” segment and was renamed “IoT Solutions America” at the beginning of 2019 following an update to its product range and constantly growing software share.
- › **“IT Services”:** All activities involving IT services business in the DACH region and Central and Eastern Europe are covered by this segment. Large parts of this business segment were sold in financial year 2022.

With its business segments, the company offers a comprehensive portfolio of services and products as well as a variety of attractive solutions that appeal to a wide range of customer segments and vertical markets. The broad technology portfolio and know-how, as well as the considerable engineering capacities within the group, complement each other perfectly and make it possible to implement projects in the relevant areas in a holistic manner and to react quickly and flexibly to market requirements.

In this way, the range of services offered by the Kontron Group can be continuously expanded and adapted within the technology life-cycles. The aim here is to address the most promising trends and customer needs in all areas and to position Kontron as a technology leader.



MEDICAL TECHNOLOGY

LEADING MISSION CRITICAL SOLUTIONS

IoT continues to rapidly drive the transformation of the health care market. Connectivity, security and data collection are at the forefront of medical advances and can significantly improve patient



TELECOMMUNICATIONS

5G EVOLUTION

Leading European ICT provider for the digital transformation of telecommunication. Our 5G and RAN Technologies Know-how opens new possibilities for our customers.



INDUSTRIAL AUTOMATION

susietec IoT-SOFTWARE FRAMEWORK

With its IoT framework susietec, Kontron supports customers in their digitalisation process and thus ensures that the smart factories of tomorrow can realise their full performance potential.



AVIATION

IN-FLIGHT ENTERTAINMENT SYSTEMS

Kontron offers a wide range of hardware and software products that provide passengers with in-flight broadband services (VPN access, multimedia functions, video-on-demand, etc.).



LOGY

SUPPLIER

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PUBLIC TRANSPORT

RAILWAY DIGITALISATION

With a wide range of intelligent and reliable IoT services, Kontron supports the digitalisation of the transport sector. The new FRMCS standard will further accelerate the transformation.

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ENERGY SUPPLY

SMART ENERGY

Kontron develops smart grid and smart metering solutions for smart electricity networks, energy suppliers and industrial customers and thereby contributes to resource conservation and CO2 reduction.



RETAIL

RELIABLE SOLUTIONS

Kontron offers its customers intelligent and secure IoT solutions for the smooth running of daily operations. System upgrades and maintenance are carried out reliably by Kontron

The transformation to IoT specialists

Kontron has been a well-known manufacturer of industrial technology solutions for more than 20 years. With its attractive portfolio of proprietary technologies and products in the Industry 4.0 environment, the company has gradually developed into an established IoT provider in recent years. Following the sale of IT service companies as part of the “Focus” project, Kontron becomes a player dedicated to smart industrial IoT solutions. The multi-faceted portfolio includes embedded industrial computer systems, network and security solutions, and the software required to operate such systems.

Kontron AG (Germany) was acquired by IT system integrator S&T AG at the end of 2016. S&T AG, which operated its business primarily with IT services and software and security solutions (“Security Appliances”), transferred its wealth of experience to its new subsidiary Kontron following the takeover. The merger thus joined computing technologies, production environments and enterprise IT together. This, in turn, enabled the realisation of innovative IoT and Industry 4.0 solutions. By selling the majority of its IT services business to VINCI Energies S.A., Kontron AG is following its focus and growth strategy in the Internet of Things (IoT) technology sector in financial year 2022. The company only retains the IT service units relevant to the IoT business.

In recent years, Kontron has continuously expanded its portfolio of proprietary technologies, both through its own research and development projects and through targeted acquisitions. Examples include the acquisition of Lucom GmbH, Fürth, Germany, a technology company specialised in 5G connectivity equipment, and the takeover of AIS Automation GmbH, Dresden, Germany, to expand the range of software available in the field of industrial automation, the acquisition of the Kapsch CarrierCom Group to enter the railway communications sector, and the acquisition of the Iskratel Group in Kranj, Slovenia, to expand 5G expertise.

In its two IoT Solutions segments, Kontron focused on a number of vertical markets that cover the entire IIoT ecosystem, including:

- › Industrial automation
- › Medical technology
- › Public Transport
- › Telecommunications
- › Energy supply
- › Aviation
- › Public clients

Our customers and vertical end markets

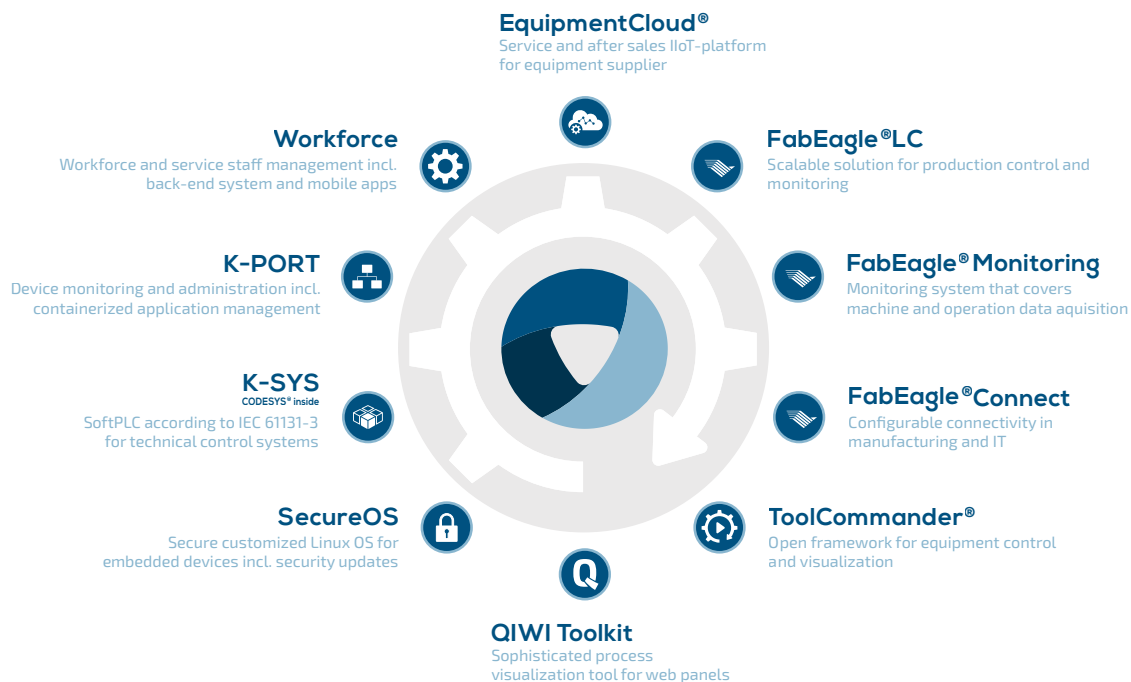
Industrial automation

As the demand for digitalisation of business and production processes increases, so does the need for sophisticated and efficient automation. The Kontron Group focuses on the rapidly growing market for automation solutions. With this extensive portfolio of hardware, software and service solutions, customers benefit from faster market launches of products and services, lower total cost of ownership and, in many cases, from the development of new business models. Kontron offers the tools and know-how to harness the full potential of the intelligent factories of the future. This applies to production plants, where it is critical for intelligent machines to assist with daily and time-sensitive operations and a secure, real-time connection is required at all times.

The susietec® Internet of Things (IoT) framework developed in-house by Kontron enables customers to develop high-quality, tailor-made applications that correspond to a wide variety of work environments and requirements. The Kontron susietec® framework does this by using proven software solutions as the key to digital transformation. In conjunction with hardware solutions, vertically integrated digitalisation projects can be implemented. The susietec® framework is already being used successfully in machine and plant control systems and at brownfield and greenfield production sites.

Kontron’s susietec® framework is designed so it can quickly and reliably be integrated into your existing business processes, devices, machines and plants. By interacting between existing software products and customer-specific implementations, the framework creates the basis for digitally connecting employees, processes, machines and systems. Due to the wide choice of options, customers have the opportunity to implement new business models and working methods with hardware and software solutions.

Susietec® stands for holistic solutions to implement digital transformation. The framework combines the many years of experience and know-how of susietec® experts with new technologies. We use software, hardware and our expertise to further develop this technology.



With the aim of fully digitalising its customer service, Pfister Waagen Bilanciai (PWB) GmbH sought support from Kontron. Following the introduction of the Workforce module from the Kontron susietec® framework, it was possible to modernise the customer service process with innovative tools and enable digital full service management. The Windows-based customer service module, which had been in place for ten years, was replaced and all paper-based processes in the service environment have been replaced by digitally managed processes. This led to a reduction in work hours and increased efficiency for the customer, enabling them to present their business processes transparently with up-to-date data and timely feedback.

Medical technology

The Internet of Medical Things (IoMT) is paving the way for the realignment of medical technology: Digitalisation is gaining momentum in healthcare – not least due to the lack of personnel. Connectivity and security will be essential to medical technology of the future for it to reach its full potential. Kontron helps its customers bundle the potential of IoT and IoMT to improve healthcare with medical innovations. Modern medical care is based on real-time applications. Networking, security, scalability and sustainability have become key concepts in hospitals and other medical facilities.

The Kontron susietec® framework also provides solutions in the medical environment and gives medical providers a platform for developing and maintaining innovative IoMT applications. The framework combines hardware and software to form cloud-based applications that are specifically tailored to the needs of medical technology, resulting in a better and faster service experience, which increases the overall performance of devices and services. As a result, health workers gain valuable time and can focus on their patients, improving the quality of care in busy hospitals.

The Kontron solution is therefore revolutionising the network infrastructure in hospitals: As an interface between medical devices, applications and the cloud, the Kontron susietec® framework converts protocols, filters data and processes it directly on site as needed. An important factor is the security of sensitive patient data. Failures, minimal capabilities or latency can result in damage or even life-threatening consequences for patients. The combination of on-premises solutions and state-of-the-art cloud infrastructure makes it possible to continuously monitor the evaluated measured values and diagnostic data and automatically request a service technician if a defect is

imminent. In addition, susietec® treats individual elements such as the operating system and the customer application separately, which saves recertification.

Kontron also offers solutions for patient diagnostics and imaging to help physicians diagnose disease, determine severity, and monitor patients. Another area is clinical and critical care. Kontron helps its customers develop solutions for innovative and productive workflows as well as evolving the very latest systems for patient monitoring, ventilation as well as reliable analytical instruments. High reliability is especially in demand when using surgical equipment. Here too, Kontron continuously supports its customers in developing practical solutions, such as “Soloassist II” robotic technology. This makes it easier than ever for surgeons to work with endoscopes and aims to reduce the stress and risks associated with minimally invasive operations. This technology also enables speech recognition, which allows the surgeon to guide the surgical camera without increased risk to the patient.



Public Transport

Kontron has a range of solutions for many types of public transport and demonstrates its expertise in this vertical market through its extensive product range. The core business focuses on solutions for railways, public transportation, utility and telecommunications companies as well as other industries with mission-critical requirements. With the increasing demand for intelligent and reliable vertical IoT services, Kontron's portfolio of solutions for public transport has also expanded, which helps make traffic flows safer and more efficient.

In implementing the susietec® IoT framework, Kontron has already proven its worth in a wide range of automation projects in the rail sector. Kontron successfully develops software and hardware solutions for traffic and rail technology. This involves connecting various stakeholders and managing parameters such as in the area of shunting technology for speed control and distance management in train formation. Kontron's portfolio includes solutions involving topics such as Mobility 4.0, preventive maintenance and remote maintenance for smart rail-related solutions.

Through its subsidiary Kontron Transportation GmbH (KTR), a leading global provider of dedicated end-to-end communication solutions for mission-critical networks, Kontron supports customers with solutions to their communication challenges. The company focuses on producing, transporting and processing voice, data and video information reliably, securely and sustainably. The core product portfolio includes GSM Railways, FRMCS (Future Railway Mobile Communication System), MCX (Mission-Critical via public networks), 4G/5G solutions for public networks and IIoT solutions with a focus on data processing. The main customers are rail companies and public transport companies.

Kontron Transportation drives the development of the next generation of broadband solutions for mission-critical networks, for example as an associate member of the European research initiative Shift2Rail. KTR has been developing, building, implementing and supporting end-to-end RDN (Railway Dedicated Network) solutions based on the GSM-R standard for more than 20 years. Kontron Transportation GmbH's secure and scalable infrastructure alone connects more than 84,000 kilometres of rail routes throughout Europe, Africa and Asia.

Some of the largest IP-enabled rail communication networks in the world based on the GSM-R standard, including the networks of Austrian Federal Railways (ÖBB), Deutsche Bahn, Network Rail, SNCF Réseau/Synerail and important routes in China, Algeria, Saudi Arabia, Egypt and many others are operated by KTR. KTR has actively contributed to creating new standards in train radio technology and is a partner for numerous rail operators that are preparing to switch from GSM-R to a next-generation radio infrastructure standard (FRMCS).

Kontron also provides services and embedded computing for the rail sector, dedicated networks for train radio, embedded systems for the vehicle sector and ticketing solutions. To ensure that rail infrastructure functions optimally, the company offers extensive customisation of Commercial Off-The-Shelf (COTS) computing platforms to ensure critical safety and performance up to Safety Integrity Level (SIL) 4, helping to ensure that public transport can be used safely. Kontron's technology not only supports public transport staff with digital communications while they are working, but also promotes a seamless service to passengers without technical disruptions.

In the transport sector, Kontron serves the following market segments:



During financial year 2022, Kontron Transportation took part in an EU-wide tendering process for Deutsche Bahn's (DB Netz AG) "Gefo Reinvest" project and completed the contract to set up a state-of-the-art communication system with a contract volume of over EUR 90 million. DB Netz AG operates telecommunications for railway communication and, with the appropriate infrastructure, ensures secure and reliable voice transmission between controllers, operations centres and train drivers. The "Gefo Reinvest" project, headed by Kontron Transportation Deutschland, will see the communication system based on older ISDN technology including 3,500 associated Gefos (GSM-R fixed telephone) be replaced by a state-of-the-art communication system over the next few years. The new system is based on the next generation of communication systems for mission-critical networks and will work with the existing GSM-R network (Global System for Mobile Communication-Railway). Kontron Transportation is successfully working on various research initiatives, thus driving forward the development of modern mobile communication for railways. In December 2021, for example, as part of an event organised by the European Shift2Rail program, Kontron Transportation, together with its partners AZD and Thales, successfully demonstrated how an unmanned train operates. This technology is based on a prototype developed by Kontron Transportation based on FRMCS.

Telecommunications

The Kontron Group supports several sectors within the telecommunications industry and helps service providers around the globe with its services, especially in the areas of media provisioning, data storage and migration using Network Functions Virtualization (NFV) and Software Defined Networking (SDN) technologies. Breakthrough technologies open up new opportunities and business models for service providers. As a result of the rapid evolution of the telecommunications industry, the introduction of new technologies such as 5G and the increasing use of Open RAN technology has made a significant impact.

Kontron has been a leader in virtual radio access network (vRAN) technology for public and private mobile networks for many years. In collaboration with key industry partners that provide disruptive and disaggregated solutions for deploying LTE and 5G networks, Kontron provides robust servers that can be deployed at the edge of mobile networks, either at the base of antenna towers or directly on the towers themselves. Our solutions have advanced processors, can be used in widely varying environmental conditions, consume little power and integrate AI processors to bring intelligence to the edge of networks. They include network control hardware and software, security and systems management software, as well as full integration of leading vRAN applications. Kontron's solutions target remote mobile network access points, rural deployments and private industrial networks, covering the extreme edge where conventional servers cannot be deployed.

The subsidiary S&T Iskratel is an industry leader in providing open access broadband connectivity in underserved and rural areas for these kinds of projects. In Potosí, Bolivia, the highest city in the world, more than 4,000 metres above sea level, the company has set up a high-speed GPON network for Potosí service provider Cotap. This has opened up new connectivity for thousands of residents and businesses. On the island of La Réunion, Iskratel's GPON Home Gateways were installed across the entire network for Zeop, the island's most important broadband operator, in just three months. As a result, Zeop made new services available to its customers. This meant additional sources of revenue opened up less than a month after installation had been completed.

Kontron works closely with telecommunications and network equipment manufacturers to offer an ideal mix of integrated hardware and software platforms for specific network solutions at system level. Kontron also offers a wide range of standardised application-ready hardware components and platforms, including 10G and 40G carrier grade AdvancedTCA (ATCA) and MicroTCA multi-core platforms, as well as a range of carrier grade and mission-critical communications rack mount servers. In addition, there is also a selection of services for operating system integration, middleware and HPI software, as well as services for validating third-party hardware.

Energy supply

Under the tagline "Smart Energy," energy providers are striving to create a sustainable energy market by reducing their carbon footprint. This requires secure and cost-sensitive solutions that are also reliable. Kontron develops intelligent energy solutions for transmission and distribution grid operators, independent system operators and industrial companies that generate energy. Our innovative products and services guarantee added value in terms of reliability and efficiency for companies in the energy sector as well as for consumers and everyone involved in the energy revolution.

To efficiently deliver power, reliability and cost-effective benefits, it is essential that computing solutions withstand the stress of mechanical shock and vibration, temperature, airborne dust and other adverse conditions in the operating environment. It is also indispensable for energy companies to have access to components with guaranteed long-term availability, as well as safe and cost-effective energy solutions that offer increased reliability. Kontron delivers all this with its solutions.

Kontron offers complete solutions for the control and optimisation of energy networks (distribution system operators) and generators (power plants) and is involved in transforming simple power grids into intelligently controlled smart grids. Hardware and software products (communication, metering and load management products) are being developed for the transformation to intelligently controlled distribution networks. These include, for example, data centre software solutions for energy suppliers and devices compatible with the OSGP standard for smart metering as well as the control and processing of network data with the Grid Management System (GMS).

In addition to managing electricity, gas, water and heat metres, the GMS offers additional functionalities such as load management and voltage quality monitoring for distribution system operators. In the DACH region alone, Kontron already has over 350,000 OSGP devices under its management. Customers include energy suppliers such as Linz Netz GmbH, Industrielle Werke Basel (IWB), Swiss Billing (SWiBi) and Energie Klagenfurt.

Aviation

With more than 30 years of experience and as the world's leading provider of in-flight entertainment and passenger communication systems, Kontron is one of the most sought-after players when it comes to providing high-quality IoT services to the commercial aviation industry. The company supports numerous airlines, such as Lufthansa and easyJet, with a wide range of hardware and software solutions for connectivity and on-board entertainment. These solutions enable airlines to offer their passengers advanced services, such as video and media streaming and Internet connectivity. Today, more than 5,000 commercial and business aircraft use Kontron technologies all over the world.

With Kontron solutions, companies can break through the limits of traditional product life cycles. "Bring Your Own Device" (BYOD) models can also achieve higher operational efficiency and open up new revenue streams. Kontron products in this market include satellite communications controllers, media streaming servers and wireless access points, all tested and certified to be operated and maintained in the strictly regulated environment of commercial aircraft and business jets. Our solutions also include media delivery software that enables operators to quickly deploy flight-specific services with minimal development costs.

› Software Solutions



› Secure Wireless Connectivity

For commercial airlines, business aviation, government & VIP aircraft

› Open Architecture HW/SW Platforms

For line-fit and retrofit installations

› Business Jet Systems



› Satellite Modem Managers



› Flight Servers for Media/Connectivity



› Portable In-Flight Wireless Entertainment System



› Power Solutions



› Cabin Wireless Access Points



In recent years, Kontron has positioned itself as a leading provider due to its focus on domestic traffic, business jets and the Asian market, as well as a main supplier of the latest satellite connectivity controllers. The appearance of new providers of Low Earth Orbit (LEO) satellite constellations opens up new opportunities for Kontron to provide services with higher bandwidth and better worldwide coverage. It also increases the opportunity to extend our aviation expertise to other applications, such as land and maritime transport.

Public clients

Public institutions are a cornerstone of society, whether that be public transport, the government, or law enforcement. These industries are integral globally, and so too is the technology used. Kontron’s expertise is used by a variety of different public sector industries to increase efficiency and functionality.

Kontron has many years of experience in meeting the requirements of public sector clients and procurement procedures. Kontron has previously provided services for large nationwide companies such as Infrabel in Belgium and Network Rail in England.

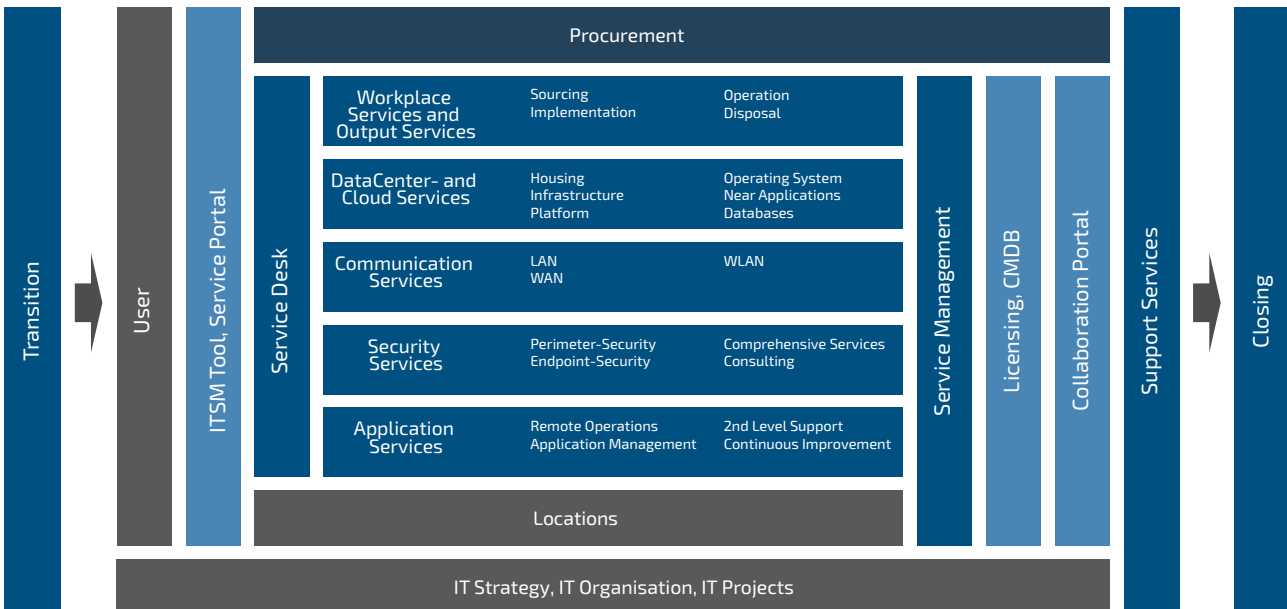
Due to the upcoming technology changes in the public sector, as well as the increased infrastructure investments by nations to support and stimulate the economy, Kontron sees a sound outlook for the future here. The company offers solutions specifically designed for public institutions.

Full-service IT services

The former S&T AG (now Kontron AG) was established as a renowned full-service provider for IT solutions in the Central and Eastern Europe region through its “IT Services” segment up to the point when a large part of the IT services business was sold. The sale completed on December 29, 2022, included the IT services business in the Czech Republic, Slovakia, Poland, Croatia, Serbia, Albania, Montenegro, North Macedonia, Germany and Switzerland. For strategic reasons, the IT services business will continue in Austria, Romania, and Hungary with a focus on IoT services. As an independent IT service provider, Kontron supports customers in the development, implementation and operation of IT projects through the “IT Services” segment as part of the plan, build and run principle. As well as continuing existing contracts, the focus is on implementing and expanding the Group’s IoT solutions.

CIO - Consulting - Integration - Outsourcing

The comprehensive “plan, build, run” offering includes almost all services required for planning, implementing and operating IT solutions.



- › In the past, services in the area of consulting included consultancy services, such as the conception of IT architectures, advice on the implementation of ERP systems such as SAP or SAP S/4HANA, or support in the creation of holistic IT security concepts. An ever-more important focus of consulting is serving the fast-growing cloud area. As a cloud integrator, the company implements solutions in the Amazon and Microsoft environments and, as an authorized Microsoft Tier 1 Cloud Solution Provider and certified AWS Advanced Consulting and Reselling Partner, is in a position to offer customers cloud products from the Azure, Office 365 and AWS environments directly, in addition to consulting, integration and support services.
- › Integration services also include IoT services relating to the implementation, delivery and configuration of hardware, software and systems in the broadest sense. This includes the rollout of cash register systems, billing and connectivity expansions, as well as the installation and configuration of various hardware and software products, also as part of complex digitalisation projects.
- › The outsourcing service segment includes, among other things, taking over part of, or the entire, IT operation – in future also with a focus on IoT systems operated by Kontron for its customers.

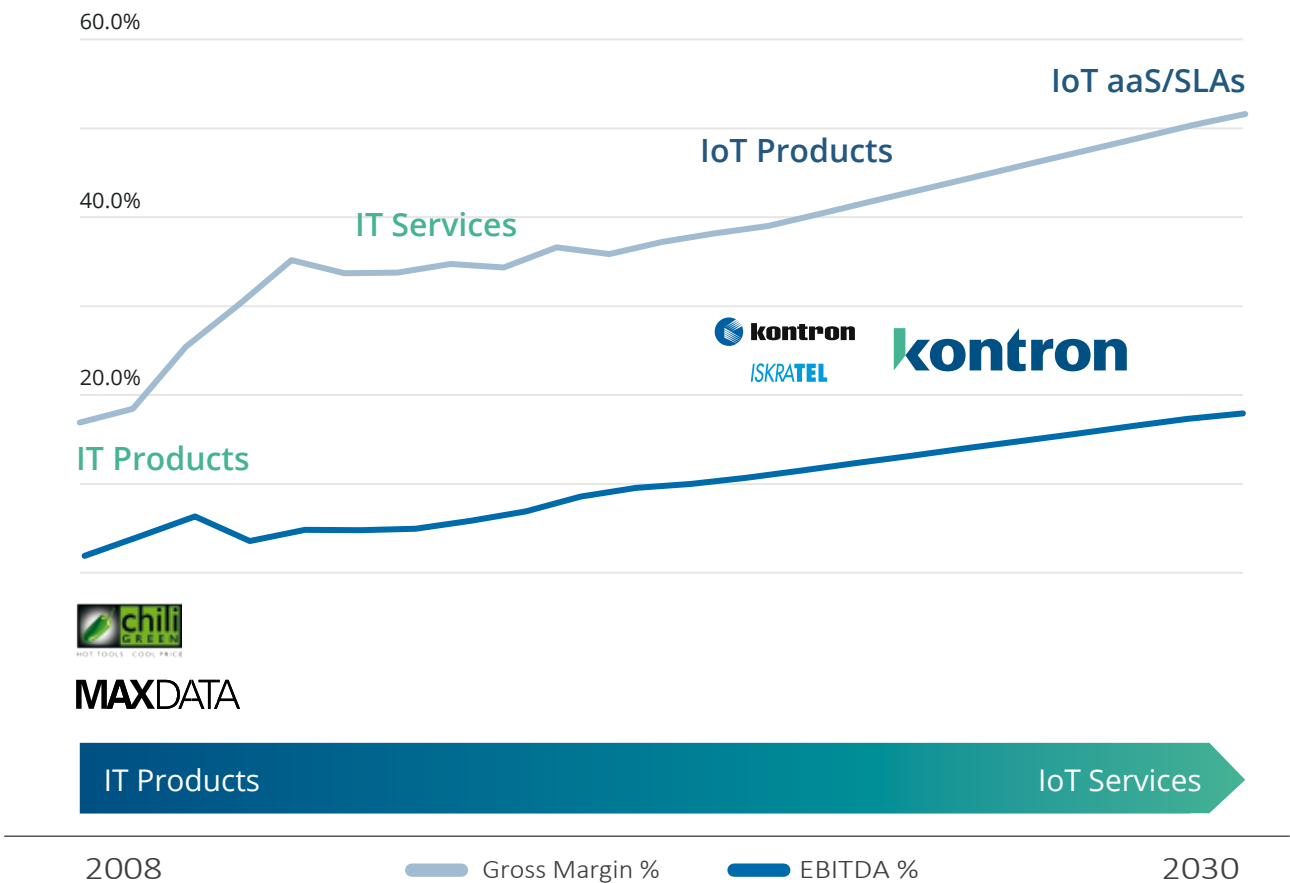
Kontron has accompanied and designed many projects in the above mentioned service categories and has taken on the entire project management. Kontron's many years of expertise in the service and hardware sector and the ability to offer tailor-made hardware and software solutions are particularly impressive when it comes to major large-scale projects. The service companies that still remain in Austria, Romania, and Hungary will in future use these strengths to handle demanding IoT projects and their implementation and further development, in which adapting the digitalised infrastructure as part of complex IoT projects plays an essential role.

The future of our portfolio of products and services

Over the past 20 years, Kontron has evolved from being one of the world's largest manufacturers of embedded computer technologies to an established IoT company. Through proprietary developed solutions, targeted acquisitions in the IoT sector and the sale completed in this financial year of the majority of its IT services business, Kontron has successively implemented its focus and growth strategy in the Internet of Things (IoT) technology sector.

The transformation to a pure IoT player includes the continuous expansion of the software share in vertical end markets and the growth of an "IoT as a Service" offering with SLA-based services in the IoT sector. Kontron will continue to focus its service portfolio on the large, varied and growing Industrial IoT market and develop integrated solutions (software and hardware) for intelligent factories, transportation, data connectivity, medicine and intelligent energy.

Motivated by our customers' success, we offer tailor-made IoT connectivity solutions and technologies based on 5G/6G and real-time standards, our proprietary susietec® Framework and the expertise of over 3,200 software/hardware engineers.



Unlocking next-generation fibre broadband in the UK market

IoT Solutions Europe

Internet traffic has continued to climb exponentially as our dependency on reliable and ubiquitous connectivity has intensified following the global pandemic. But telecommunication operators can only leverage new and emerging technologies such as 5G and the Internet of Things by utilizing a next-generation network.

Kontron's subsidiary Iskratel is the leading European provider of customized fibre-access solutions. Iskratel develops and manufactures high-quality broadband access technologies in its own innovation and production centres and is present in more than 50 countries worldwide.

Iskratel customer Zzoomm is an established and rapidly growing full-fibre network operator. The Internet Service Provider (ISP) has ambitious plans to deliver the most advanced and reliable Fibre-To-The-Premises (FTTP) broadband to one million UK premises in more than 85 towns by the end of 2025. Zzoomm deemed Iskratel as the most appropriate partner to help expand its presence in the UK market and deliver multi-gigabit connectivity in a range of challenging environments.

Iskratel's complete XGS-PON access solution that included Optical Line Terminals (OLTs) and Optical Network Terminals (ONTs) has already allowed Zzoomm to roll out fibre to hundreds of communities across the UK. Hereby, Iskratel supplied its compact Lumia C16 and Lumia XG8 (XGS-PON OLTs), as well as Innbox X22 ONTs for the dual-box setup at the customer premises, delivering multi-gigabit services. With Iskratel's flexibility to tailor solutions to specific customer needs beyond off-the-shelf solutions, the company has helped Zzoomm accelerate service deployment of ultrafast connectivity and deliver significantly enhanced user experience to customers in the UK.



REPORT OF THE SUPERVISORY BOARD

Dear Shareholders, Colleagues, Ladies and Gentlemen,

as Chairwoman of the Supervisory Board of Kontron AG, it falls to me to report on the past financial year 2022:

After two years of pandemic, Europe and many parts of the world have largely got SARS-CoV-2 and the COVID-19 virus under control through vaccinations. The pandemic has become an endemic and the negative economic effects have eased. The outbreak of war in Ukraine in February 2022 is not only causing immeasurable suffering to both warring parties every day, but Europe and the world are once again on an economic rollercoaster. Supply chains affected by COVID-19 have continued to falter, while potential energy bottlenecks have caused electricity and gas prices to skyrocket and have further fuelled inflation not only in Austria but throughout Europe. Additionally, we have seen the end of the national banks' zero interest rate policy.

In this more than difficult market environment, Kontron was able to achieve its most important strategic goal of the past financial year, which was to focus on the IoT sector by selling its IT service division. The transaction generated net sales proceeds of around EUR 392 million. Revenues from the operating activities of the continued operations rose from EUR 1,002.9 million to EUR 1,096.1 million compared to the previous year. Overall, Kontron achieved a net result of EUR 232.5 million. This shows a significant improvement over the previous year. The order backlog of approx. EUR 1.4 billion remains high and underlines the continuing demand for our products and services.

As a result of the sale of the IT service division, Kontron's asset and debt structure has changed significantly; the transaction has led to an overall improvement in the equity ratio to 44%. It is true that the inventories, which amount to EUR 192.6 million, continue to be negatively affected by buffer stock, products only semi-finished due to a lack of components and undelivered orders, but Kontron expects the situation to normalise from 2023 thanks to improved supply chain conditions and redesigned products.

For 2023 and the following years, Kontron has positioned itself in accordance with this expectation. The focus lies exclusively on the high-growth and high-margin IoT market in which Kontron is already active as a brand with its technologies. The change of the company's name from S&T AG to Kontron AG also reflects the company's future focus and is intended to further strengthen the Kontron brand. With this new "Kontron" brand, we want to become a global player in a trillion-dollar, highly fragmented market, focusing on the IoT areas of Smart Factories, Smart Energy, Transportation and Medical. Our goal for 2023 is to significantly increase profitability and further strategic acquisitions with the available liquidity.

By selling its IT service division, Kontron has not only sharpened its profile on the market, but also simplified its complex legal structures. In addition, exposure in Eastern Europe has been significantly reduced and now accounts for only approx. 3% of revenue. Kontron is committed to comprehensive transparency on the capital market. One of the steps taken to fulfil this commitment was the appointment of Dr. Clemens Billek to the company's Executive Board, a proven compliance and financial market expert. In addition, the Kontron Group sees it as its duty to contribute to achieving climate goals not only through its efficiency-boosting customer solutions, but also as a group of companies and has therefore set itself the goal to halve the CO₂ consumption of the Kontron Group by 2030. In general, further progress was made in the past financial year, and ESG measures will be further intensified in 2023.

Furthermore, in my capacity as Chairwoman of the Supervisory Board of Kontron AG, I would like to inform you that in the financial year 2022, the Supervisory Board of Kontron AG performed all of its legally prescribed duties and control functions in close consultation with the Executive Board of the company and was involved in all strategic and material corporate decisions at an early stage and to an appropriate extent. The Executive Board provided the Supervisory Board with regular, timely and comprehensive information and prepared and presented the relevant information and key figures.

The Supervisory Board held four regular meetings in financial year 2022 and, partly due to the sale of the "IT Services" division, six extraordinary meetings and two Audit Committee meetings. In addition, four meetings of the Nomination Committee and two meetings of the Remuneration Committee were held.

Apart from the regular meetings, various discussions took place between the Chair of the Supervisory Board, the members of the Supervisory Board and the CEO and CFO of the company on issues of strategy, current business development, the risk situation, risk management and compliance of the company. Whenever the agreement or approval of the Supervisory Board was required for decisions or measures taken by the Executive Board, draft resolutions were submitted to the members of the Supervisory Board in advance for



examination and then decided upon in meetings by way of vote or circulation.

In the financial year 2022, no conflict of interest arose in the Supervisory Board; all resolutions were passed unanimously by all members of the Supervisory Board, unless abstention was necessary or advised. In the year under review, Dr. Clemens Billek was appointed to the Executive Board of Kontron AG as Chief Compliance Officer with effect from May 1, 2022. Mr. Richard Neuwirth and Mr. Michael Jeske resigned their respective mandates as board members of Kontron AG in the context of the sale of the IT service division. Furthermore, Dr. Clemens Billek assumed the position of CFO of Kontron AG with effect from October 1, 2022. In 2022 the composition of the Supervisory Board changed as follows: Hui-Feng Wu retired by May 6, 2022 and has been replaced by Joseph John Fijak as a member of the Supervisory Board in the course of the Annual General Meeting. In accordance with the principles of the German Corporate Governance Code and in order to perform its duties efficiently, the Audit Committee, the Remuneration Committee and the Nomination Committee, each of which consist of three Supervisory Board members, are each composed of a majority of independent Supervisory Board members. Likewise, in accordance with the recommendations of the German Corporate Governance Code, the role of Chair of the Supervisory Board was separated from that of Chair of the Audit Committee. Full details on this can be found in the chapter "Corporate Governance Report".

The consolidated financial statement is in accordance with IFRS. Following a Europe-wide call for tenders, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft was appointed as the new auditor for 2022 by the Annual General Meeting on May 6, 2022. The consolidated financial statements, the Group management report as well as the auditor's report was submitted to all members of the Supervisory Board and the Audit Committee. The financial statement documents have been discussed in detail by the Supervisory Board and the Audit Committee in the presence of the auditor following an auditor's report. The Supervisory Board approved the consolidated financial statements prepared by the Executive Board. The Supervisory Board is in agreement with the Group management report and in particular with the assessment of the further development of the company.

The Supervisory Board, together with the Executive Board, has submitted a Corporate Governance Report in accordance with its obligation to comply with the German Corporate Governance Code as per section 243c of the Austrian Commercial Code (UGB) and has made this available to the shareholders in the company's annual report in the chapter "Corporate Governance Report".

Dear shareholders, by closing the "Focus" transaction on December 29, 2022, Kontron has reached the next milestone in positioning itself as an IoT player in future. "Yesterday is not today and today is not tomorrow." We live in a world in which we make the future possible with our employees, our ideas and our technology! I am very proud of this.

With these words I would like to conclude my remarks and thank you, dear shareholders, for the trust you have placed in us, along with the Executive Board and all employees for your commitment and achievements in financial year 2022.

Vienna, March 2023

For the Supervisory Board

Claudia Badstöber
Chair of the Supervisory Board

CORPORATE GOVERNANCE REPORT

Kontron AG is a joint stock company listed on the officially regulated Prime Standard market of the Frankfurt Stock Exchange (FSE) under Austrian law. In accordance with the Austrian Stock Corporation Act, the Executive Board manages the company independently. It exercises this responsibility in the best interest of the company, taking into consideration the interests of the shareholders and employees. The Supervisory Board supervises the management and supports the Executive Board in significant decisions.

§ 243c of the Austrian Commercial Code stipulates that a joint stock company whose shares have been authorised for trading on a regulated market is required to compile a Corporate Governance Report. To fulfil this obligation the following Corporate Governance Report is provided:

Corporate Governance Code

As an Austrian company and a stock corporation listed in Germany, Kontron AG voluntarily complies with the German Corporate Governance Code (§ 243c Paragraph 1 N 1 UGB). The German Corporate Governance Code is publicly available at <https://www.dcgk.de/en> in the version dated April 28, 2022.

Declaration of compliance with the German Corporate Governance Code

The Executive Board and Supervisory Board of Kontron AG make the following declaration in accordance with § 243c UGB with regard to the recommendations of the "Government Commission on the German Corporate Governance Code":

Kontron AG deviates from some principles of the German Corporate Governance Code of April 28, 2022. The reasons for these deviations are explained in detail in the following report.

Principles of business management

For a number of years, Kontron AG has been pursuing a strategy designed to yield a sustained and long-term increase in corporate value. The Executive Board and the Supervisory Board have committed themselves to managing and controlling Kontron AG and its subsidiaries in a responsible way. The value-based principles of proper business management constitute an essential component of these policies. In their actions, the company and its governing bodies are conscious of the company's role in society and its social responsibility. Social and environmental factors influence the company's success and the company's activities have an impact on people and the environment. The Executive Board and Supervisory Board take this into account when managing and monitoring in the context of the company's interests. The principles laid down in the Corporate Governance Code have been part of Kontron AG's corporate and leadership culture for many years. They facilitate the increasing of value and the strengthening of investor confidence. The foundations of the German Corporate Governance Code are the rules contained in German law pertaining to shares, securities and capital markets, and in the OECD directives on Corporate Governance. The Code becomes effective through the company's voluntary commitment to it. This commitment entails the necessity of justifying any nonconformity with recommendations ("comply or explain").

Fundamentals of the corporate structure

Together with its affiliated companies, Kontron AG forms the Kontron Group. Kontron AG is a stock corporation under Austrian law. Its head offices are in Linz. It has three boards: Annual General Meeting, Supervisory Board and Executive Board. Their duties and powers arise from the Austrian Stock Corporation Act and the Articles of Association of Kontron AG. This includes, in particular, the following duties and powers:

- › The shareholders exercise their rights as owners of the company at the Annual General Meeting. This includes, in particular, the appropriation of profits, the election of the members of the Supervisory Board and the discharge of the Executive Board and the Supervisory Board as well as any capital resolutions and the remuneration policy for the Executive Board and the Supervisory Board as well as the annual remuneration report for the Executive Board and the Supervisory Board. The Chair of the Supervisory Board, or her



deputy if she is unable to attend, chairs the Annual General Meeting and is responsible for ensuring that the Meeting runs smoothly and for an appropriate length of time, while taking shareholders' interests into account. One share in Kontron AG entitles the holder to one vote. No special rights are granted to particular shareholders or classes of shares.

- › The Supervisory Board appoints the members of the Executive Board and is entitled to ask them to stand down at any time if there is just cause for doing so. For particular significant business transactions, the Executive Board is required either by law, the Articles of Association of Kontron AG or the internal by-laws of the Executive Board or the Supervisory Board to seek the approval of the Supervisory Board. However, the Supervisory Board is not entitled to take any management measures. The close cooperation between the Executive Board and the Supervisory Board is called the dual management system.
- › The Executive Board manages the company independently. The Supervisory Board exercises a supervisory and advisory function. The Executive Board reports to the Supervisory Board and supplies it with regular, prompt and complete information in accordance with the principles of conscientious and accurate reporting, pertinent legislation and the reporting directives laid down by the Supervisory Board.

Executive Board

The Executive Board manages the company independently and in the best interests of the company with the aim of sustainable value creation. This includes taking account of the interests and wellbeing of shareholders, employees, customers and suppliers and all other groups with some connection with the company (stakeholders).

§ 7 Paragraph 1 of the Articles of Association stipulates that the Executive Board of Kontron AG consists of a minimum of one and a maximum of seven members. The exact number of members within these parameters is determined by the Supervisory Board. As of December 31, 2022, the Executive Board consisted of the following four members:

- › Dipl.-Ing. Hannes Niederhauser, born November 25, 1962, CEO/Chair of the Executive Board: Overall Strategy, Research and Technology Development, Corporate Development, M&A, Corporate Communications, Internal IT, coordination of the individual Executive Board remits and representation of the Executive Board to the Supervisory Board;
- › Dr. Clemens Billek, born May 19, 1980, CCO (from May 2, 2022) and CFO (from October 1, 2022): Accounting & Taxes, Controlling, Legal & Compliance, Treasury & Finance, IR & Corporate Marketing, Environmental Social Governance (ESG) and Internal Audit;
- › Dipl.-Ing. Michael Riegert, born July 9, 1963, COO: Overall responsibility for Operations, Production, Purchasing & Logistics, Sales and for the Industrial division (excluding CEE), which he also heads at operational level;
- › Dr. Peter Sturz, born October 31, 1958, COO CEE: Kontron's business in Eastern Europe and the IT & IoT Services division, which he also heads at operational level.

With effect from October 1, 2022, the Supervisory Board appointed Dr. Clemens Billek as CFO of Kontron AG as successor to Mr. Richard Neuwirth. Mr. Richard Neuwirth and Mr. Michael Jeske resigned their positions on the board with effect from September 30, 2022 as part of the "Focus" transaction.

The Executive Board reaches decisions together with the management of Kontron AG, determines the strategic orientation of the Kontron Group, coordinates it with the Supervisory Board and carries it out. Together with the Supervisory Board, the Executive Board is responsible for long-term succession planning. Potential candidates for the Executive Board require not only appropriate professional qualifications for the duties they are to assume, but also the necessary leadership qualities and international experience. Appointment to the Executive Board of Kontron AG, and in most cases renewal of a seat on it, is for a maximum of three years. The Supervisory Board generally decides whether to renew a position on the Executive Board six months before it is due to expire. No fixed aged limit has been set: membership of the Executive Board usually ends once the member reaches retirement age, which in Austria is currently 60 years for

women and 65 years for men. With regard to the composition of the Executive Board, the Supervisory Board has introduced a diversity scheme which also takes account of recommendations in the German Corporate Governance Code. The aim here is to increase diversity on the Supervisory Board as well as on the Executive Board and in management positions. When a new member of the Executive Board is appointed, Kontron AG's compliance officer informs the new member of the essential parameters relating to performance of the duties involved, the by-laws to be observed, the internal policies and directives, the legal framework and the Corporate Governance Code. As of December 31, 2022, membership of the Executive Board at Kontron AG is not yet in line with the diversity scheme since it includes no women. Based on his extensive knowledge in the areas of Capital Markets, Corporate Finance and Legal & Compliance, Dr. Clemens Billek was given preference by the Nomination Committee and the Supervisory Board for this Executive Board appointment. For future new appointments, the Supervisory Board should take greater account of diversity on the Executive Board.

The Executive Board also ensures compliance with legal requirements and the implementation of the company's internal guidelines together with the central functions. The Executive Board is responsible for implementing appropriate risk management and risk control throughout the company. To this end, a new internal control system was introduced at the end of 2020 along with the accompanying documentation. This system is based on the internationally recognised COSO framework. Adherence to this system and to all other legal and internal requirements is monitored by the Kontron Group internal Audit Committee. The essential outlines of the internal control system and the risk management system are described each year in the Kontron AG Management Report. The internal control system and the processes defined also cover risks and goals relating to sustainability.

The risks and opportunities for the company that are associated with social and environmental factors as well as the environmental and social effects of company activities are systematically identified and assessed by the Executive Board. In addition to long-term economic targets, environmental and social goals should also be sufficiently considered and enshrined in the corporate strategy. Corporate planning should include appropriate financial and sustainability-related goals. In the social area, Kontron AG is targeting a group-wide increase in the proportion of female employees (currently 28.7%) by at least 20% by 2030 as part of "Vision 2030"; the share of women in management positions is to be raised to the same level by 2030. To attract, retain, and train key employees for leadership positions, annual training will be strengthened and training hours will be increased by at least 20% (FY 2022: 18.37h/FTE). The overarching environmental goal is to halve the Kontron Group's CO₂ consumption by 2030, beyond which further environmental targets will be defined on a site-specific basis.

Members of the Executive Board are obliged to uphold and represent the interests of the company. Decisions they make must not serve their personal interests where these conflict with the activities of the Kontron Group, and they are debarred in particular from pursuing any business opportunities to which their employer would be entitled. They are permitted to assume additional responsibilities or positions, for example on the management or Supervisory Boards of companies outside the Kontron Group or relevant holdings, solely with the permission of the Executive Board Nomination Committee. This is laid down under the terms of labour in the Executive Board members' service contracts in the form of a comprehensive non-competition clause.

With the approval of the Supervisory Board, the Executive Board has endowed itself with by-laws and an organisational chart allocating various responsibilities among the members of the Executive Board. The Board of Management's rules of procedure also set out the principle of joint responsibility of the Executive Board as well as cooperation with the Supervisory Board. The Executive Board members keep the Chair of the Executive Board and the other members regularly informed about important activities and the development of business in their particular department. The Chair of the Executive Board coordinates developments in the individual areas of responsibility of the Board members with the company's overall targets and projects.

Meetings of the Executive Board are convened and chaired by the Chair of the Executive Board. If the Chair of the Executive Board is unavailable, he is represented by the deputy Chair. Whenever appropriate, associate members of the Executive Board or members of the Extended Management Team are asked to join the meetings. Resolutions of the Executive Board are passed either by the members in physical attendance at the Board meetings, in video conferences or by resolution in circulation.

In dealings with the Supervisory Board the Executive Board is represented by the Chair of the Executive Board or, in his absence, by his deputy. The latter maintains regular contacts with the Chair of the Supervisory Board and furnishes her with prompt reports on all relevant issues. The Supervisory Board has passed resolutions stipulating in the by-laws of the Executive Board that the Supervisory Board's approval is required for business transactions of fundamental importance. In reporting to the Supervisory Board, the Executive Board observes the principle of regular, timely and full information, especially with respect to the development of the business and deviations from the underlying plans, and to the risk situation, risk management and compliance.

In his capacity as a representative of the company, the Chair of the Executive Board provides his shareholders with frequent and detailed information – far beyond what is required by law. One of the most important principles of Kontron AG's capital market communication is to inform institutional investors, private shareholders, financial analysts, employees and all other interest groups simultaneously and

comprehensively about the company's situation through regular, open and up-to-date communication. In doing so, Kontron AG strictly follows the applicable legislation and the requirement of equal treatment of all shareholders: All the information and presentations received by financial analysts and investors, for example, are also immediately made available to all these interest groups in German and/or English.

A central component of investor relations work at Kontron AG is regular discussions and meetings with analysts and investors in the form of conferences, road shows and one-on-one meetings. Telephone conferences (earnings calls) are held in conjunction with the publication of quarterly and annual results, enabling analysts, investors or other interested parties to ask questions directly about the current development of the company. Company presentations are always available to all interest groups on the company's website.

Kontron AG's corporate website <https://www.kontron.com> serves as a central platform for providing up-to-date information about the company and its progress. The Kontron AG investor relations website <https://ir.kontron.com> also provides access to financial reports (annual reports, interim reports and announcements), current presentations from analyst and investor conferences, as well as press releases and ad-hoc announcements from the company. The dates of the main recurring publications and events (Annual General Meetings, press and analysts' conferences) are published in the corporate financial calendar at the beginning of each year and regularly updated. Quarterly financial bulletins and half-year reports including a detailed presentation of investors are available on the website <https://ir.kontron.com> under the section "Reports", not just for analysts, but for all shareholders of the company.

With respect to remuneration of the Executive Board, the Supervisory Board, in conjunction with the Remuneration Committee, drew up the remuneration policy for the Executive Board and submitted it to the company shareholders at the Annual General Meeting on June 8, 2021, to be voted on. The Supervisory Board subsequently implemented the content of this amended remuneration policy which includes the overall target remunerations as well as the corresponding short-, mid- and long-term incentives and other benefits, such as a company car. This new remuneration policy also increasingly incorporates non-financial, medium-term objectives in line with the company's ESG tier scheme. Details of the benefits granted and received are published annually in the remuneration tables contained in the annual accounts. No private pension plan was taken out for any member of the Executive Board and no special agreements exist relating to benefits due following termination of contracts. Assumption of additional positions within the company does not give rise to any additional compensation. In accordance with the legal requirements, the Remuneration Report for financial year 2022 will be submitted to the next Annual General Meeting for approval on May 22, 2023.

The Supervisory Board

The Supervisory Board has the task of supervising and advising the Executive Board in the management of Kontron AG. In accordance with § 9 Paragraph 1 of the Articles of Association of Kontron AG, the Supervisory Board consists of three to five shareholder representatives who are elected by the Annual General Meeting. No employee representatives currently have a seat on the Supervisory Board of Kontron AG. The members of the Supervisory Board are elected by the Annual General Meeting on the basis of resolutions proposed by the company boards or by motions tabled on the initiative of shareholders. When new members of the Supervisory Board are proposed, the Supervisory Board ensures that following the election it, as a collegial body, possesses the knowledge, skills and professional experience required for the proper performance of its duties. The Supervisory Board has defined specific targets with regard to its composition, adopted a diversity scheme and drawn up a qualifications profile. In its role as a supervisory and advisory body, the Supervisory Board attaches particular importance to addressing sustainability issues and has encouraged the Executive Board to take these into account in corporate objectives. The Executive Board has defined appropriate ESG goals. Any connections to related companies or shareholders of Kontron AG are disclosed at the Annual General Meeting. In addition, diversity and the defined targets are taken into account. As of December 31, 2022, the Supervisory Board of Kontron AG consists of the following members:

- › Ms. Claudia Badstöber, born February 3, 1968, Chair of the Supervisory Board
- › Mr. Bernhard Chwatal, born October 12, 1970, Deputy Chair of the Supervisory Board
- › Mr. Fu-Chuan Chu (Steve Chu), born June 18, 1962, Member of the Supervisory Board
- › Mr. Joseph John Fijak, born June 22, 1961, Member of the Supervisory Board
- › Ms. You-Mei Wu (Yolanda Wu), born July 10, 1964, Member of the Supervisory Board

Claudia Badstöber and Bernhard Chwatal are proven financial experts who have served as auditors and tax consultants for international corporations or as CFOs for international corporations. Ms. Yolanda Wu is also a proven financial expert, having worked as CFO of Ennoconn Corporation and as a director at the Financial Market Supervisory Authority in Taiwan. The Supervisory Board currently includes

two members (Ms. Badstöber, Chair of the Supervisory Board with casting vote right according to the Articles of Association of Kontron AG, and Mr. Chwatal, Deputy Chair of the Supervisory Board) who, by virtue of direct ownership of 1,992 shares (Ms. Badstöber) and 0 shares in Kontron AG (Mr. Chwatal) and indirect ownership of 416,219 shares in Kontron AG (Ms. Badstöber as Managing Director of Austro Holding GmbH and grosso holding gesellschaft mbH) are independent members of the Supervisory Board. The other members of the Supervisory Board, Mr. Steve Chu and Mr. Joseph John Fijak, are proven industry and financial experts and have many years of management experience in large technology companies. The Supervisory Board members Mr. Steve Chu, Mr. Joseph John Fijak and Ms. Yolanda Wu each have or have had a business relationship with Kontron AG shareholder Ennoconn Corporation, which holds 27.64% of the voting shares in Kontron AG. Ms. Yolanda Wu worked for Ennoconn Corporation until August 31, 2022. With a current share of 40% women on the Supervisory Board, the diversity target for the Supervisory Board in terms of the share of women in the Kontron Group was achieved in 2022. Neither the Chair of the Supervisory Board nor any other member of the Supervisory Board has ever served on the Executive Board of Kontron AG.

The competencies of the Supervisory Board of Kontron AG are summarised in the following quality matrix:

Competence Profile

ORGAN	MS. CLAUDIA BADSTÖBER	MR. BERNHARD CHWATAL	MR. FU-CHUAN CHU (STEVE CHU)	MR. JOSEPH JOHN FIJAK	MS. YOU-MEI WU (YOLANDA WU)
Function	Chair of the Supervisory Board	Deputy Chair	Member	Member	Member
Independence	independent	independent	Connection with shareholder Ennoconn Corp.	Connection with shareholder Ennoconn Corp.	Connection with shareholder Ennoconn Corp.
Controll- and Risikmanagement	X	X			X
Accounting	X	X			X
Audit (including Sustainability Reporting)	X	X			X
Industry Know-how		X	X	X	
Sustainability issues	X	X	X	X	
Compliance	X				X

X > Competencies and professional experience in the field

The Supervisory Board is consulted on all decisions with relevance to Kontron AG. The Supervisory Board appoints the members of the Executive Board and determines their remuneration. In the event that there is just cause for doing so under the terms of the Austrian Stock Corporation Act, the Supervisory Board can cancel the appointment of a member to the Executive Board. Members of the Executive Board of Kontron AG are obliged to uphold and represent the interests of the company. Their decisions must not serve their personal interests and they are not permitted to pursue any business opportunities to which the company is entitled. The members of the Supervisory Board are obliged to inform the Executive Board of any conflicts of interest, especially those that may arise from their membership of boards of suppliers, e.g. Ennoconn Corporation. If such a case arises, the Supervisory Board member concerned does not take part in votes pertaining to relevant topics.

The members of the Supervisory Board of Kontron AG must ensure that they have sufficient time to properly perform their duties on the Supervisory Board. Consequently, no member shall accept a position on no more than three supervisory boards of listed companies outside the Kontron Group or in supervisory bodies that make comparable demands on their time. When a new member of the Executive Board is appointed, Kontron AG's Compliance Officer informs the new member of the essential parameters relating to performance of the duties involved, especially the Kontron Code of Conduct, the Corporate Governance Code and personal obligations to cooperate in the event of issues resulting in an obligation to report or requiring the approval of the Supervisory Board.

Regarding operating principles of the Supervisory Board: at the constituent meeting, the elected members of the Supervisory Board of

Kontron AG elect the chairperson and deputy chair from among its members. At the same meeting, the members decide on the affiliated committees and choose the members of these. The following committees have been set up at Kontron AG to ensure efficient operations:

- › Audit Committee
- › Nomination Committee
- › Remuneration Committee

The Supervisory Board of Kontron AG holds at least four meetings per calendar year. In addition, at least two meetings of the Audit Committee are held. Further, the Supervisory Board meets without the Executive Board whenever circumstances require. The main topics dealt with at the meetings each year are summarised in the Supervisory Board's annual reports: The Chair of the Supervisory Board coordinates the work of the Board, convenes its meetings and presides over them. The same applies to the Chair of the Audit Committee. The Chair of the Supervisory Board represents the interests of the Board externally and represents the Supervisory Board in its dealings with the Executive Board. This also includes contacts with investors providing the issues dealt with do not relate to operative management of the business, but to the annual audit, corporate governance or compliance, for example. The Supervisory Board constitutes a quorum if all the members were invited to a meeting at least one week in advance and if at least three of its members participate in the vote. Resolutions in the Supervisory Board are generally passed by a simple majority of the votes cast. If an equal number of votes for and against a proposal has been cast, the Chair of the Supervisory Board has the casting vote ("casting vote right").

The resolutions of the Supervisory Board and its committees are regularly passed in the corresponding meetings. These either take place in the company offices in Linz or Vienna with the members attending in person or as virtual meetings with a two-way visual and audio connection. Any member of the Supervisory Board unable to attend a meeting can vote by appointing a proxy who either casts the absent member's written vote during the meeting or has been given written authorisation by that member to vote on his or her behalf. This also applies to casting the second vote of the Chair of the Supervisory Board. In addition, resolutions adopted on certain topics are passed in writing by circular letter. The Supervisory Board's resolutions and meetings are recorded in minutes which are signed by the person who chaired the meeting. The Supervisory Board can invite experts such as accountants, lawyers or persons able to provide specific information to its meetings when particular topics are on the agenda. If necessary, the Supervisory Board meets without the Executive Board.

The composition of the Supervisory Board and its committees complies with applicable legislation, the Articles of Association and rules of procedure as well as principles of corporate governance, especially with regard to the professional qualifications of the members.

- › The Chair of the Supervisory Board, Ms. Claudia Badstöber, is also Chair of the Nomination Committee and the Remuneration Committee.
- › In accordance with the requirements of the Corporate Governance Code, the Audit Committee is not chaired by the Chair of the Supervisory Board, but by Mr. Bernhard Chwatal.
- › The Audit Committee, Nomination Committee and Remuneration Committee each consist of three members, the majority of whom are independent members.

The Supervisory Board has adopted regulations for the rules of procedure for the work of the Supervisory Board and its committees. The committees only have a quorum if all their members participate. Resolutions of the committees are passed with a simple majority subject to legislation to the contrary.

The responsibilities of the Audit Committee include monitoring the financial reporting process, the audit of the consolidated financial statements and individual financial statements by the independent auditor, ensuring the efficacy of the internal control system and the risk management system and putting forward a recommendation for the proposed annual auditor to be submitted to the Annual General Meeting. The Audit Committee prepares the vote of the Supervisory Board on the annual report and the consolidated financial statements. Additionally, the Audit Committee is responsible for supervising the auditing system and compliance as well as examining and supervising any actions that may be necessary relating to possible neglect of duty on the part of members of the Executive Board as preparation for adoption of a resolution by the Supervisory Board. If necessary, the auditor informs the Chair of the Audit Committee outside formal meetings about particular circumstances that may have arisen, risks that have been identified or changes in legislation. In accordance with the regulations of the German Corporate Governance Code, the Chair of the Audit Committee is independent and not a former member of the Executive Board of the company. Mr. Chwatal has particular knowledge and experience of applying financial reporting principles and internal control procedures.

The Audit Committee was in regular contact with the auditors in financial year 2022. Apart from the audit results, discussions held in the

context of appointing the new auditor at the Annual General Meeting on May 6, 2022, centred particularly on the assessment of audit risk, the audit strategy and the audit planning.

THE AUDIT COMMITTEE MEMBERS	POSITION	INDEPENDENCE
Mr. Bernhard Chwatal	Chair	independent
Ms. Claudia Badstöber	Deputy Chair	independent
Ms. You-Mei Wu (Yolanda Wu)	Member	Connection with shareholder Ennoconn Corp.

The Nomination Committee prepares the decisions of the Supervisory Board relating to the appointment and, if necessary, dismissal of members of the Executive Board and is responsible for the long-term succession planning in association with the Supervisory Board and the Executive Board. In addition, the Nomination Committee, in consultation with the Remuneration Committee, prepares the decisions of the Supervisory Board relating to the remuneration, regular review of the remuneration system and the Remuneration Report to the Annual General Meeting. The Remuneration Committee is responsible for remunerating members of the Executive Board, concluding, amending and cancelling employment contracts with members of the Executive Board and preparing and concluding other contracts with members of the Executive Board wherever necessary. In particular, this includes granting loans to members of the Executive Board, which are only granted in exceptional circumstances, concluding certain contracts with members of the Supervisory Board, taking account of related persons or companies, and approving additional positions taken on by members of the Executive Board, especially positions accepted on the boards of companies outside the Kontron Group.

THE NOMINATION COMMITTEE MEMBERS	POSITION	INDEPENDENCE
Ms. Claudia Badstöber	Chair	independent
Mr. Bernhard Chwatal	Deputy Chair	independent
Ms. You-Mei Wu (Yolanda Wu)	Member	Connection with shareholder Ennoconn Corp.

REMUNERATION COMMITTEE MEMBERS	POSITION	INDEPENDENCE
Ms. Claudia Badstöber	Chair	independent
Mr. Bernhard Chwatal	Deputy Chair	independent
Ms. You-Mei Wu (Yolanda Wu)	Member	Connection with shareholder Ennoconn Corp.

The Supervisory Board regularly reviews the efficiency of its activities. To this end, discussions take place within the Supervisory Board and one-to-one discussions are held with the Chair of the Supervisory Board.

The Supervisory Board arrived at the following self-assessment as of December 31, 2022:

- › According to the assessment of the Supervisory Board, its composition as of December 31, 2022, meets the membership targets set out above with the exception of the independence of the three members with business relationships with Ennoconn Corp., contrary to recommendation C.II.C.7. Ennoconn Corp. is to be regarded as the controlling shareholder, and this circumstance achieves compliance with the recommendation that the Supervisory Board has two independent members. However, the total number of members of the Supervisory Board – five – does not meet the recommendation.
- › In line with the recommendation, information regarding professions practised and seats held on other Supervisory Boards to be constituted in accordance with legislation is disclosed on the company website. This reveals that the Supervisory Board is composed of a diverse range of members, including financial experts and branch experts, and possesses the requisite experience of supervising international corporations. Apart from the three representatives of Ennoconn Corp., the Deputy Chair of the Supervisory Board also has many years of experience in the field of future-oriented communications and security thanks to his work as an entrepreneur in the telecommunications sector, and can therefore be regarded as an industry expert. Furthermore, the Chair of the Supervisory Board is a proven financial expert thanks to her experience in tax consultancy and auditing and her previous position as CFO of a private bank, as are Ms. Yolanda Wu as CFO of Ennoconn Corp. and Mr. Chwatal due to his work with auditing companies and as a restructuring manager.
- › As of the reporting date, the Supervisory Board comprised two women (40%) and three men (60%). According to applicable legislation in Austria, Kontron AG is not subject to a mandatory quota for women. The election of Ms. Yolanda Wu met the target of filling the next vacancy with a woman, thus achieving a 40% share of women on the Supervisory Board, which is higher than the average for the Kontron AG workforce.
- › It is the view of Kontron AG that a statutory particular age limit for members of the Supervisory Board as stipulated in Principle 11 Recommendation C.2. is neither helpful nor appropriate. Kontron AG holds the qualifications of a candidate to be more important than the recommended age limit. As of December 31, 2022, the longest period of membership of the Supervisory Board is nine years. Details of each member's length of membership are given below. No member of the Supervisory Board has served on it for longer than 12 years or is a close relative of a member of the Executive Board.

Composition of the Supervisory Board until the end of the ordinary annual general meeting 2022

BOARD MEMBER	POSITION	INITIAL APPOINTMENT	END OF TERM	INDEPENDENCE
Ms. Claudia Badstöber	Chair of the Supervisory Board	June 16, 2020	AGM 2025	independent
Mr. Bernhard Chwatal	Deputy Chair	May 17, 2013	AGM 2023	independent
Mr. Fu-Chuan Chu (Steve Chu)	Member	June 27, 2017	AGM 2022	Connection with shareholder Ennoconn Corp.
Mr. Hui-Feng Wu (Ed Wu)	Member	June 27, 2017	AGM 2022	Connection with shareholder Ennoconn Corp.
Ms. You-Mei Wu (Yolanda Wu)	Member	June 8, 2021	AGM 2026	Connection with shareholder Ennoconn Corp.

Composition of the Supervisory Board from the end of the ordinary annual general meeting 2022

BOARD MEMBER	POSITION	INITIAL APPOINTMENT	END OF TERM	INDEPENDENCE
Ms. Claudia Badstöber	Chair of the Supervisory Board	June 16, 2020	AGM 2025	independent
Mr. Bernhard Chwatal	Deputy Chair	May 17, 2013	AGM 2023	independent
Mr. Fu-Chuan Chu (Steve Chu)	Member	June 27, 2017	AGM 2027	Connection with shareholder Ennoconn Corp.
Mr. Joseph John Fijak	Member	May 6, 2022	AGM 2027	Connection with shareholder Ennoconn Corp.
Ms. You-Mei Wu (Yolanda Wu)	Member	June 8, 2021	AGM 2026	Connection with shareholder Ennoconn Corp.

Supervisory Board Meetings

BOARD MEMBER	POSITION	10/01/2022	27/01/2022	18/03/2022	06/05/2022	11/07/2022	09/08/2022	10/08/2022	06/09/2022	28/09/2022	07/12/2022
Ms. Claudia Badstöber	Supervisory Board Chair	P	P	P	P	P	P	P	P	P	P
Mr. Bernhard Chwatal	Deputy Chair	P	P	P	P	P	P	P	P	P	P
Mr. Fu-Chuan Chu (Steve Chu)	Member	V	V	V	V	V	V	V	V	V	V
Mr. Joseph John Fijak	Member	n/a	n/a	n/a	V	V	V	V	V	V	V
Mr. Hui-Feng Wu (Ed Wu)	Member	V	V	V	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ms. You-Mei Wu (Yolanda Wu)	Member	V	V	V	V	V	V	V	V	V	V

P > Present in person | V > Video/telephone conference or proxy | n/a > not yet or no longer a member of the Supervisory Board

Meetings of the Audit Committee

BOARD MEMBER	POSITION	18/03/2022	07/12/2022
Mr. Bernhard Chwatal	Chair	P	P
Ms. Claudia Badstöber	Deputy Chair	P	P
Ms. You-Mei Wu (Yolanda Wu)	Member	V	V

P > Present in person | V > Video/telephone conference or proxy | n/a > not yet or no longer a member of the Supervisory Board

Meetings of the Nomination and Remuneration Committees

BOARD MEMBER	POSITION	17/01/2022	07/02/2022	09/03/2022	02/11/2022
Ms. Claudia Badstöber	Chair	P	P	P	P
Mr. Bernhard Chwatal	Deputy Chair	P	P	P	P
Ms. You-Mei Wu (Yolanda Wu)	Member	V	V	V	V

P > Present in person | V > Video/telephone conference or proxy | n/a > not yet or no longer a member of the Supervisory Board

Shares owned by members of corporate institutions

As of December 31, 2022, the Executive Board and Supervisory Board hold the following number of shares, stock options and warrants. The shares held (including shares held indirectly) represent around 7.15% of the company's share capital.

BOARD MEMBER	POSITION	NUMBER OF SHARES	NUMBER OF STOCK OPTIONS	NUMBER OF WARRANTS 2020
Ms. Claudia Badstöber*	Chair of the Supervisory Board	418,211	0	0
Mr. Bernhard Chwatal	Deputy Chair of the Supervisory Board	0	0	0
Mr. Fu-Chuan Chu (Steve Chu)	Member of the Supervisory Board	0	0	0
Mr. Joseph John Fijak	Member of the Supervisory Board	0	0	0
Ms. You-Mei Wu (Yolanda Wu)	Member of the Supervisory Board	0	0	0
Mr. Hannes Niederhauser**	CEO	4,117,533	532,000	645,294
Dr. Clemens Billek	CFO	0	200,000	0
Mr. Michael Riegert	COO	10,625	215,000	151,000
Dr. Peter Sturz	COO	8,833	140,000	211,000

*1,992 shares held directly; 416,219 shares held indirectly as managing director of Austro Holding GmbH and grosso holding Gesellschaft mbH

**1,366,629 shares held directly; 2,750,904 shares held indirectly as 47.5% owner of grosso tec AG

Linz, March 2023

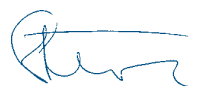
The Executive Board of Kontron AG



Dipl.-Ing. Hannes Niederhauser



Dr. Clemens Billek



Dr. Peter Sturz



Dipl.-Ing. Michael Riegert

THE KONTRON SHARE

Although the Kontron share rallied at the start of 2022 after a fall in December 2021, it suffered renewed losses – as did the market overall – following the outbreak of the war in Ukraine at the end of February 2022. On March 8, 2022, the year-low price of EUR 11.46 per share was reached. The result of a forensic investigation carried out by Deloitte into the points raised in a sell recommendation in December 2021 was published on March 15, 2022. The allegations made were refuted in every salient respect. The findings of the Deloitte examination and significant share purchases by the Executive Board and Supervisory Board in the first few months of the financial year helped to strengthen shareholders' confidence in the share. Following the initial moderate recovery, the share reached its annual high of EUR 18.40 in April and then levelled off at around EUR 16. Volatility remained high for the rest of the year, with the share hovering steadily around the EUR 16 mark.

As a result of perceived market uncertainties, trading volumes declined significantly from May. As a result, the Kontron AG share left the TecDAX® in the third quarter of 2022.

The "Focus" project – the sale of large parts of the IT services business – is strategically important for Kontron and was concluded on December 29, 2022. Market reaction was initially negligible; the share ended the financial year 2022 at EUR 15.29, which represents an increase of 4.3% compared to the end of 2021. In the same period, the TecDAX® fell by around 25.5%, while the SDAX® fell by around 27.2%. In the financial year 2022, the Kontron AG share continued to be listed in the SDAX® of the German Stock Exchange. During the year, 86.16 million shares were traded with a revenue of around EUR 1.317 billion, compared with 70.83 million shares with a revenue of EUR 1.395 million in the previous year.

	31.12.2022	31.12.2021	CHANGE IN %
SDAX® (points)	11,925	16,415	-27.2%
TecDAX® (points)	2,921	3,920	-25.5%
Kontron AG (EUR)	15.29	14.66	4.3%

The Kontron share started 2023 very brightly, the price rising in the first weeks of the year. On February 9, 2023, the share reached its highest level for 2023 so far, EUR 20.80, and then levelled off at around EUR 18.00.

The development of the share price has fluctuated in past years as well. It followed an upward trajectory from the beginning of 2016 to September 2018, and the acquisition of Kontron AG in October 2016 had a particularly positive effect at that time. As a result of a general decline in the price of technology stocks, the share price dipped from November 2018 to end the last quarter of that year at EUR 15.81. During 2019, the share price fluctuated between EUR 17 and EUR 19, influenced by volatile developments on the capital markets. In 2020, driven by uncertainties in connection with the SARS-CoV-2 virus that first broke out in China, the share price fell gradually from the end of February 2020 and, following the announcement of the first lockdown affecting the whole of Europe in mid-March, plunged like most shares and indices to a low for the year of EUR 13.20. The share price recovered steadily during the months that followed.

Overall, it can be observed for the period from 2016 to 2022 that despite positive future prospects for the company, an increase in revenues from EUR 503.7 million in 2016 to EUR 1,483.5 million (incl. Discontinued Operations) and EUR 1,096.1 million (from Continuing Operations) in 2022 and an increase in EBITDA in the same period from EUR 34.4 million to EUR 109.5 million (from Continuing Operations, adjusted for extraordinary effects), and the increase in earnings per share from EUR 0.33 in 2016 to EUR 3.65 (including proceeds from the "Focus" project) in 2022, the development of the Kontron AG share lagged behind the operating development.

DEVELOPMENT 2016–2022	2016	2017	2018	2019	2020	2021	2022 ¹⁾
Revenues in EUR million	503.7	882.0	990.0	1,122.9	1,254.8	1,342.0	1,096.1
EBITDA in EUR million	34.4	68.1	90.5	111.7	130.0	126.3	109.5 ²⁾
EBITDA margin in %	6.8	7.7	9.1	9.9	10.4	9.4	10.0 ²⁾
EPS in EUR	0.33	0.43	0.70	0.75	0.86	0.75	3.65 ³⁾
XETRA closing price in EUR	8.70	17.99	15.81	21.28	19.30	14.66	15.29
PER	26.36	41.83	22.58	28.37	22.44	19.55	4.19

1) Continued operations (excl. Discontinued operations)

2) Adjusted EBITDA and adjusted EBITDA margin, adjusted for extraordinary effects relating to the sale of the IT service companies and the realignment of the Group.

3) EPS including proceeds from the "Focus" project

Capital market communication

The Executive Board and the Investor Relations department remained in regular contact with interested investors in the financial year 2022 by means of three roadshows, ten conferences and various on-site visits and video or telephone conferences. A total of 252 investor meetings were held (PY: 456); the reduced number was due to the more time-consuming personal on-site meetings. In addition, there was an intensive exchange with the covering analysts of Kontron AG throughout 2022 as well as a Capital Market Day organised by Kontron on August 31, 2022, which was attended remotely by more than 100 investors. The event focused on the strategic repositioning of the Kontron Group as a pure IoT player. After an analysis of the market environment and competitors, CEO Hannes Niederhauser presented the new Kontron business model with its eight newly defined divisions – Software Solutions, Transportation, Industrial IoT, Communications, Services, Americas and Asia. Clemens Billek introduced himself to Kontron shareholders as the new CFO of the Kontron Group and spoke, among other things, about key strategic topics in the financial sector and initiatives relating to compliance and ESG such as simplifying the Group structure and rebranding Kontron against the background of the repositioning. In 2022, roadshows focused on Germany, Austria, France, the United Kingdom, Sweden and the United States, with around half held as online events. Kontron AG was invited to the following conferences in 2022:

- › German Corporate Conference of UniCredit and Kepler Cheuvreux in January 2022, virtual
- › Pareto Securities' German TechITService Conference in March 2022, virtual
- › Jefferies Mid Cap Forum in March 2022, virtual
- › Hauck & Aufhäuser Stockpicker Summit in May 2022, Berlin
- › Spring Conference in May 2022, Frankfurt
- › Commerzbank and ODDO BHF's Annual corporate conference in September 2022, Frankfurt
- › Berenberg and Goldman Sachs Eleventh German Corporate Conference in September 2022, Munich
- › Equity Forum in November 2022, Frankfurt

The Executive Board of Kontron AG also plans to participate in numerous conferences in the financial year 2023 and to continue to engage in intensive dialogue with investors.

As of the end of the financial year 2022, Kontron shares are covered by seven analysts, based on the following recommendations and price targets as of December 31, 2022:

AlsterResearch	Buy	EUR 30.00
Hauck & Aufhäuser	Buy	EUR 27.00
Jefferies	Buy	EUR 24.00
Kepler Cheuvreux	Buy	EUR 24.00
Pareto Securities	Buy	EUR 28.00
Stifel	Buy	EUR 25.50
Warburg Research	Buy	EUR 24.00

Kontron AG's coverage is to be expanded in 2023. Another analyst is expected to start coverage in the first half of the financial year 2023.

Annual General Meeting

On May 6, 2022, the Supervisory Board and Executive Board of Kontron AG welcomed shareholders to the company's 23rd Annual General Meeting. The Annual General Meeting was again held as a virtual meeting, pursuant to § 1 section 2, COVID-19-GesG (Health and Food Safety Act), Austrian Civil Code (BGBI) I no. 16/2020 BGBI as amended I no. 246/2021 and the COVID-19-GesV (Corporate Law), BGBI. II no. 140/2020 BGBI as amended II no. 609/2021. The shareholders represented by proxies represented approximately 52% of the subscribed capital of Kontron AG (2021: approximately 59% of the subscribed capital). All resolutions proposed by the Executive Board were adopted by the majority of votes required. These included, among other things, the decision to rename the company Kontron AG as part of the repositioning (formerly S&T AG) and the withdrawal of 2,465,535 treasury shares which have been acquired since 2019 as part of five buyback programs passed by the Executive Board. Accordingly, the number of Kontron shares issued as of December 31, 2022, amounts to 63,630,568 (December 31, 2021: 66,096,103 shares).

Dividend & Share buybacks

The Executive Board of Kontron AG pursues the successful implementation of its continuous growth strategy as the primary goal of its business policy. The company's dividend policy follows this objective: The Executive Board plans, as a measure of the TTS program, to continue to distribute a total of 50% of net income as a dividend and/or to use it for share buybacks. This target should only be amended in the case of acquisitions as part of M&A activities, which should enable investors to achieve even higher returns.

Based on the increased equity of EUR 633.8 million attributable to shareholders as of December 31, 2022 (PY: EUR 418.6 million), the Executive Board and Supervisory Board of Kontron AG plan to propose a dividend of EUR 1 per share to the shareholders of Kontron AG for resolution at the Annual General Meeting on May 22, 2023.

In addition, part of the profit is to be used for share buybacks. After a total of 2,465,535 Kontron shares were purchased for a total price (excluding incidental expenses) of EUR 47,423,868.04 as part of five treasury share repurchase programs adopted by the Executive Board since 2019 ("Share buyback program 2019", "Share buyback program II 2019", "Share buyback program I 2020", "Share buyback program II 2020", "Share buyback program I 2021"), no share buyback program was carried out in the financial year 2022.

After the balance sheet date, the Executive Board of Kontron AG decided on February 3, 2023, to carry out a new share buyback program ("Share buyback program I 2023") on the basis of an authorising resolution adopted by the Annual General Meeting on May 6, 2022.

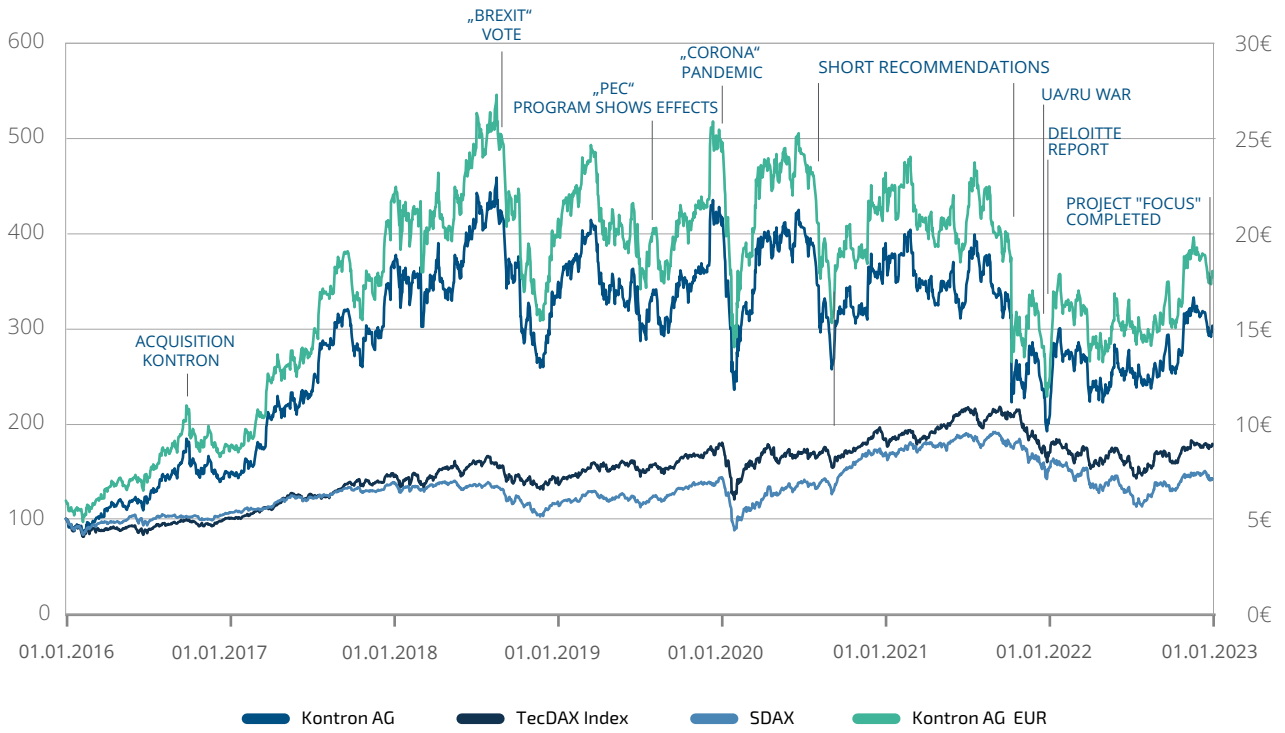
“Share buyback program I 2023” provides for purchases totalling up to EUR 10,000,000 with a maximum price of EUR 20 per share or up to 636,305 shares (1% of the share capital) and runs until August 8, 2023. By March 24, 2023, 281,289 treasury shares had been purchased at the total purchase price excluding incidental expenses of EUR 5,255,074.33.

The key indicators on Kontron shares for 2022 can be summarised as follows:

KEY SHARE INDICATORS 2022

Stock exchange	Frankfurt Stock Exchange
Stock exchange segment	Prime Standard
Index membership	TecDAX® until 3rd quarter 2022 & SDAX®
Securities identification number	A0X9EJ
Stock exchange symbol	KTN (until 1.6.2022: SANT)
ISIN	AT0000A0E9W5
Number of shares 31.12.2022	63,630,568
Number of treasury shares 31.12.2022	0
Price range 1.1. – 31.12.2022	EUR 11.46 – EUR 18.40
XETRA closing price 30.12.2022	EUR 15.29
Average XETRA trading volume per day	168 thousand shares
Market capitalisation 31.12.2022	EUR 972.91 million
Market capitalisation free float 31.12.2022	EUR 592.60 million
Free float 31.12.2022	60.91%
Designated sponsor	Oddo Seydler Bank AG Pareto Securities AS
Analysts as of 31.12.2022	AlsterResearch - Thomas Wissler Hauck & Aufhäuser – Tim Wunderlich Jefferies – Martin Comtesse Kepler Cheuvreux – Patrick Steiner Pareto Securities – Knud Hinkel Stifel – Adrian Pehl Warburg Research – Malte Schaumann

Price development





Supply, installation and maintenance of a private radio system at La Société du Grand Paris

IoT Solutions Europe

La Société du Grand Paris (SGP) and Kontron Transportation signed a 15-year contract for the supply, installation and maintenance of the private radio system for line 18 of the Grand Paris Express network.

Kontron Transportation is responsible for providing the 4G LTE public safety (PS-LTE) radio systems, wireless broadband network infrastructure, on-board devices and mobile terminals needed for the operation and safety of public transport on part of the railway line and the stations on it from Orly to Versailles. The 15-year contract is part of the largest ongoing construction project in Europe to date — with further significant expansion potential.

Kontron Transportation's end-to-end solution, which focuses on mission-critical networks, enables operators of professional mobile radio (PMR) systems to build a reliable and deployable private network. In this way, analogue systems, Terrestrial Trunked Radio networks (TETRA) and/or digital mobile radio networks (DMR) can be replaced by reliable, standardised and affordable PMR technology and highly secure broadband access can be provided for mission-critical digital applications.

MANAGEMENT REPORT

01 Foundations of the Group

Business Model

Kontron AG, based in Linz, Austria, is the top parent company of the Kontron Group, an international provider of Industry 4.0 and Internet of Things technologies. In the past financial year, the Kontron Group has been mainly active in the core markets of the DACH region, Eastern Europe and North America as well as Asia, although its presence in Eastern Europe was significantly reduced following the sale of a large part of its IT services business. In the "IT Services" segment, Kontron AG has directly offered IT services on the Austrian market, although the future focus will also increasingly be on IoT projects and services. The other 23 countries in which Kontron AG operates are covered by subsidiaries. The previous strategy of the Kontron Group as a technology and solution provider and IT system integrator was to continuously adapt to current trends, following customer and market requirements as well as development innovations. In order to increase the value added in the product, solution and service portfolio, the focus is now entirely on the development of proprietary technologies in the hardware and, above all, in the software area. The remaining IT service companies will focus on the interface between IT and IoT services. Furthermore, the company's proprietary technologies are also to be offered as service models (IoTaaS) in the future. Originally, under the name S&T Group, the Kontron Group was primarily positioned as an IT system integrator. Following the sale of the majority of the IT service business, the focus is now on IoT solutions.

In line with the majority of the Kontron Group's portfolio, Kontron was organised into the following segments in the past financial year 2022, which are being adjusted in the course of focusing on IoT solutions:

- › "IT Services": This segment comprised the segments "Services DACH" (Germany, Austria and Switzerland) and "Services EE". Following the completion of the "Focus" project in 2022, involving the divestment of large parts of the "IT Services" segment to fully concentrate the Kontron Group on IoT solutions, the IT companies in Germany, Switzerland, Poland, the Czech Republic, Slovakia, Croatia, Serbia, North Macedonia, Albania and Montenegro were transferred to the Vinci Group on December 29, 2022.
- › "IoT Solutions Europe": In 2022, this segment included the former Kontron "Appliances Security" and "Appliances Smart Energy" segments as well as parts of the Kontron Group. During financial year 2022, further acquisitions in the IoT sector were made through subsidiaries of the Kontron Group to drive the Kontron Group's future growth. The following companies were acquired and assigned to the "IoT Solutions Europe" segment: Lucom GmbH, Fürth, Germany, focused on automation and safety technology; and the public transport division of Kapsch TrafficCom in Spain, bundled in the acquired Arce Mobility Solutions S.A.U., Bilbao, Spain.
- › "IoT Solutions America": In 2022, this segment included in particular the activities of the Kontron Group in North America and was renamed from "Embedded Systems" to "IoT Solutions America" at the beginning of the financial year 2019. Otherwise, there were no changes due to acquisitions or divestments in the "IoT Solutions America" segment in the past financial year.

The financial year 2022 was challenging and was characterised in particular by

- › the war of aggression by Russia in Ukraine, which began at the end of February 2022,
- › the consequent impacts on the commodity markets, which led to significant increases in energy prices as well as a sharp rise in inflation,
- › the scarcity of raw materials and supply chain problems ("chip crisis"), which also affected the Kontron Group,
- › the completion of the "Focus" project involving the sale of a significant part of the "IT Services" segment, and
- › the further development of proprietary technologies, particularly in the software area, and the further synergetic linking of the Kontron Group portfolios.

The range of services offered by the Kontron Group in the past financial year was divided into the following main areas:

- › the development, implementation and marketing of hardware and software solutions and IT services (“IT Services” segment) and
- › the self-developed hardware and software products and solutions for Internet of Things (“IoT”) and Industry 4.0. Applications include the associated implementation and operating services in the vertical markets of industrial automation, medical technology, rail infrastructure, communications and smart energy (“IoT Solutions Europe” and “IoT Solutions America” segment). Most of the underlying technologies were developed in the “IoT Solutions Europe” segment and distributed via the subsidiaries in Europe, North America and Asia, and in some cases also adapted or implemented.

Following the sale of significant parts of the “IT Services” segment to the Vinci Group, which was successfully completed on December 29, 2022, the focus was then turned to the IoT segments in which the future of the Kontron Group lies.

The “IT Services” business segment included all activities of the IT service business, which is divided into two sub-segments Services DACH (Germany, Austria and Switzerland) and Services EE (Poland, Czech Republic, Slovakia, Hungary, Croatia, Serbia, North Macedonia, Albania, Bulgaria, Romania, Belarus, Montenegro and Moldova). In the “IT Services” segment, consulting and sales of hardware and software products from third-party manufacturers, such as Microsoft, SAP, Cisco, HP, Dell/EMC², as well as their implementation and operation, are carried out. Following the completion of the “Focus” project, the companies associated with the “IT Services” segment were sold in Germany, Switzerland, Poland, the Czech Republic, Slovakia, Croatia, Serbia, North Macedonia, Albania and Montenegro. In addition, the Kontron Group withdrew from the Belarusian market in financial year 2022 for strategic reasons. The sale of the IT services companies in Moldova is also to be finalised soon and they are therefore reported under “Discontinued Operations” as of the balance sheet date.

The service portfolio reflected the usual plan-build-run approach of our customers and was mainly divided into the following areas:

- › Planning (Consulting): The focus of the “Planning” division is on consulting services in connection with IT architectures and information security as well as the design of migration scenarios for technology changes. In addition, “planning” also includes project and hardware-independent support such as license management or optimisation. The object here is in particular the determination of the software licenses necessary for the customer’s requirements, the coordination with the customer’s existing compliance requirements, the administration of the usage or license agreements and registrations, as well as the analysis and comparison of the respective fees or license costs. Increasingly, the focus is also on the design of hybrid public/private cloud infrastructures together with Amazon Web Services and Microsoft Azure. Furthermore, scenarios for the changeover to new ERP systems such as SAP HANA or HANA Enterprise Cloud are also developed and prepared in this area.
- › Implementation (Integration): The services provided within the scope of the “Implementation” area include the installation and setup of IT infrastructure components, such as hybrid cloud data centre infrastructures or network security technology. The services related to data centres include the analysis, planning and optimisation of data centres as well as the procurement and implementation of the corresponding hardware and software and cloud services. In addition, the area of “implementation” includes the manufacturer-independent procurement of hardware, the planning and implementation of the rollout, including configuration and go-live. In addition, software development tailored to the customer is carried out to create the appropriate interfaces and integrate the systems.
- › Operation (Outsourcing): “Outsourcing” includes all recurring or long-term IT services that customers outsource to Kontron. This includes, for example, complex maintenance orders including the handling of first and/or second level support as well as the operation of outsourced IT systems or the entire IT infrastructure of a customer. In addition, this area provides data centre services or third-party services in connection with cloud solutions (Software-as-a-Service) for customers in cooperation with Amazon Web Services or Microsoft Azure.

The strategy in the “IT Services” segment was to increase the service share organically and opportunistically, as well as inorganically, and to further reduce low-margin pure hardware sales. The sale of the majority of companies in the “IT Services” segment also changes the objectives for the remaining companies in Austria, Hungary and Romania, which should increasingly provide services at the interface to IoT solutions and also internal services for IoT companies.

In financial year 2022, the "IT Services" business segment achieved external revenues of EUR 221.4 million from continuing operations and EUR 608.9 million including discontinued operations (PY: EUR 219.8 million and EUR 558.8 million).

The focus of the "IoT Solutions Europe" business segment is on the products (proprietary technologies) and solutions developed by the Kontron Group for industrial automation, medical technology, communications, smart energy and public transport markets. The business of the integrated Kontron Group outside North America, for example in Asia, was also reported in this segment. The products and systems that strengthen the Kontron Group portfolio through the acquisition of Kontron are tailor-made hardware and/or software-based special systems that are developed for niches in the aforementioned markets and adapted to customer requirements. From a technological point of view, this includes, for example:

- › The development of standard embedded hardware systems such as boards and modules or embedded computers in various form factors,
- › the customised development of embedded systems such as panel PCs or rack-mount systems, especially for industrial environments,
- › network and communication solutions, both cable, wireless or radio-based, for near-real-time and secure networking, now also on the new 5G mobile standard through the acquisition of the Iskratel Group,
- › security functionalities for embedded systems, e.g. through the Kontron APPROTECT security solution for IP rights protection as well as copy and reverse engineering protection to achieve end-to-end protection,
- › the development of interfaces (APIs) for access to different hardware and software components or
- › the self-developed IoT susietec® software framework as a new software product for connecting and controlling industrial/IoT applications.

Examples of applications include:

- › Solutions for the control of production machines, including the necessary hardware components such as control computers, touch screens, driver developments and BIOS adaptations. Susietec®, Kontron's "application-ready" Internet of Things (IoT) framework, enables customers to create high-quality, customised computing solutions for their diverse work environments and requirements.
- › Embedded cloud computing including special security solutions with which the customer can control his industrial application and process and/or store his data securely in cloud environments (public or private cloud).
- › End-to-end communication solutions for mission-critical networks in the rail sector, based on GSM-R and FRMCS for example, as well as mobility solutions for public transport that cover the entire service value chain by supporting, for example, passenger information systems, network video surveillance, data storage and processing, and train management systems.
- › Hardware-based solutions for the medical technology sector that support artificial intelligence applications and are used, for example, in ventilators, patient monitoring systems and medical technology imaging products such as ultrasound devices, computer tomographs and MRI devices.

In the "IoT Solutions Europe" business segment, external revenues of EUR 745.3 million was achieved in the financial year 2022 (PY: EUR 679.5 million), which meant that this segment was the top segment of the Kontron Group in terms of revenue in the past financial year.

The business segment "IoT Solutions America" included the former business activities of the Kontron Group in the vertical markets of transportation and aviation as well as communications. In 2019, work began to align this segment's traditionally hardware-oriented embedded portfolio with the IoT Solutions business in Europe, although the expiry of legacy contracts and lack of compensation from new business has meant that this segment has remained below expectations in terms of revenue and earnings in recent years. The slump in the aviation industry caused by COVID-19 and the effects of the chip crisis also had a negative impact on this segment in the previous year. In financial year 2022, however, the restructuring of the activities bundled in this segment resulted in a trend reversal and operating revenue growth was achieved, following declines in sales in previous financial years.

Some example areas of application for the solutions of the "IoT Solutions America" segment are:

- › Vehicle automation through the use of a real-time embedded server incl. real-time operating system developed by Kontron, e.g. for professional vehicles in the agricultural sector;
- › The use in carrier-grade and mission-critical communication equipment from third-party suppliers, who get a reliable foundation for their products based on Kontron's Open Communication Platforms (OCP) as well as vRAN (Virtual Radio Access Network).

In the "IoT Solutions America" business segment, external revenues of EUR 129.3 million was achieved in the financial year 2022 (PY: EUR 103.7 million) and therefore significant revenue growth was again recorded in this segment in the past financial year.

In the three business segments, the Kontron Group generated revenues of EUR 1,096.1 million in financial year 2022 from continuing operations, and EUR 1,483.5 million including discontinued operations (PY: EUR 1,002.9 million and EUR 1,342.0 million). This makes the Kontron Group one of the leading players in the industry.

The Kontron Group employed a total of 4,475 people (PY: 6,206 employees) on a full-time equivalence basis as of December 31, 2022, although this figure does not include employees or apprentices who are on training or maternity/paternity leave. The decline is primarily due to the completion of the "Focus" project and the associated transfer of 1,787 employees to the Vinci Group as of December 29, 2022. Based on the yearly average, 42.2% (PY: 38.9%) of employees were in the "IT Services" segment, 53.5% (PY: 56.6%) in the "IoT Solutions Europe" segment and 4.3% (PY: 4.5%) in the "IoT Solutions America" segment. As of the reporting date for the past financial year, the Kontron Group's employees could be broken down into the individual areas as follows:

- › 2,478 employees in the area of Development (research & development and engineering)
- › 209 employees in the area of Hardware-related IT Services
- › 529 employees in the area of Production & Logistics
- › 545 employees in the area of Sales and Marketing
- › 714 employees in the area of Management and Administration

As of the reporting date, Kontron AG is geographically represented in 48 (PY: 78) active direct and indirect fully consolidated subsidiaries in the following 24 (PY: 32) countries: Austria, Belgium, Bulgaria, Canada, China, Czech Republic, France, Germany, Great Britain, Hungary, Kazakhstan, Malaysia, Moldova, North Macedonia, Poland, Portugal, Romania, Russia, Slovenia, Spain, Switzerland, Taiwan, the United States of America, and Uzbekistan.

Within the Group, Kontron AG assumes a holding function for the other Group companies in addition to its operating activities in Austria. While most of the operational business processes of the subsidiaries were defined and controlled locally in 2022, the following were carried out centrally: the control and monitoring of the group processes internal IT, risk management, internal audit, license management, group accounting and group controlling, as well as some of the insurance and financing. Due to the necessary customer interaction or the increasing share of services, the essential business processes are locally oriented. Due to the presence across many European countries, regional customer needs can be covered very well and promptly. Kontron is therefore positioned both as a multinational provider and as a local partner.

The main external factors influencing both the business and business development of Kontron Group are the investment and spending behaviour of companies and public customers. These, in turn, are directly conditioned by financial budgets and their own economic development, as well as non-financial factors such as new technologies or data security, for example. The resulting demand behaviour has a direct influence on Kontron Group's business potential. Cost savings by companies or public customers can have an impact on the Kontron Group in two ways: on the one hand through reduced demand, as new investments or replacement investments are delayed, and on the other hand, through increased demand due to investments to achieve cost reductions through outsourcing or to make cost structures more variable. Topics such as investments to achieve climate goals, for example in public transport, offer further potential for the Kontron Group. In financial year 2022, the global bottlenecks in the production of microchips and electronic components had a negative impact on the Kontron Group's business in the form of logistics problems, in particular for deliveries from China due to its zero-Covid policy, as well as other external factors.

Management system

The unchanged objective of Kontron's management is to sustainably increase the value of the Kontron Group and therefore of Kontron AG. As a result, Kontron plans to increase added value by developing its own technologies and to continuously increase the Group's financial strength through profitable growth. To achieve this strategic goal and measure progress, an internal control system is used.

When managing the Group in 2022, the focus was on the following aspects in particular:

- › Increase in operating profitability (EBITDA) and earnings per share (EPS) which accompany the growth;
- › Optimisation of working capital, especially warehousing, and improvement of both operating and free cash flow;
- › Expansion of market shares in the IoT and embedded systems sectors;
- › Increasing the share of proprietary software in the IoT solutions environment and expanding the IoTaaS portfolio;
- › Initiation and monitoring of strategic or synergetic research and development projects;
- › Regular acquisitions to combine organic with inorganic growth and expand technological know-how.

The relevant key figures on the basis of IFRS accounting are primarily revenue, gross margin and earnings before interest, taxes, depreciation and amortisation (EBITDA), as well as earnings per share (EPS). Liquidity management is based on the key figures net debt, operating cash flow and free cash flow. Apart from managing the equity ratio, the debt-equity ratio is relevant. Since the financial year 2019, an even stronger focus has been placed on working capital, because due to the higher share of revenue of the IoT Solutions business – which is more working capital intensive than the IT services business – and the supply chain problems, the working capital has increased both as an absolute and relative value compared to the revenue of the Kontron Group as a whole. The chip crisis, which increased due to demand following the subsidence of the coronavirus pandemic, led to a further increase in inventory in 2022, in particular due to semi-finished products that could not be delivered due to a lack of components. In the medium term, after the exit from large parts of the IT services area and the associated increase in the share of the working capital-intensive IoT areas in the overall business, the aim is to reduce working capital again.

Revenue and costs are permanently monitored centrally and locally for all areas. Developments are monitored at management level by means of monthly scorecards and quarterly reports so that corrective action can be taken at an early stage if necessary. To this end, 2021 saw the introduction of a new business intelligence tool for key business areas in order to improve and automate ongoing reporting. In addition, the operating income of each company is monitored by a designated member of the executive board as part of regional management. In addition to the development of revenue and order intake, the key indicators for this are personnel costs, EBITDA and operating cash flow. Since financial year 2021, operative cash flow was also introduced as an additional key performance indicator for the remuneration of the Executive Board and local management in order to improve cash conversion. Project controlling, which is used to monitor longer-term project business, ranges from the preparation and approval of bids to project completion. A special Red Flag System continuously monitors critical projects and developments at individual subsidiaries in order to enable Kontron AG, as well as the headquarters of Kontron Group, to take timely action and implement countermeasures.

All cost items in the Kontron Group are subject to regular budget control. In the process, the individual profit and cost centres are checked monthly for compliance with the budgets and forecast costs. The basis for this is a dynamic budget model, with which the essential components of the cost budget remain flexible in relation to the development of revenue and margins. In order to achieve the planned profitability, the cost budget is adjusted as necessary during the year in line with the development of revenue.

As a developer and producer of proprietary technologies, the company's long-term success is based on strategically and technologically relevant acquisitions as well as research and development with the resulting innovations. That is why the product portfolio is continuously being developed. The necessary use of resources is optimised through a combination of technological-strategic acquisitions, collaborations and in-house developments.

The management of liquidity and operating cash flow is significantly influenced by management of receivables. This is operated locally and is subject to internal control processes. Factoring-based financing is used in individual companies to improve the structure of receivables and liquidity as well as reduce customer default risk, with management of receivables remaining with the local Kontron company. While operational cash management is largely carried out locally, strategic cash management and larger financing transactions are mainly managed centrally.

In addition, a new ESG reporting tool was introduced in the past financial year, which regulates the recording and monitoring of ESG-relevant indicators across the Group. This should enable progress in achieving the Kontron Group's ESG goals to be measured in a standardised way in the future and to facilitate reporting in this respect.

Research and development

The development and distribution of self-developed products and solutions was also continued and promoted in 2022. The following research areas and projects provide some examples:

- › In the transportation sector: In line with our global IoT strategy, communication solutions are being developed and implemented for industry, rail and energy (5G technology, vRAN, MCx communication system, FRMCS). In the area of 5G Stand Alone (SA) Industrial Networks, development focuses not only on the transmission of mass data, but also on options for safety-relevant voice communication (MCx) and methods for transmitting critical data streams with high availability and an extremely short running time to control machines and robots (TSN; 2x 5G networks). Functional safety (FuSi), i.e. protecting people from dangers posed by machines, is another area of research and development activity. Intensive work is being carried out on concepts and implementation to equip Kontron Edge Compute platforms with appropriate functions and certifications that allow customers to integrate the Kontron platform into their FuSi application in the shortest possible time.
- › In the rail sector, work is being carried out on radio coexistence concepts that support the efficient use of limited frequency spectra for railway applications. In addition, the topics of “GSM-R/FRMCS Interworking” and “Network Hybridisation” are on the agenda of international research projects, in which Kontron is playing a leading role. The research and development team of the Kontron rail division has lost none of its relevance in the past financial year either: more than 50% of employees work in research and development and related engineering. Investments in research and development also regularly result in patents, which are registered and used for the Group.
- › In the area of industrial automation, the Kontron Automation Group is working on the IoTCommander. The technical goal of this research project is to develop a generic IoT demonstrator with easy integration into a wide variety of applications, both on the hardware and software side, to minimise data traffic and energy consumption between elements. The IoTCommander is intended to intelligently analyse data, make decisions and provide practical proof that Level 5 of the IoT Maturity Model can be achieved.
- › Another research project is “SafeIoT.” This demonstrates the ability of IoT applications away from pure measurement tasks towards the control and regulation of dynamic processes. These include applications in which safety-critical standards must be applied so that there can be no accidents or unforeseen events that are hazardous to the environment. By developing safety-critical system components, IoT applications are used for sensitive and critical areas in industry and medical technology.

Expenditure on research and development as well as engineering amounted to EUR 225.0 million in financial year 2022 (PY: EUR 211.3 million) including discontinued operations; for continuing operations (CO), the figure was EUR 176.4 million, of which development costs of EUR 23.8 million were capitalised in the past financial year (PY: EUR 21.5 million, including DCO). This means that around 15.2% of revenue including DCO (PY: 15.7%) and 16.1% (CO) is invested in research, development and engineering.

02 Economic Report

Kontron Group revenue growth continues to be strong – one-time costs associated with new focus

Following on from the high growth rates shown by the global economy in 2021 due to catch-up effects after the economic slump associated with the COVID-19 pandemic, a number of new challenges led to a tapering of economic growth in 2022. These include in particular the war in Ukraine, the associated energy crisis, as well as the high inflation rates and interest rate hikes to combat inflation. According to the European Commission's winter forecast, economic growth in the euro area and throughout the European Union is 3.5% in both cases after an increase in economic output of 5.3% and 5.4% in the previous year. As in 2021, very different regional growth rates can be observed in the individual countries of the EU in 2022 – particularly in the southern countries (e.g. Greece, Spain, Portugal, Malta), economic output is well above the European average, with growth rates of between 5% and 7% in 2022, as in the previous year.

In Austria, Kontron AG's home market, economic growth of 4.8% in 2022 was at a similar level to 2021 (4.6%) and therefore also above the European average. In Germany, the Kontron Group's most important sales market, gross domestic product growth in 2022 amounted to 1.8% compared to the previous year's figure of 2.6% and therefore remained below the European average. In countries outside the European Union in which the Kontron Group is represented – such as the USA and Switzerland – economic growth also levelled off: According to the International Monetary Fund, economic output in the USA was 2.0% in 2022 (PY: 5.9%); in Switzerland, preliminary GDP growth amounted to 2.2% (PY: 4.2%). As a result of the war in Ukraine and the associated international economic sanctions, Russia's economic output contracted by -2.2% in 2022, after growth of 4.7% in the previous year.

Key events for the Kontron Group in financial year 2022 include:

- › Russia's war in Ukraine, the associated energy crisis, record inflation levels and sharp interest rate hikes. Due to the uncertainties surrounding the war in Ukraine, the Kontron Group has largely reduced its business activities in Russia and Belarus: Investments in Russian and other companies in the CIS region were sold in order to reduce the burdens caused by the Ukraine war and the related sanctions against Russia.
- › The completion of the "Focus" project, which started in 2021, involving the sale of most of the IT services companies to the Vinci Group in the past financial year. This divestment and the change of name from S&T AG to Kontron AG in June 2022 significantly advanced the Kontron Group's transformation into a leading IoT provider, making the change in focus clear to the outside world. The remaining IT services companies in Austria, Hungary and Romania will concentrate on developing and servicing the Kontron Group's IoT activities in the future. It has also been decided to sell the two IT services companies in Moldova, which is why they are reported as "discontinued operations" at the balance sheet date.
- › During financial year 2022, further acquisitions in the IoT sector were made through subsidiaries of the Kontron Group to drive the Kontron Group's future growth. The following companies were acquired and assigned to the "IoT Solutions Europe" segment: Lucom GmbH, Fürth, Germany, focused on automation and safety technology; and the public transport division of Kapsch TrafficCom in Spain, bundled in the acquired Arce Mobility Solutions S.A.U., Bilbao, Spain.

Although the effects of the war in Ukraine and also the – to some extent – still limited supply chains posed challenges for Kontron, the Kontron Group was able to increase its revenue from EUR 1,342.0 million in the previous year to EUR 1,483.5 million (including revenues from discontinued operations – DCO) in financial year 2022. Revenues from continuing operations (CO) amounted to EUR 1,096.1 million (PY: EUR 1,002.9 million). The Group's profitability was significantly higher in financial year 2022 as a result of the sale of the IT companies ("Focus" project), but was also affected by one-off costs in connection with the "Focus" project and the related streamlining of the Group. The EBITDA for continuing operations, including these one-off effects, was EUR 70.0 million (PY: EUR 90.1 million). The total net result amounted to EUR 232.5 million (including one-off effects and discontinued operations) compared to the previous year's figure of EUR 48.3 million. Significant special effects from continuing operations were non-cash related special amortisation on intangible assets of EUR 25.4 million, special write-offs on inventories after adjustment of the portfolio of EUR 16.2 million and the subsequent streamlining of continuing operations, including the reduction of activities in Russia. The EBITDA margin in 2022, including these negative special effects, was 6.4%. The Kontron Group expects an EBITDA margin of around 11% for 2023.

Assets, Finances and Earnings

The financial year 2022 was characterised by the “Focus” project and the associated sale of a majority of the IT services companies. The transaction with the Vinci Group was signed in August 2022 and the sale of the companies was completed on December 29, 2022. In line with “Vision 2030,” the Kontron Group’s development into a pure IoT provider was therefore significantly advanced in 2022. The companies Lucom GmbH and Arce Mobility Solutions S.A.U. newly acquired in financial year 2022, are also active in the IoT sector. The divestment of the IT services business within the “Focus” program as well as further mergers of subsidiaries significantly reduced the number of operating companies in the Kontron Group in 2022. The resulting leaner structures have reduced complexity costs. This realignment will continue in 2023. The Kontron Group remains focused on increasing profitability through the increasing share of proprietary technologies in the IoT sector – particularly in the areas of 5G, smart factories and artificial intelligence – as well as further optimising working capital and the cash conversion rate.

Revenues developed very positively in the two “IoT Solutions” segments. The “IoT Solutions America” segment was able to generate a significant increase in revenue after years of decline in sales. Revenue growth was also achieved in the “IT Services” segment. Overall, the Kontron Group’s revenues (including discontinued operations) for financial year 2022 increased further from EUR 1,342.0 million to EUR 1,483.5 million. With regard to continuing operations, revenue growth was also achieved from EUR 1,002.9 million in the previous year to EUR 1,096.1 million. In financial year 2022, the Group’s profitability was affected by special costs in connection with the “Focus” project and the related streamlining of the Group. The EBITDA, including these special effects, amounted to EUR 70.0 million (PY: EUR 90.1 million) for continuing operations. Net income after non-controlling interests, including income from discontinued operations, amounted to EUR 232.5 million in financial year 2022, compared to EUR 48.3 million in the previous year, due to the sale of the majority of the IT service business and the above mentioned special costs.

Earnings

Revenues of EUR 1,483.5 million (including DCO) were achieved in financial year 2022 (PY: EUR 1,342.0 million), which represents sales growth of more than 10% and is a new record for the Kontron Group. Revenues from continuing operations amounted to EUR 1,096.1 million and were therefore also up by more than 9% compared to the previous year (PY: EUR 1,002.9 million). EBITDA before sales proceeds from “Focus”, but including special costs, amounted to EUR 93.6 million (including discontinued operations) compared to the previous year’s figure of EUR 126.3 million. EBITDA for continuing operations stood at EUR 70.0 million (PY: EUR 90.1 million). The total net result amounted to EUR 232.5 million (including one-off effects and discontinued operations) compared to the previous year’s figure of EUR 48.3 million. Significant special effects from continuing operations were non-cash related impairment on intangible assets of EUR 25.4 million and special write-offs on inventories after adjustment of the portfolio of EUR 16.2 million and the subsequent streamlining of continuing operations, including the reduction of activities in Russia. The EBITDA margin in 2022 before sales proceeds, including these special effects, was 6.3% (including DCO) and 6.4% (CO). The Kontron Group expects an EBITDA margin of 11% for 2023.

The measures of the “PEC Program” launched in summer 2019, focusing on profitability, efficiency and cash, were unable to fully cushion the negative impact of chip shortages on operating cash flow in financial year 2022 as a result of higher stock levels in connection with semi-finished products and the increase of buffer inventory. In recent months, however, the chip shortage appears to be easing slightly, meaning that the Kontron Group management currently expects the situation to ease in 2023. Personnel costs of the Kontron Group increased in financial year 2022 compared to the previous year in both continuing and discontinued operations. This is primarily due to the new group companies included in the scope of consolidation and the first time full year inclusion of subsidiaries acquired in the previous year. In addition, provisions have been made for salary bonuses for Kontron management, which will be due in the coming years due to the successful sale of the IT Services division in 2022 (as a precondition for granting the bonuses), but will therefore not burden future results. As in previous years – since the beginning of the coronavirus pandemic – various subsidiaries made use of government support services in the context of COVID measures (e.g. short-time work) during lockdowns in financial year 2022. However, these were reduced sharply compared to the previous year – in the past financial year, the support used for personnel costs amounted to EUR 0.3 million (PY: EUR 5.9 million). As a result of the above-mentioned effects, personnel costs in financial year 2022 amounted to EUR 343.4 million (including DCO) and EUR 258.8 million (CO), compared to EUR 314.2 million and EUR 237.6 million in the previous year.

Other operating income for financial year 2022 amounted to EUR 19.7 million for the continuing operations and was therefore once again above the previous year’s level (PY: EUR 14.6 million). This increase is also due to the termination of the variable purchase price obligation for the Iskratel Group, as a settlement with the sellers was achieved here in financial year 2022. Other operating income including discontinued operations contains the proceeds from the sale of the “Focus” companies and thus amounts to EUR 267.6 million. Because of the one-off income and costs described above in connection with the sale of the majority of the IT services companies, there

was a significant increase in other operating expenses from EUR 84.7 million (including DCO) and EUR 66.5 million (CO) in the previous year to EUR 118.5 million and EUR 83.8 million in financial year 2022. In depreciation and amortisation on tangible and intangible assets, special effects as a result of the Kontron Group's realignment and one-off divestment effects led to impairments and resulted in an increase to EUR 84.9 million (including DCO) and EUR 72.0 million (CO), compared to the previous year's figures of EUR 63.6 million and EUR 50.0 million. Including the special costs, such as the impairment of intangible assets of EUR 25.4 million and special write-offs for inventories after adjustment of the portfolio of EUR 16.2 million and the subsequent streamlining of continuing operations, the Kontron Group's EBIT in financial year 2022 amounts to EUR 8.7 million (including DCO, excluding "Focus" sales proceeds) or EUR -2.0 million (CO). In future, the impairment of intangible assets made in the past financial year will mean a reduction in future amortisation expenses.

To ensure long-term financing, the Kontron Group has the bonded loans issued in 2019 and 2021, as well as an investment loan to refinance the acquisition of the Iskratel Group. In financial year 2022, an additional new short-term corporate financing line of EUR 50 million was added, which was drawn in full as of December 31, 2022. Finance expenses in financial year 2022 amounted to EUR 11.4 million (including DCO) and EUR 10.0 million (CO) and therefore increased compared to the previous year (PY: EUR 10.0 million and EUR 9.0 million). Accordingly, the financial result was EUR -9.9 million (including DCO) and EUR -8.6 million (CO) compared to the previous year's figures of EUR -8.5 million and EUR -7.6 million. It should be noted that, due to accounting regulations, dividends to minority shareholders of subsidiaries with which Kontron AG has entered into contractual purchase obligations or reciprocal option rights must also be reported in the financial result. These amounted to TEUR 215 in 2022 (PY: TEUR 152). Furthermore, the non-cash effective discounting of variable purchase price obligations must be reported in the financial result, which were significantly reduced in financial year 2022 as a result of the exercise of the option on the CITYCOMP shares in the previous year and the agreement on the remaining variable purchase price with the Iskratel Group in financial year 2022, and which will no longer be accrued in the future.

Net income from continuing operations (before non-controlling interests) was EUR -12.8 million, including negative special effects. The result from discontinued operations, which is reported in the consolidated income statement as a separate line below the result from continuing operations, amounts to EUR 244.7 million (PY: EUR 18.5 million). This includes the selling price from the sale of the IT services companies in the amount of EUR 392.4 million less the agreed brand usage fee, minus all assets and liabilities of the sold companies, as well as the extraordinary write-downs, risk reductions and discounting of the sales price. Net income before non-controlling interests increased accordingly to EUR 231.9 million (PY: EUR 49.0 million). Net income after non-controlling interests rose accordingly to EUR 232.5 million (PY: EUR 48.3 million). Earnings per share (EPS) increased significantly as a result, from 75 cents in the previous year to EUR 3.65 in financial year 2022.

The order backlog of the "new" Kontron Group amounted to EUR 1,459.6 million as of December 31, 2022 (PY: EUR 1,334.9 million including DCO), which represents a new all-time high. As a result, the sold order backlogs from the "Focus" divestment were already offset by new orders from the IoT sector at the end of 2022. This order backlog includes contractually fixed orders and deliveries as well as expected deliveries under existing framework agreements.

Development of the business segments

As in financial year 2021, the Kontron Group distinguishes between three strategic segments in its reporting and in the management of the Group:

- › IT Services
- › IoT Solutions Europe
- › IoT Solutions America

As a result of the sale of the majority of the "IT Services" segment completed in December 2022, the Kontron Group's strategic business segments are being restructured for financial year 2023. For financial year 2022, the segments are reported using the previous segment structure, as the group of companies was managed on the basis of these previously existing segments until the end of 2022.

In detail, the strategic business areas are comprised of the following fields of activity:

"IT Services"

Historically, this segment was heavily involved in the marketing of IT technology in the client, server, storage and application areas, as well as their commissioning and maintenance. Following the reduction of in-house hardware in 2016, this business unit is focusing more on the service requirements of customers, particularly in the consulting, integration and outsourcing areas. To this end, a large number of solutions are offered in the areas of workplace (client and printer), data centre (network, server, storage and security solutions), cloud (private/hybrid/public cloud) and application support and development (SAP implementations and operation). As part of the "Focus" project, a majority of the companies in this segment were sold to the Vinci Group in December 2022. The sale includes IT services companies in Germany, Switzerland, Poland, the Czech Republic, Slovakia, Croatia, Serbia, North Macedonia, Albania and Montenegro. The companies in Moldova are to be sold in 2023 and are also reported as discontinued operations. The remaining subsidiaries in the "IT Services" segment are the IT services companies in Hungary, Romania and Austria (which corresponds to the operational business of Kontron AG). In the future, the service capacities of these companies will primarily be used to develop and service the Kontron Group's IoT activities. In financial year 2022, the businesses of CNT Computer, Netzwerke, Technik GmbH and CNP Computer, Netzwerktechnik Pusse GmbH, Saarwellingen, Germany, acquired as part of an asset deal were assigned to the "IT Services" segment.

"IoT Solutions Europe"

The business segment "IoT Solutions Europe" includes proprietary technologies for the vertical markets of industrial automation, medical technology, public transport, telecommunications and smart energy. In financial year 2022, the acquired companies Lucom GmbH, Fürth, Germany, and Arce Mobility Solutions S.A.U., Bilbao, Spain, were assigned to the "IoT Solutions Europe" segment. In combination with special software solutions and innovative know-how of the Kontron Group, portfolios of high-margin products based on IoT hardware and software are to be created here in the long term. In addition, the business field of cloud computing is also to be developed accordingly in the direction of the Embedded Cloud. These technologies are currently being sold in Europe and Asia in particular.

"IoT Solutions America"

The business segment "IoT Solutions America" differs from the business segment "IoT Solutions Europe" mainly in terms of the geographical market; since 2020, the product portfolio offered in the segment has largely corresponded to that of the segment "IoT Solutions Europe". The Embedded Systems segment, newly created in 2017, comprised the development and implementation of hardware and software solutions for the vertical markets of transport and aviation as well as communications. Products developed in-house formerly included in-flight entertainment systems, digital signage solutions for public transport and carrier-grade servers for telecommunications companies. Furthermore, solutions for autonomous driving have also been developed since 2018. Based on the changed portfolio, this segment was renamed from "Embedded Systems" to "IoT Solutions America" at the beginning of 2019. Since financial year 2020, the subsidiaries in North America have also been selling solutions provided by "IoT Solutions Europe", in particular in the areas of industrial automation and medical technology. Following the tense economic situation in previous years, revenue growth was achieved again in this segment during financial year 2022.

The business development according to the segments is as follows in comparison:

(IN EUR MILLION)	IT SERVICES				IOT SOLUTIONS EUROPE		IOT SOLUTIONS AMERICA		KONTRON GROUP			
	2022 DCO*	2022 CO*	2021 DCO*	2021 CO*	2022	2021	2022	2021	2022	2022 CO*	2021	2021 CO*
Total revenue	395.2	229.7	350.2	227.2	908.4	813.7	146.5	115.4	1,679.9	1,284.6	1,506.4	1,156.3
Internal revenues	-7.8	-8.3	-11.2	-7.4	-163.1	-134.2	-17.2	-11.8	-196.4	-188.5	-164.5	-153.3
Segment revenue	387.4	221.4	339.0	219.8	745.3	679.5	129.3	103.7	1,483.5	1,096.1	1,342.0	1,002.9
Gross profit	141.0	58.5	131.9	49.6	278.1	278.8	32.8	29.9	510.4	369.5	490.2	358.3
EBITDA	269.9**	14.4	36.2	24.0	58.4	67.5	-2.8	-1.4	339.9**	70.0	126.3	90.1
Depreciation and amortisation									-84.9	-72.0	-63.6	-50.0
Finance income									1.6	1.4	1.6	1.4
Finance expense									-11.5	-10.0	-10.0	-9.0
Income taxes									-13.2	-2.2	-5.3	-2.0
Results of the period									231.9	-12.8	49.0	30.5

*) DCO – Discontinued Operations / CO – Continuing Operations

All DCO figures relate to the "IT Services" segment; the reported figures in the "IoT Solutions Europe" and "IoT Solutions America" segments have therefore not been divided into DCO and CO.

**) The EBITDA of the discontinued operations (DCO) and the EBITDA of the Kontron Group (CO+DCO) in the financial year 2022 stated here includes the sales proceeds from the "Focus" transaction.

- The "IT Services" segment includes all IT services companies that were sold as part of the "Focus" project in financial year 2022. This segment also includes the two Moldovan companies, which are classified as "discontinued operations" but were not yet sold at the end of 2022. The companies listed are included in the table above in the "DCO" section. The "CO" figures within the "IT Services" segment include the remaining IT services companies in Austria, Hungary and Romania. Revenue from continuing operations (CO) in the "IT Services" segment in financial year 2022 amounted to EUR 221.4 million (PY: EUR 219.8 million), sales from discontinued operations (DCO) amounted to EUR 387.4 million (PY: EUR 339.0 million). Total revenue in the "IT Services" segment (CO + DCO) amounted to EUR 608.9 million (PY: EUR 558.8 million). This represents revenue growth of just under 9% for the entire segment. Gross profit continued to develop positively and amounted to EUR 58.5 million (CO) and EUR 141.0 million (DCO), which represents an increase of about 18% and 7% compared to the previous year's figures of EUR 49.6 million (CO) and EUR 131.9 million (DCO). As a result, the gross margin for continuing operations in the IT services segment was also increased to 26.4% (PY: 22.6%), while the gross margin for discontinued operations fell to 36.4% (PY: 38.9%). The operating costs of the continuing operations of the "IT Services" segment include all headquarters costs of the Kontron Group, and this segment also accounts for brands, licenses and HQ-charging to the other two segments "IoT Solutions Europe" and "IoT Solutions America". The EBITDA for the continued IT services segments was affected by various one-off costs from the "Focus" divestment during the financial year, especially as the headquarters had to cover additional legal and consulting costs as well as salary bonuses. The segment EBITDA of the discontinued operations includes the proceeds from the sale of the "Focus" transaction, which is shown under other operating income, and thus amounts to EUR 269.9 million. Less the proceeds from the sale, the segment EBITDA of the discontinued operations was EUR 23.6 million (PY: EUR 36.2 million). The segment EBITDA of the continuing operations of the "IT Services" segment amounted to EUR 14.4 million in the financial year 2022, after a value of EUR 24.0 million in the previous year. The EBITDA margin was therefore 6.5% for continuing operations (PY: 10.9%) and 6.1% (PY: 10.7%) for discontinued operations (excluding sales proceeds) in the "IT Services" segment. The remaining IT services companies in this segment will increasingly focus on providing services to the Kontron Group's IoT segments in the future.

- › The "IoT Solutions Europe" segment is the strongest segment of Kontron Group in terms of revenues and profitability. Segment revenue rose to EUR 745.3 million compared to the previous year's figure of EUR 679.5 million. This corresponds to revenue growth of around 10%, which – despite the continuing supply chain limitations associated with the chip crisis – is due to the positive operating development due to incoming orders and the order backlog in this segment. As a result, this more than compensated for the decline in revenue resulting from the sale of some of the shares in Russian subsidiaries and the discontinuation of business activities of the remaining holdings that are assigned to the "IoT Solutions Europe" segment. Revenue in the "IoT Solutions Europe" segment therefore accounted for around 68% of total revenue from the Kontron Group's continuing operations in financial year 2022, or 50% in relation to total revenue including discontinued operations. At EUR 278.1 million, gross profit in financial year 2022 remained at the same level as in the previous year (PY: EUR 278.8 million) and thus led to a reduced gross margin of 37.3% in 2022 compared to a figure of 41.0% in the previous year. It should be noted here that individual companies in the "IoT Solutions Europe" segment experienced one-off effects and impairments, which had an impact on the gross margin and subsequently also on the segment's EBITDA in financial year 2022. After special effects, EBITDA amounted to EUR 58.4 million. The EBITDA margin in this segment, including special effects, was 7.8% in financial year 2022, compared with the previous year's figure of 9.9%.
- › The "IoT Solutions America" segment had been heavily affected in previous years by the COVID-19 slump in the aviation industry, the effects of the chip crisis, the related supply bottlenecks, and the development of the US dollar exchange rate. However, a trend reversal was achieved during financial year 2022 and the segment was able to record operating revenue growth again after several years of a decline in sales. Revenues therefore amounted to EUR 129.3 million in financial year 2022, compared to the previous year's figure of EUR 103.7 million. Accordingly, gross profit was also improved in the past financial year and stood at EUR 32.8 million (PY: EUR 29.9 million). However, the gross margin fell slightly from 28.8% in the previous year to 25.4% in financial year 2022. There were also special impairment and write-off effects in the "IoT Solutions America" segment. After special effects, EBITDA amounted to EUR -2.8 million in financial year 2022 (PY: EUR -1.4 million). The EBITDA margin after these effects was -2.2% (PY: -1.4%). Management expects a significant upward trend in financial year 2023 due to the elimination of the above-mentioned special effects and the positive trend in business development.

Finances

SUMMARISED CASH FLOW STATEMENT (IN EUR MILLION)	2022 TOTAL	2022 CO	2022 DCO	2021 TOTAL	2021 CO	2021 DCO
Cash flow from operating activities	44.4	58.8	-14.4	95.3	64.5	30.8
Cash flow from investing activities	143.7	-40.6	184.3	-66.3	-62.8	-3.6
Cash flow from financing activities	-90.8	-83.7	-7.1	-20.2	-12.7	-7.6
Cash and cash equivalents as of the end of the year	437.8			296.5		
Financing liabilities ¹⁾	319.5			310.7		
Net cash (+)/Net debt (-) ¹⁾²⁾	118.3			-14.2		

1) The assets and liabilities of the remaining companies classified as DCO are shown in the consolidated balance sheet as of December 31, 2022, as "assets or liabilities held for sale" and are therefore not part of these balance sheet figures of the Group as of December 31, 2022.

2) Non-current and current financial liabilities minus cash and cash equivalents (excl. IFRS 16)

As in the previous year, the cash flow from operating activities suffered heavily from the supply chain disruptions in the financial year 2022 and amounted to EUR 44.4 million, down from EUR 95.3 million in the previous year, with operating cash flow from continuing operations (CO) at EUR 58.8 million. The operating cash flow from discontinued operations (DCO) amounted to EUR -14.4 million. The reduction is mainly due to the additional build-up of inventories as well as the general increase in the stock of products that could not be delivered due to the partial lack of components. However, significant improvements were already achieved here in the fourth quarter of 2022 and inventories were partially reduced again. The normalisation of the component shortage and additional measures to optimise working capital should have a correspondingly positive impact on the operating cash flow in the financial year 2023.

Cash flow from investing activities was strongly influenced by the sale of the majority of the IT service business. It amounted to EUR 143.7 million in the financial year 2022 after EUR -66.3 million in the previous year. The proportionate cash flow from investing activities for continuing operations amounted to EUR -40.6 million (PY: EUR -62.8 million) and consists mainly of investments in property, plant and equipment and intangible assets, as well as payments for the acquisition of subsidiaries (Lucom GmbH, Arce Mobility Solutions S.A.U., remaining purchase price payment Iskratel). The proportional cash flow from investing activities for discontinued operations amounted to EUR 184.3 million (PY: EUR -3.6 million). This includes the first payment of Vinci Group for the sold "Focus" companies amounting to EUR 255.0 million, less the disposed cash and cash equivalents of the sold companies as well as costs of disposal.

Cash flow from financing activities amounted to EUR -90.8 million, compared to EUR -20.2 million in the previous year. The main financing activities took place in the continuing operations, and the corresponding cash flow from financing activities amounted to EUR -83.7 million (PY: EUR -12.7 million). In addition to the repayment of long-term financing in the amount of EUR 33.6 million and the repayment of finance lease liabilities in the amount of EUR 16.7 million, this includes the dividend payout for 2021 in the amount of EUR 22.3 million. The cash flow from financing activities in the discontinued operations amounted to EUR -7.1 million (PY: EUR -7.6 million) and mainly includes repayments of finance lease liabilities and interest payments.

In line with the goal of aligning financing with matching maturities and as a precaution for further growth within the framework of "Agenda 2023", a bonded loan was placed for the first time in the financial year 2019. With a volume of EUR 160 million and maturities of 5 and 7 years, the long-term financing of the Kontron Group was secured at attractive margins of 110 and 130 basis points. Here, 53% of the bonded loan was taken up on a fixed basis. In 2021, another final-maturity tranche of EUR 7.5 million was issued with a term until 2026 and a fixed interest rate. In the past financial year, a further credit line for general working capital financing in the amount of EUR 50 million was agreed, which was fully used as of December 31, 2022. As a result of this drawing, corresponding interest rates were fixed for a period of three months. In financial year 2022, Kontron AG continues to monitor the development of interest rates on an ongoing basis – in this case the EURIBOR is decisive – in order to hedge in good time against any increase. Due to the development of interest and swap rates, it was still refrained from fixing further variable financing in the past financial year. As a result of the interest rate hikes by the US Federal Reserve and the ECB in response to the high inflation rates, Kontron is evaluating converting financing with variable interest rates to fixed rates in 2023.

Cash and cash equivalents increased from EUR 296.5 million as of December 31, 2021, to EUR 437.8 million as of the 2022 balance sheet date due as a result of the effects described above. Due to this significant increase in cash and cash equivalents, net cash also rose accordingly and amounted to EUR 118.3 million – excluding liabilities from rental and lease agreements in accordance with IFRS 16 – compared to net debt of EUR -14.2 million in the previous year. Cash and cash equivalents of EUR 3.5 million (PY: EUR 4.4 million) were subject to restraints on disposal due to the provision of collateral.

Assets and liquidity

BALANCE SHEET INDICATORS (IN EUR MILLION)	2022	2021	2021 DCO	2021 CO
Balance sheet total	1,440.9	1,352.1	263.6	1,088.5
Equity	635.7	423.3	93.2	330.1
Equity ratio ¹⁾	44%	31%	35%	30%
Assets classified as held for sale	6.3	0.0	0.0	0.0
Liabilities classified as held for sale	4.8	0.0	0.0	0.0
Cash and cash equivalents	437.8	296.5	78.5	218.0
Net cash (+)/Net debt (-) ²⁾	118.3	-14.2	62.4	-76.6

1) Share of consolidated equity (including stakes held by shareholders with non-controlling interests) in total capital (balance sheet total)

2) Non-current and current financial liabilities minus cash and cash equivalents (excl. IFRS 16)

With regard to the consolidated balance sheet and its presentation in connection with discontinued operations (DCO), it should be noted that the sale of the majority of the IT services companies took place as of December 29, 2022 – meaning that the individual balance sheet items of the divested companies are no longer part of the consolidated balance sheet as of December 31, 2022. The assets and liabilities of the two companies in Moldova, which were also assigned to discontinued operations but were not yet sold as of December 31, 2022, are shown in the consolidated balance sheet as at the balance sheet date 2022 under the items “Assets classified as held for sale” and “Liabilities classified as held for sale.” Since the companies sold were still part of the consolidated balance sheet as of the balance sheet date 2021, the previous year's figures for “2021 DCO” show the figures for the companies already sold as of December 31, 2022, and the Moldovan companies, according to the table above.

The balance sheet total of the Kontron Group increased again compared to the previous year and as of December 31, 2022, amounted to EUR 1,440.9 million (PY: EUR 1,352.1 million). This is mainly due to the profit generated by the sale of the IT services companies.

As a result, equity also increased from EUR 423.3 million as of December 31, 2021, to EUR 635.7 million as of the balance sheet date 2022. Accordingly, the equity ratio also increased significantly and stood at 44% as of December 31, 2022, compared to the previous year's figure of 31%. Non-current financing liabilities went down from EUR 238.4 million (including DCO) and EUR 235.2 million (CO) in the previous year to EUR 193.8 million, while current financing liabilities increased from EUR 72.3 million (incl. DCO) and EUR 59.5 million (CO) to EUR 125.7 million as of the 2022 balance sheet date. The reduction in non-current financing liabilities is primarily due to the reclassification of an existing investment loan due in 2023 into current financing liabilities. In addition to this effect, current financing liabilities also increased due to a new credit line of EUR 50 million for general working capital financing taken out in financial year 2022. This financing line can be drawn by cash advances with terms of three, six and twelve months. The contractual interest is linked to the 3M EURIBOR. As a result of this drawing, corresponding interest rates were fixed for a period of three months. Moreover, of the existing significant financings, the following have been concluded with a fixed interest rate over the entire term: the OeKB equity financing of EUR 45 million taken out in 2017 for the acquisition of the Kontron Group, the OeKB equity financing of EUR 30 million for the acquisition of the Exceet companies, the long-term, bullet credit line of EUR 30 million and the loan for refinancing the purchase of shares in Iskratel in the amount of EUR 37.5 million. Regarding the bonded loan, EUR 85 million (53% of the total volume) is fixed, the remainder is variable. In 2021, another fixed interest tranche of EUR 7.5 million was issued. With regard to overdraft facilities, a line taken over as part of the acquisition of Kapsch CarrierCom amounting to EUR 15 million in December 2019 and a line taken up in the financial year 2021 amounting to EUR 15 million were fixed. The variable financing is linked to the development of the EURIBOR or corresponding reference interest rates.

Equity and long-term financing therefore cover 58% (PY: 49% including DCO and 52% CO) of the balance sheet total as of December 31, 2022. Cash and cash equivalents increased from EUR 296.5 million (including DCO) and EUR 218.0 million (CO) to EUR 437.8 million as of the balance sheet date 2022 and thus account for around 30% of the balance sheet total (PY: 22% including DCO and 20% CO). The Kontron Group's net cash position amounted to EUR 118.3 million as of the balance sheet date 2022 (December 31, 2021: net debt of EUR 14.2 million including DCO).

Trade receivables stood at EUR 148.1 million as of December 31, 2022, slightly up from EUR 143.1 million (CO) in the previous year. The previous year's figure for trade receivables including DCO amounted to EUR 214.1 million. The two previous year's figures are both adjusted by EUR 18.5 million following a reclassification of trade receivables to current contract assets. This slight increase in trade receivables is primarily attributable to individual subsidiaries of Kontron AG whose additional revenue from major IoT projects led to a correspondingly higher level of trade receivables as of the reporting date 2022. In the other subsidiaries, both as a result of improved receivables management and the use of central factoring programs, the status of trade receivables was largely improved. As of December 31, 2022, factoring programs sold around EUR 20 million more trade receivables than in the previous year (based on continuing operations). Trade payables amounted to EUR 226.3 million as of December 31, 2022. This represents an increase – partly due to the chip shortage and the increased sales and cost of goods sold – compared with the previous year's figure from continuing operations (PY: EUR 200.0 million, EUR 270.0 million including DCO).

Inventories rose from EUR 174.6 million (CO) and EUR 187.3 million (including DCO) at the end of the last financial year to EUR 192.6 million as of December 31, 2022. Inventories continued to build up until the third quarter of 2022, partly due to the purchase of additional components, peaking at EUR 246.2 million (including DCO) at the end of the second quarter. However, these high inventories were stabilised in the third quarter and significantly reduced again in the fourth quarter of 2022 until the end of the year. On the one hand, this reduction is partly due to special write-offs for portfolio streamlining, but is mainly due to increased deliveries of goods in the fourth quarter of 2022. A further reduction in inventories is expected for the financial year 2023. Working capital is to be further reduced in 2023 by more efficient warehouse management and dismantling buffer stocks and subsequent deliveries of finished products, optimised purchasing processes and renegotiations on the supplier and customer side.

Non-current assets fell to EUR 412.1 million as of the balance sheet date 2022, compared to the previous year's figure of EUR 438.4 million (CO) and EUR 519.0 million (including DCO). This reduction of non-current assets in the continuing operations is primarily due to ongoing scheduled and extraordinary depreciation and amortisation of property, plant and equipment, buildings and intangible assets. In total, cash-effective investments in property, plant and equipment and intangible assets amounted to around EUR 40,5 million in the financial year 2022 (including discontinued operations; PY: EUR 47.0 million).

Non-current and current provisions amounted to EUR 46.8 million as of the balance sheet date 2022 (PY: EUR 50.3 million CO and EUR 56.5 million including DCO). This reduction is primarily due to revaluations of existing pension provisions resulting from changes to financial assumptions in certain subsidiaries. Other current receivables and assets rose sharply to EUR 189.8 million compared to the previous year (PY: EUR 67.5 million CO and EUR 83.9 million including DCO). This increase is primarily attributable to the fact that this item includes the remaining purchase price due for the "Focus" companies, which was still outstanding in the financial year 2022. Other current liabilities rose to EUR 90.3 million compared to the corresponding figure for the previous year for continuing operations (PY: EUR 86.6 million and EUR 122.0 million including DCO). The increase in this position is primarily due to tax liabilities.

In the reporting year, there were no capital measures from the authorised capital and authorised conditional capital. Furthermore, no stock options were exercised from the existing stock option programs in the financial year 2022. In the financial year 2022, a capital reduction of EUR 2,465,535.00 was decided on and implemented through the redemption of treasury shares. The number of treasury shares held by the Kontron Group thus amounted to 0 shares as of December 31, 2022 (December 31, 2021: 2,465,535 shares). As a result, the subscribed capital fell from EUR 66,096,103.00 in the previous year to EUR 63,630,568.00 as of December 31, 2022. Accordingly, the number of Kontron shares issued as of December 31, 2022, amounts to 63,630,568 (December 31, 2021: 66,096,103 shares). The equity attributable to the shareholders of Kontron AG rose to EUR 633.8 million as of December 31, 2022, compared to the previous year's figure of EUR 418.6 million.

The Executive Board and the Supervisory Board therefore plan to propose a dividend of EUR 1 per share to the shareholders of Kontron AG at the Annual General Meeting on May 22, 2023.

Non-financial indicators of performance

As in previous years, Kontron AG has prepared a separate sustainability report for the past financial year – in implementation of the requirements of the Austrian Sustainability and Diversity Improvement Act – which contains further details on environmental and employee issues. Kontron AG joined UN Global Compact in 2021 and has identified nine sustainability goals (SDGs – Sustainable Development Goals) that are to be improved in the coming years. Further steps were also taken in preparation for the CSRD (Corporate Sustainability Reporting Directive) requirements of the European Commission in the financial year 2022 to expand ESG reporting, including the introduction of a group-wide ESG reporting tool.

Protection of the environment

The quantities of electronic devices and electronic waste introduced to Kontron's markets continue to grow. They not only contain partly hazardous components, but also important raw materials that can be used for recycling. For Kontron, the conscious use of available resources is important. Proper disposal, corresponding resource-saving technology concepts and efficient processes in procurement, distribution and production are therefore strived for as a contribution to sustainability. The same applies to auxiliary materials used to package or transport the Kontron Group's electronic devices: The focus here is particularly on using packaging materials as efficiently as possible and paying special attention to the recyclability of the materials used. This is also monitored by external parties through appropriate environmental audits and ISO certifications. Furthermore, the Kontron Group strives to continuously optimise the electricity efficiency of the data centres it operates and uses the latest technologies for this purpose. In addition, the proportion of energy produced in-house at the Kontron Group's own production sites is constantly being increased – for example, a quarter of the annual electricity requirement at Kontron AG in Linz is now produced by solar power. As in previous years, further in-house photovoltaic systems were put into operation in 2022. In addition, the vehicle fleets at several subsidiaries were expanded in 2022 to include electric and hybrid vehicles in order to reduce carbon emissions – more electric vehicles are to be integrated into the vehicle fleet in the future and the use of public transport is to be encouraged.

Employee welfare and protection

As of December 31, 2022, the Kontron Group had a total of 4,475 (PY: 6,206) employees (on full-time equivalent basis, excluding people on maternity leave or on training) for whom Kontron bears social responsibility and provides social benefits. The sharp drop in the number of employees at Group level as of the reporting date is due to the sale of IT services companies effective from December 29, 2022. Statutory and voluntary social security costs, including severance payments, amounted to EUR 66.9 million including the discontinued operations in the financial year 2022 (PY: EUR 66.8 million). The focus of human resources work on the integration of the acquired companies, business units and employees will continue in the future due to the ongoing acquisitions. Integration is constantly being driven forward through the introduction of uniform processes in human resources, standardisation and migration to common supporting IT systems, as well as by strengthening the employees' sense of belonging to and loyalty to the company. To this end, the results of a group-wide employee survey conducted by Kontron AG at the end of 2021 were analysed in detail by local management in 2022. Based on the findings of this survey, measures were implemented in various areas to continuously improve employee satisfaction and the attractiveness of the Kontron Group as an employer.

The health and safety of Kontron Group employees is also an important concern: The various aspects of occupational health – both to avoid physical impairments caused by monotonous VDU work, for example, and mental stress caused by increased work demands – are taken into account by means of training by external experts (occupational physicians) and ergonomic office equipment. As in previous years, various training courses and support opportunities were offered in 2022 on topics such as occupational psychology that also included dual-location work (working from home) and ergonomic work. Internal and external training courses are also held on an ongoing basis for employees in the production environment to raise awareness of safety issues and ensure occupational safety.

In connection with the measures taken to contain the COVID-19-pandemic, the Kontron Group took all necessary steps to protect its employees: Kontron has long offered the possibility of working from home for employees in many different positions. Employees can continue to work from home if their tasks allow it, but office space can also be used when required. In the offices and for staff working outdoors, hygiene measures were implemented with additional disinfectant dispensers and the provision of mouth/nose protection and FFP2 masks. Furthermore, "COVID Officers" were appointed for the individual locations to inform and support the employees about ongoing developments, measures and rules. Thanks to these measures, infections with the SARS-CoV-2 virus within the Kontron Group were greatly reduced, the ability to deliver was maintained and our employees were protected as far as possible.

The long-standing philosophy of Kontron Group – "hire for attitude, train for skills" – remains unchanged and is driven forward by internal programs for the personal and professional development of our colleagues. The first Leadership Academy, a one-year training course

started by Kontron AG in 2021 which focuses particularly on female junior executives in a wide variety of fields who are prepared for their next career steps within the Kontron Group by external trainers and Kontron managers, was successfully completed at the end of 2022. In addition, the Kontron Group also provides financial support for its employees to take advantage of external training programs or courses. In the financial year 2022, the Kontron Group spent EUR 1.8 million (including discontinued operations) on employee training measures (PY: EUR 1.5 million). Kontron employees also regularly take part in training courses run by Kontron's industry partners in order to maintain or expand the high level of certification with individual manufacturers such as AWS, SAP, Microsoft, HP, VMware, Cisco and others.

The Executive Board of Kontron AG would like to thank all employees for their outstanding performance once again in the financial year 2022 – another very challenging year due to the project “Focus” and the continuing supply bottlenecks.

Summary

Despite the ongoing difficult economic situation due to global supply chain disruptions and raw material shortages, the Kontron Group was again able to increase its revenues in financial year 2022 in continuing operations and achieve the forecast figure of EUR 1,100 million. Revenue from continuing operations for the financial year 2022 amounted to EUR 1,096.1 million. The total net income from continuing operations, including special effects, amounted to EUR 232.5 million. The result was significantly influenced by the sale of the majority of the IT service business and the subsequent streamlining of the divisions. The “Focus” transaction led to an increase in net income of EUR 3.65 per share. At the next Annual General Meeting on May 22, 2023, Kontron AG's management will submit a proposal to shareholders to pass a resolution on a dividend payment of EUR 1 per share.

03 Forecast, opportunities and risk report

Forecast

While the effects of the COVID-19-pandemic have had a significant impact on the development of the global economy in previous years, the predominant topics in 2022 were the war in Ukraine, the associated “energy crisis,” and the global fight against inflation. These factors are expected to continue to influence the development of European and global economic output in 2023. Despite these challenges, the gross domestic product of numerous countries showed a more promising trend by the third quarter of 2022 than previous forecasts had expected. In addition to positive factors on the demand side, this is also attributable on the supply side to the recovery of previously economically stressed sectors. These benefited from reduced input prices due to easing supply bottlenecks and falling transport costs. The energy markets have also adjusted faster than expected to the energy price disruptions caused by the Russian invasion of Ukraine. In the fourth quarter of 2022, however, this upward trend reversed again in many areas, particularly in China where the fourth quarter was characterised by several major COVID-19 outbreaks and associated lockdowns in Beijing and other densely populated areas, as well as the subsequent departure from the “zero COVID-19” policy. After the high economic growth rates in 2021 due to catch-up effects following the economic slump associated with the COVID-19 pandemic, economic growth levelled off in 2022 as a result of the effects described. In its winter forecast published in February 2023, the European Commission expects economic growth in the euro area and the entire European Union of 3.5% in 2022, after 5.3% and 5.4% in 2021. The International Monetary Fund reports provisional economic growth of 2.0% for 2022 (2021: 5.9%) for the United States of America and 3.0% for China in 2022 (2021: 8.4%).

- › With regard to the development of the global economy as a whole, the International Monetary Fund expects growth of 2.9% in 2023, according to its latest World Economic Outlook published in January 2023. Compared to 2022 (3.4%), this represents a decline in global economic growth. As reasons for this decline, the IMF singles out the rise in central bank interest rates as a way to combat inflation and the ongoing war in Ukraine. It is expected that the slower global economic growth will be attributable primarily to industrialised countries, as higher growth rates are expected in emerging and developing countries, including China where the reopening following the extensive lockdowns will be a factor. In the medium term to 2024, however, economic growth is also expected to pick up again in industrialised countries, which will lead to an expected increase in the overall economy of 3.1%.
- › In its latest winter forecast, the European Commission expects global GDP growth (excluding the EU) of 3.0% for 2023, which represents a slight reduction compared to 2022 (3.1%). The European Commission also sees an economic slowdown in industrialised countries (e.g. USA, Canada, Switzerland, Great Britain) in 2023, but expects moderate recovery by 2024. In the emerging and developing countries, higher growth rates are to be expected especially in China compared to the other countries (e.g. Argentina, Brazil, Russia). The latter are still burdened by high energy and food costs, as well as lower demand from industrialised countries. At 3.5% in 2022, economic growth in the European Union was still higher than global growth, but according to the forecast, the growth rate of the EU in 2023 will only be 0.8% and thus significantly below the global average. Growth in the European Union is expected to recover to 1.6% in 2024. The European Commission sees the economic growth of the Kontron Group's most important sales markets in Europe – Germany and Austria – at 0.2% (Germany) and 0.5% (Austria) in the financial year 2023.
- › For North America, where the Kontron Group achieves around 12% of its revenues (from continuing operations), the IMF forecasts economic growth of 1.4% in 2023, after growth of 2.0% in 2022. The previous IMF forecast from October 2022 assumed even lower growth for 2023, but this was later raised due to stable domestic demand. By contrast, the outlook for 2024 was revised downwards to a growth rate of 1.0%, slowed by the sharp increase in the US Federal Reserve's key interest rate to up to 5.1% in 2023.
- › Following an increase of 3.0% in 2022, the International Monetary Fund sees economic growth in China at 5.2% in 2023. Due to the rapid spread of COVID-19 in China, particularly in densely populated areas, and the associated strict lockdowns as part of the “zero COVID-19” policy, GDP growth was held back in 2022 and therefore remained below the global average for the first time in 40 years. As a result of the lifting of COVID-19 restrictions at the end of 2022, the IMF expects a significant recovery in Chinese economic development in 2023. This recovery is expected to slow to an economic growth of 4.5% by 2024.
- › According to the World Bank's Global Economic Prospects published in January 2023, growth in Russia stood at 4.8% in 2021. However, Russia's invasion of Ukraine and the sanctions imposed by the international community as a result mean that a massive slump in the Russian economy is to be expected for 2022. According to World Bank data, the fall in Russian GDP amounted to -3.5%, and the IMF expects a reduction of -2.2% in 2022. Future forecasts for Russia depend greatly on how the war in Ukraine develops. While the IMF already expects positive growth rates (0.3%) to return in 2023, the World Bank expects economic output to deteriorate further by -3.3%.

Compared to the various economic forecasts of a year ago, the current estimates of economic growth for 2023 and subsequent years have been revised significantly downwards, particularly for the European Economic Area. The forecast of low economic growth in 2023 reflects the rise in central bank interest rates as a means of combating inflation – particularly in industrialised countries – and the war in Ukraine. However, in its current forecast, the European Commission no longer expects a recession in 2023, which was still feared in autumn 2022. Nevertheless, many challenges remain: continuing high inflation and high energy costs are leading to interest rate hikes and thus hinder investments. The further course of the Ukraine war and other geopolitical tensions also increase forecast uncertainty.

Despite this scenario, the Kontron Group's long-term objective – profitable growth – remains unchanged, as the increasing demand for digital solutions also creates opportunities for the Kontron Group. Nevertheless, the focus on increasing profitability, generating positive cash flows and optimising working capital, even at the expense of revenue growth, will remain unchanged. By further developing the Kontron Group as an innovative technology company and solution provider with an increasing share of proprietary developments and high-margin services, and thus increasing value creation, a further increase in gross and profit margins is expected, not least as a result of the sale of the IT services segment in December 2022 as part of the "Focus" project.

In line with its guidance, confirmed on January 16, 2023, the Kontron Group expects revenue in the continuing IoT sector to grow by around 10% to approximately EUR 1.2 billion with a net profit of over EUR 60 million for the financial year 2023. This organic growth is based on the large order backlog and attractive new major orders at the beginning of 2023. In the medium term, it is planned to replace the lost revenue from the IT services segment through acquisitions in the IoT sector and thus increase revenue to EUR 2.0 billion by 2025 – with a significantly higher EBITDA margin of 13%.

Report on opportunities and risks

The terms "opportunity" and "risk" encompass all influences, factors and developments that could potentially affect the achievement of the Kontron Group's business objectives. The basic approach is that the inherent opportunities should exceed the inherent risks. Against this backdrop, the risk policy of the Kontron Group is designed to contribute to the timely realisation of opportunities that arise in a manner that increases the value of the company, and to actively reduce risks by means of countermeasures, in particular in order to avoid risks that could jeopardise the continued existence of the company. Therefore, a large number of decisions require the weighing of opportunities and risks.

The Kontron Group is an internationally active technology company and is therefore exposed to a wide range of financial and non-financial, industry-specific and business risks. At the same time, the industry and the company offer a multitude of opportunities. The management's goal is to identify and evaluate the risks and opportunities of the market and entrepreneurial activities within the framework of the Group's internal opportunity and risk management. To achieve this objective, it is necessary to create awareness of the existing and potential risks and opportunities in the company among all employees and especially among decision-makers. By means of a group-wide risk management system, risks and their risk structure in particular, are to be recorded and updated. At the beginning of 2021, Kontron introduced an internal control system based on the COSO reference model. Local risk/control self-assessments are used to identify risks so that they can be pinpointed and counteracted at an early stage. In addition, risk/control self-assessments serve as a basis for the headquarters to be able to take countermeasures in good time. The internal audit continuously reviews and monitors the implementation of the identified measures and also submits regular progress reports to the Supervisory Board of Kontron AG.

The systems are continuously supplemented and reviewed to take account of regional and technological expansion of business activities at Kontron. Acquired subsidiaries must implement the group's standardised processes when they are integrated into the Kontron Group. Implementation is monitored by means of an internal audit. In addition to IT, finance and controlling, risk identification and risk management also extend to the areas of sales, project management, production, purchasing, development and safety. Regular or ad-hoc internal and external audits, risk assessments and certifications also provide insights into improvement opportunities and additional risk factors. The risk parameters are monitored in two stages: firstly, by means of a standardised process and regular reports to the Executive Board and Supervisory Board of Kontron AG, and secondly, by means of self-assessments and predefined "red flag criteria", which, if exceeded, result in immediate measures being taken by the local management of the subsidiaries.

Opportunity management

The aim is to exploit corresponding opportunities through business activities and to convert them into economic success for the Kontron Group. The majority of the IT services segment was sold as part of the "Focus" project because Kontron sees a focus on the IoT sector as offering greater opportunities for stable revenue and earnings growth. At the same time, the Kontron Group is pursuing the

goal of further developing the software share in the IoT segments in the direction of integrated hardware and software solutions and building up new business areas, such as IoT as a service (IoTaaS). In addition, the international structure of the Kontron Group is to be specifically adapted to the market conditions in order to take appropriate measures for exploiting development, sales and cost synergies and developing markets even more profitably. Kontron sees the new developments and enhancements of its existing proprietary technologies as a significant opportunity to expand the value chain, but also the Kontron Group's portfolio of products and services. This also includes minimising risks and consistently exploiting the inherent opportunities. The Kontron Group considers the following areas to be among the main opportunities:

Digitalisation and Smart-Everything

Digitalisation has been on everyone's lips for years. The COVID crisis has further accelerated this process. Kontron AG is ideally equipped for this with its product portfolio: to this end, Kontron offers various solutions for the digital transformation within the susietec® portfolio for example, from consulting to hardware/software bundles, system integration, software development, hybrid cloud as well as installation and maintenance. The Kontron Group therefore sees good opportunities to exploit and monetise the opportunities arising from the digital transformation.

Upcoming technology changes

Many customers are currently or will soon be switching to new technology standards. This applies, for example, to the 5G mobile phone standard, which enables high bandwidths, real-time applications due to low latencies and increased security despite large numbers of subscribers. With 5G, private networks can be realised in Smart Factories, for example. On the other hand, in the transport sector, the changeover from the GSM-R mobile communications standard, introduced in 1992, to FRMCS (Future Railway Mobile Communication Standard) means that all train radio networks are due for an upgrade, for which Kontron is ideally positioned due to its range of technologies and its market position.

Software and IoTaaS Focus

For the entire Kontron Group, we see great potential in the implementation of the software middleware strategy as part of our Industry 4.0 and IoT focus. The existing hardware portfolio was expanded with the addition of supplementary middleware solutions including seamless integration into private and public clouds. This enables us to offer innovative products, solutions, platforms and new developments in the field of "Internet of Things". The improved integration of hardware-based security solutions enables us to meet market requirements in terms of data protection and data security. In the future, the flexible IoTaaS ("IoT as a Service") offering is also to be expanded, particularly with regard to software, in order to tap into new recurring revenue streams and to achieve even greater customer loyalty to the Kontron Group.

Scaling our service and support offering

The expansion of our range of services also holds opportunities for the Kontron Group. Our primary goal is to further increase the customer benefits of our products and solutions through services primarily for operating activities, as well as to develop new comprehensive services in products and solutions-based environments. This enables us to offer our customers complete solutions – from the necessary hardware and software to integration and operating services – from a single source. In addition, we can also support our customers throughout the entire product life cycle. In addition, the new size of the Kontron Group and its global spread offer further potential for synergies and optimisation.

Extension of existing and new partnerships

The Kontron Group sees targeted acquisitions, investments and partnerships as opportunities to complement and extend its core technological competencies. They also allow us to develop our product portfolio further and increase our market coverage. We therefore continuously monitor the markets and constantly explore opportunities to expand beyond organic growth through strategic acquisitions and partnerships and to supplement our technology portfolio in selected areas. The strategic partnership launched in 2016 with Ennoconn Corporation ("Ennoconn") and its main shareholder, Hon Hai Precision Ltd. ("Foxconn"), can yield further opportunities for realising business potentials.

Green products

Many solutions from the Kontron Group help to save energy and use resources more efficiently and therefore reduce carbon emissions. Kontron therefore sees the societal need to combat the climate crisis as offering numerous opportunities for the group of companies. The following Kontron solutions can serve as examples: Through the Kontron Transportation Group, the Kontron Group offers hardware and software-based solutions in the train radio sector. The use of modern technologies makes it possible to increase rail safety on the one hand and, on the other hand, to make better use of existing rail infrastructure and increase the volume of passenger and freight transport by rail, which has a positive effect on carbon emissions and the use of the infrastructure. In the Smart Factory sector, the Kontron Group offers integrated solutions to optimise production processes. Intelligent learning systems promote the use of materials and energy that conserve resources.

Risk management

Strategic risks

Irrespective of the COVID-crisis, which has in recent years severely impacted the overall conditions in which the global economy has to operate, Kontron retains its strategic focus on developing more synergies between the Kontron Group's hardware and software portfolio, and using the remaining IT services to service and supplement existing IoT solutions.

With regard to the Kontron Group's IoT Solutions segments, this means further integration of the product portfolio as well as the joint, cross-group development of new hardware and software solutions. Failure to implement this strategy could have a direct impact on the Group's risks.

Despite the above, Kontron's strategy can turn out to be entirely or partially unproductive. For example, it cannot be ruled out that demand for the services offered by the Kontron Group that feature proprietary technologies fails to materialise or is lower than anticipated, that the necessary resources are not available or that the expansion of these business segments does not proceed as expected.

In each of the above cases, investments made with a view to implementing the strategy may be lost in whole or in part, especially since the technology industry is subject to constant change. The market is characterised by rapidly changing technologies, frequent introductions of improved or new products and services, as well as constantly changing and new customer requirements and changes in the regulatory area, e.g. data protection. To maintain the success of the Kontron Group it is therefore indispensable to anticipate new trends and developments in good time – for example in applications related to Industry 4.0, 5G applications or cloud computing – or changes in data protection, to constantly adapt and improve existing products and services and develop new products in order to adapt to changing technologies, regulations, inexpensive competitor products and customer demands. This requires the use of appropriate technical, human and financial resources. Any delay or prevention of the introduction of improved or new products or services, or their lack of or delayed market acceptance, may adversely affect the competitive position.

Acquisition risks

The Kontron Group's strong organic growth is accompanied by company acquisitions and therefore external growth. Company acquisitions involve a number of risks, so it is important to implement appropriate measures designed to minimise these risks. In particular, extensive due diligence in the acquisition process and years of industry experience help to minimise acquisition risks such as paying a purchase price that is too high, overestimating the synergy effects and legal risks that could arise from the acquisition. Following an acquisition, rapid group integration, taking cultural differences into account and transparent communication are required in order to reduce risks and avoid omissions that prevent taking full advantage of synergy effects.

Personnel risks

Our employees, their individual skills and their professional competence are a key driver for the success of the Kontron Group. Our goal of becoming one of the leading providers and employers in the technology sector creates the basis for attracting the best talents to the Kontron Group. This is highly relevant because in all the regions the Kontron Group operates the availability of highly qualified employees is significantly below their demand and it is therefore becoming increasingly difficult to fill all vacant positions at short notice. Through cooperation with schools, technical colleges and universities, the Kontron Group endeavours to compete for the best minds at

an early stage and to show them the values and opportunities of working for the Kontron Group, for example in the form of internships or opportunities to do degree-level research. In addition, the acquisition of companies, particularly in the software sector, represents an opportunity to acquire engineering capacities on a larger scale. The loss of key personnel represents a significant risk for Kontron, and the lack of attractiveness as a future employer can also hamper the Kontron Group's plans for growth.

Risks from technologies

The Kontron Group develops proprietary technology products consisting of hardware and software components, some of which are based on standard systems and configured by the Kontron Group to customer requirements. Regarding the development of these proprietary technology products, there is a risk that they will prove to have missed the mark or be uncompetitive and as a result the expected sales and contribution margins cannot be achieved. Delays in development can also lead to postponements in the timely launching on markets of the respective product. In addition, it cannot be ruled out that the proprietary technology products will not be accepted by the market or customers for other reasons and thus cannot be realised profitably. In all cases, the acquisition or development costs incurred and the related planned revenues and earnings contributions could be lost in whole or in part.

In the case of standard systems with a long-term roadmap and high market acceptance, development delays can mean that the product in question cannot be brought to market on time. When it comes to new technologies and standards, there is a risk that the implementation periods specified by analysts are too short and that there are significant delays before meaningful sales can be achieved on the market.

Risks from sales markets

Economic slumps or recessions in the countries in which Kontron AG operates can especially lead to their public or private sector's responding to the need to cut costs by awarding fewer or no commissions, or to receivables due from customers in these countries becoming delinquent. As a result, the order and earnings situation may deteriorate, to the detriment of the Kontron Group's assets, financial position and earnings. For Kontron, the high competitive pressure and changes in the propensity to consume and invest also represent significant risks. Therefore, it is important to recognise trends at an early stage through continuous market observations and to quickly and reliably align products to meet the needs of customers. Kontron is constantly trying to take advantage of emerging trends. Short response times, lean internal processes and entrepreneurial thinking on the part of our employees enable and promote this process. There is also increasing evidence of the formation of new collaborations and increased competition on the market. Kontron is responding to this by establishing or intensifying new or existing partnerships.

Risks from customers

Due to Kontron's business model, the company has a diversified customer structure, often with close customer relationships that have lasted for years or even decades. In the past, neither disproportionately high customer losses nor significant bad debts were recorded. The wide diversification of customers in a wide variety of business segments reduces dependence on individual customers or major customers. In some markets (for example in the transportation sector) in which Kontron Group companies operate – and particularly in long-term project business – the issue of long-term business relationships and their development is crucial, since a complex decision-making process involving planned infrastructure projects of public-sector customers sometimes takes several years. Sales activities must therefore be planned for the long term. On the other hand, there is always the risk that a project will ultimately not be won.

We believe that payment default of one or more customers is manageable under normal circumstances: Kontron has a highly diversified customer base with a four-digit number of customers.

With regard to possible bad debt losses, Kontron also works with credit insurance and receivables factoring to reduce risk. The latter is genuine in nature. Credit limits for customers are mainly granted individually on the basis of customer ratings or credit limits from recognised commercial credit insurers. Outstanding receivables are monitored by the management of the Group companies and are subject to a standardised valuation based on the requirements of IFRS 9.

In the course of the COVID-crisis, measures were taken to monitor even more strictly or to reduce credit limits due to higher risks in certain customer segments. While initially payment defaults and insolvencies were expected as a consequence of government support measures being phased out during 2021, the financial year 2022 did not confirm this assumption either, and there was no "wave of insolvencies." Nevertheless, Kontron will continue to operate strict receivables management in combination with credit insurance and factoring in the future to minimise the default risk of receivables.

Product-related risks

In the area of product quality, there is a fundamental risk that defective products will lead to damage on the customer's side and that the customer will assert warranty claims or demand additional compensation. We counter this risk through numerous measures, in particular through comprehensive technical quality assurance stretching from product development to production. In addition, all important suppliers are regularly audited via a professional quality management system. Furthermore, our worldwide service and repair centres ensure that faulty Kontron products can be quickly and effectively repaired and returned to our customers. In addition, we cover our product risks with appropriate central and specific local insurance, in addition to special sector-specific insurance, for example in the aviation industry. It is equally important that the relationship between customised development orders and standard product orders is managed in the best possible way so that both are balanced. Strongly customer-driven business activities have caused an imbalance in distribution in the past and thus led to high complexity-caused costs. The existing high number of variants of the individual products also makes handling in the operational area more difficult. We are countering this risk by coordinating more intensively between the various parts of the company, from development right up to the production process. For example, in financial year 2021, ODM (Original Design Manufacturing) activities from various subsidiaries were consolidated and reorganised and have been under uniform management since 2022. Continuous assessment of the product portfolio in the Group companies and the focus on innovative products helps to reduce product-related risks.

Risks from procurement and production

The Kontron Group also sells hardware products such as Embedded Boards, Embedded Servers, IPCs, network and security components, and Smart Meters. The procurement of goods and the punctual delivery of the products offered place high demands on the organisation and logistics of the Group. Kontron has outsourced parts of the logistics process, meaning that Kontron is unable to influence them directly or only to a limited extent in order to prevent or rectify disruptions. Wars, forces of nature, epidemics, pandemics or strikes which hinder the production or transport of raw materials or finished goods may also lead to delays in the delivery of the goods. Following the spread of the coronavirus pandemic and in particular the lockdowns in 2020 and 2021 that posed major challenges for supply and production chains, Kontron was again confronted with supply chain disruptions in 2022. The chip crisis that followed the "zero-Covid strategy" in China meant that only small numbers of some of the components ordered were delivered to the Kontron Group or were subject to significant price increases and/or delivery delays. The Kontron Group countered this situation by setting up buffer warehouses and redesigning products based on chipsets and components that are more likely to be available in future. In many cases it was possible to pass on the price increases to customers of the Kontron Group, but there is still the risk of further price hikes resulting from the current worldwide inflation, which the Kontron Group will not be able to escape either.

The possible loss of key suppliers is also a risk. Kontron is constantly striving to establish "second sources". However, this is not practicable in every area and could also lead to a loss of economies of scale. There is also the risk that individual Group companies are sometimes dependent on particular suppliers. Should a supplier no longer be able or unwilling to meet its delivery obligations, this can influence Kontron's business success.

In the area of logistics, the costs for logistics services may increase, for example due to the above or additional fees or customs duties, and thus reduce sales margins. Any disruption, interruption or significant increase in the cost of this logistics chain within and/or outside Kontron Group may adversely affect its business activities. Production losses due to government lockdowns related to the SARS-CoV-2 virus in Asia, which were especially an issue in China in 2022, have been followed by effects on global logistics processes. However, a significant increase in logistics costs has remained. Here too, the shift to production partners in Europe or in-house production in Europe reduces the risk of overdependence on production and logistics processes in Asia.

Material purchasing for the supply chain and warehousing is based on demand forecasts. If the quality of the forecast is poor, inventories that are too large or too small can result. Kontron counters this risk with a wide range of measures designed to improve sales and production planning processes.

So-called rare earths are used in key technologies in the technology sector. The largest deposits of rare earths are in China. In the past, China has at times kept the market for rare earths artificially tight, leading to an increase in the corresponding commodity prices and the general price level of the products in which these commodities were used. In addition, a large part of the production of the hardware products used by Kontron takes place in Asia. Rising labour costs, increased transport costs and increased demand can influence the price level here.

In general, Kontron is also affected by the unusually high inflation rates worldwide. This has an effect on procurement costs and overall cost structure, as Kontron employees, for example, demand inflation compensation or production costs rise due to higher energy costs.

Risks from projects and operating contracts

Among other things, the Kontron Group also carries out IT projects in which IT solutions tailored to a customer's needs are planned and implemented. IT projects are regularly characterised by a high degree of complexity and incur a considerable expenditure of time and money. The same applies to so-called "design ins" in the Embedded Systems sector as well as to the implementation or deployment of GSM-R projects in the train radio sector, which usually take several years. The agreement of advance payments is not or only rarely possible for the majority of projects, especially for public sector clients. The services of the Kontron Group can therefore usually only be invoiced after the completion of pre-agreed project sections (milestones) or even after the completion of the entire project (go-live), so that the Kontron Group sometimes has to make considerable payments in advance when carrying out projects. However, it cannot be ruled out that projects may be delayed, cancelled or for other reasons not lead to the hoped-for success, which may also result in milestones and the go-live date (i.e. the project acceptance date) not being achieved. This may result in the partial or complete loss of investments already made or in services already rendered not being invoiced and any claims for damages against clients not being asserted or – for legal, economic or practical reasons – not being enforced. In addition, customer relationships can be broken off or permanently impaired in these cases. Group-wide methods and tools for project management and project controlling are used for risk management. In addition, the project controlling of the companies is regularly monitored centrally. Known project risks are adequately taken into account through the formation of appropriate risk provisions.

Risks from financing and liquidity

In the past financial year 2022, a loan agreement for TEUR 50,000 was concluded with Erste Group Bank AG for the purpose of general working capital financing (excluding M&A). As of the reporting date, a balance of TEUR 50,000 (PY: TEUR 0) was outstanding. The working capital financing mentioned above is offset by repayments of TEUR 25,449 (PY: TEUR 42,902), in particular the OeKB acquisition financing loan. The financial situation of Kontron AG and the Kontron Group is very solid, particularly due to the sale of the IT service business in financial year 2022. In addition, there are sufficient credit lines available from the banks in order to have financial leeway – in the context of M&A activities, for example – even in the short term. Our good equity cover contributes to financial stability. When selecting banks, Kontron AG also takes their creditworthiness into account. Accordingly, financing and investments are only concluded with banks that can be expected to have very low default risks. In order to diversify, the Kontron Group has business relationships with several banks; in addition, financing is not only concluded centrally, but also locally by the subsidiaries. Finally, the bonded loan taken out in financial year 2019 also opened up a new circle of financiers, for example from Liechtenstein, Taiwan and China. With the bonded loan, the maturity of significant financing was also extended to 2024 and 2026, so that there is no need for refinancing in the short term. In addition, by implementing a central factoring setup, a financing model was established that takes account of growth and seasonal fluctuations and also reduces the risk of default by customers. The changes in the interest rate landscape at the end of 2022 as compared to the beginning of that year is leading to a significant increase in the price of outside capital with variable interest rates. At present, it is not foreseeable to what extent further interest rate hikes will be introduced by the ECB.

Risks from changes in interest rates

Interest rate risk represents the risk of changes in the value of interest-bearing financial instruments used to finance the Group due to fluctuations in market interest rates. Around two thirds of the Kontron Group's loans and overdraft facilities of EUR 221.7 million have fixed interest rates, while EUR 97.7 million have a variable rate of interest. The fixed-interest financing mainly relates to the loan of EUR 30 million taken out in financial year 2018 to finance the acquisition of the Exceet companies, the loan of EUR 37.5 million taken out in March 2021 for the acquisition of the Iskratel Group, a long-term loan of EUR 30 million, and a credit line of EUR 50 million concluded in August 2022, which was drawn in full as of December 31, 2022. Of the bonded loan taken out in 2019, EUR 85 million of the EUR 160 million is fixed, while interest rates for the remaining part are continuously monitored and quotations obtained for any conversion. The development of benchmark and swap rates of interest formed the basis for the decision to date to refrain from securing a fixed rate of interest. The financing of the Kontron subsidiaries, on the other hand, is largely subject to variable interest rates. There is a risk here that the EURIBOR or other reference interest rate for the local currency will increase, thereby increasing the interest burden on the Kontron Group. This is to be taken into account through increased internal financing of Kontron Group members by Kontron AG, which can usually refinance itself much more favourably than the local subsidiary. As of December 31, 2022, the Kontron Group had an interest rate hedge (interest rate swap) of EUR 15 million to hedge a variable interest rate on overdraft facilities in Austria.

Risks from currencies

Due to Kontron's international orientation, a high proportion of transactions are conducted in currencies other than the reporting currency EUR. These include in particular the US dollar as well as, to a lesser extent, the Russian ruble, the Hungarian forint and the Polish zloty. The volatility of individual currencies can have a significant impact on the revenues and results of Kontron AG and its subsidiaries. The ruble in particular experienced a significant decline in the first months of financial year 2022, which can only be partially offset and is having a particular impact on the revenue of Russian subsidiaries. The foreign currency risk is countered by financing transactions in matching currencies, procuring external services in the respective local currency and agreeing currency fluctuation clauses. In individual cases, derivative financial instruments are used for hedging. Speculative transactions, i.e. taking risks outside the scope of operating activities, are not permitted within the Kontron Group. Only existing balance sheet items or cash flows that are highly likely to occur are used for hedging. As of the balance sheet date, no forward exchange dealings or currency option transactions used to hedge purchasing volumes or other positions were entered in the accounts of Kontron AG subsidiaries on the grounds of materiality because the market value of the existing collateral transactions was below EUR 1,000. The number of people who can conclude relevant hedging transactions is very small. Existing transactions are reported on an ongoing basis and continuously monitored in a group-wide IT system (TM5). For further information on the currency risk, please refer to the explanations on risk management in the notes to the consolidated financial statements.

Legal risks

Like any internationally active group of companies, Kontron AG and its subsidiaries are exposed to legal risks to varying degrees. A fundamental distinction must be made between risks under company law, contract risks, patent risks and also tax and customs risks. In general, the risk is minimised via standard processes and approval procedures as well as the use of standardised order and business terms and conditions. If necessary, external lawyers, auditors and tax advisers or other experts are involved in addition to the internal legal departments in order to assess risks, avoid legal risks or process matters. We protect and monitor patents and trademarks by involving external patent and trademark attorneys. To raise awareness of possible compliance issues and avoid possible violations, Kontron has a compliance management system which is administered by the compliance management team at Kontron AG's headquarters and by local compliance officers. Kontron compliance standards are based on standard market best-practice standards at both operational and procedural levels. Depending on the topics, the Kontron Compliance Program is implemented either globally or locally and is subject to an ongoing monitoring and optimisation process. Ongoing compliance training for employees in exposed areas is also an important focus of compliance. This is carried out partly by an external service provider and partly by internal experts.

Political risks

Russian troops invading Ukraine at the end of February 2022 and the ensuing armed conflict means that local projects can be delayed or become completely impracticable. At the same time, the sanctions imposed on Russia by the international community, such as the exclusion of Russia from international payment transactions SWIFT or the ban on exports of high-tech products to Russia, mean massive restrictions on financial systems and the real economy in the CIS region. The Kontron Group is affected in several ways: On the one hand, the sanctions make it difficult or impossible to fulfil existing or new customer projects. On the other hand, armed conflict and sanctions lead to a massive decline in the economy and a stop to investment. In the end, the exclusion of Russian banks from international payment transactions makes cash flows to and from Russia impossible or only possible with difficulty. Kontron has therefore significantly reduced its exposure to Russia and the CIS region.

IT risks

With the sale of Kontron Group companies as part of the "Focus" project, central IT resources and capacities were also sold. In the past financial year and in 2023, IT resources and capacities were successively reorganised and reallocated from other areas as part of an internal IT project. The disposal of the sold IT service companies therefore entails corresponding risks.

Breaches of data protection laws can lead to severe penalties. This includes in particular the General Data Protection Regulation (GDPR) valid in the EU. In order to raise awareness among employees at Kontron about this, but also to sensitise employees to general IT security issues, a series of online training courses on IT security was held in financial year 2022.

Surveys on the risk situation of companies (for example the Allianz Global Risk Barometer) regularly cite cyberattacks as one of the biggest risks. For Kontron, too, this is one of the top risks. Apart from the ongoing training of employees mentioned above, measures taken

to counter this threat include state-of-the-art IPS technology, 2-factor authentication, endpoint protection and the Group's own SOC (Security Operations Centre) with highly specialised personnel.

Climate risks

For the Kontron Group, the climate crisis is not classed among the most significant risks. The internal risk assessment did not identify physical risks as effects of the climate crisis, such as droughts, storms and floods, as significant for Kontron or its business with its customers. This assessment will be reviewed on an ongoing basis, also as part of the risk management process, and amended if necessary. Nonetheless, the social risks arising from the climate crisis are obvious to the Kontron Group and measures are constantly being taken to reduce the impact of the Kontron Group's activities on global warming and to make a positive contribution to achieving climate goals. For information of these measures, please refer to the Sustainability Report.

04 Internal control system, group accounting process and risk management system

Business monitoring systems (internal control systems – ICS) are becoming increasingly important and gaining in relevance. Internal control is an integral part of enterprise-wide risk management within the Kontron Group.

The internal control system is understood to be the principles, regulations and procedures introduced by the Executive Board of Kontron AG and the local managing directors of the subsidiaries, which are aimed at the organisational implementation of management decisions. The objectives to be safeguarded are the protection of assets against loss, misuse and damage, the achievement of organisational goals, the assurance of proper, economic, efficient and effective processes, the reliability of operational information, in particular the reliability of accounting, and compliance with laws and regulations. The ICS has a preventive and detective function and supports the flow of corporate processes.

Internal control is a process embedded in the work and operations of an organisation, carried out by management and staff to identify risks, manage them and provide reasonable assurance that the organisation is achieving its objectives in fulfilling its mission. In this context, an ICS refers to all essential business processes. One of the important foundations for a functioning ICS is the definition of the structural and procedural organisation in the company.

In order to optimise the ICS, Kontron AG applies an independent ICS manual. In addition to the significance and importance of an effectively implemented internal control system, specific requirements for the subsidiaries are also regulated in this ICS manual, which is applicable throughout the Group. In this context, the ICS also aims to ensure that the subsidiaries comply with Kontron Group processes and guidelines. The aim of this guideline is to define and establish minimum standards for internal controls, to ensure their application and to derive measures that comply with ICS principles.

As with any general activity, there should be a balance between risk and control of the business, i.e. the cost/benefit aspect should be considered. The ICS comprises measures and controls based on the following principles, among others: transparency, confirmation by a second person, separation of functions and minimum scope of information.

In general, the ICS manual of Kontron AG is based on the international COSO Model. The COSO model is a basic model for assessing the internal control system of companies, published by the Committee of Sponsoring Organization (COSO) of the US Treadway Commission and is regarded as a standard worldwide. The respective objectives and components (e.g. control environment, risk assessment, monitoring) of the COSO reference model are described in detail in the ICS manual of Kontron AG.

With regard to the role of the internal audit, its tasks and activities, such as the procedure for audit planning, audit execution and the control process with regard to the improvement measures defined in the audits, are described in detail in the manual. In addition, the manual includes references regarding equally important ICS topic areas, such as business ethics and compliance.

The management of all subsidiaries of Kontron AG is obliged to comply with the requirements of the Internal Control System Manual. The monitoring of compliance with the requirements of the Internal Control System Manual as well as the assessment of the general control environment at the subsidiaries is carried out within the framework of regular or ad-hoc internal audits at the Group's companies. These are carried out by the central audit department at Kontron AG. In addition, the responsible Kontron Group functions, such as the Accounting or Internal IT departments, are required to continuously monitor compliance with the Group-wide guidelines for their areas of responsibility.

The main components of the internal reporting system are the standardised reports and scorecards, which are generally sent to the management on a monthly basis and to the company's Supervisory Board on a quarterly basis. In addition, a new BI and analytics tool was introduced that provides management with all key financial figures on a daily basis through direct access to the local financial systems of the main subsidiaries. Standardised core processes and job descriptions have defined procedures and internal controls. The guidelines for the subsidiaries are stored in a central information system of Kontron AG.

The reporting, management and controlling of risks is structured hierarchically. The requirements of the accounting process are implemented by the finance department at the respective companies. Risks of accounting errors are largely eliminated or minimised by the following processes:

- › Uniform IFRS accounting guidelines, supported by standardised reporting forms or files, are mandatory for accounting and consolidation. The Group Accounting Manual covers the relevant accounting standards as well as significant accounting issues, which are man-

andatory for all Group companies. The accounting manual is adapted to new developments and continuously updated. Newly acquired subsidiaries are connected directly to the COGNOS IT system for reporting to parent companies, thus establishing a single-stage consolidation process.

- › Local management is responsible for ensuring compliance with Group-wide requirements, while the central finance department at Kontron AG collates and evaluates all data before submitting standard reports to the Executive Board of Kontron AG and the management of the subsidiaries.
- › The authorisation concept for the central accounting programs is uniformly regulated and centrally monitored. The aggregated and consolidated data of the COGNOS system can only be accessed by Kontron AG's finance department employees.
- › All Group reports are reviewed within the central finance department and also by other internal and external persons.
- › Furthermore, the completeness and correctness of accounting data are regularly checked by the central finance department on the basis of random samples and plausibility checks, both manually and with the help of IT. On the basis of detailed monthly and quarterly financial reports, deviations in the earnings and financial position from planned and previous year figures are identified and analysed. Another focus is on working capital and cash management, which is taken into account using centralised monthly reporting and analysis of developments. The results are discussed directly with the people responsible at the subsidiaries and decisions are made during regular visits to the companies on site or conference calls by the executive board member responsible for the respective subsidiary.
- › For more complex issues and for the evaluation of actuarial issues or, for example, the option pricing for the stock option programs, external experts are commissioned by Kontron AG or at local level.
- › All Group reports are reviewed within the central finance department and also by other internal and external persons. In addition, the internal audit validates and monitors bottom-up risk reporting.
- › The management of the companies is obliged to comment on significant risks. This is done through a regular risk assessment process coordinated by the Group-wide Head of Internal Audit. There, the bottom-up risk reporting is validated and monitored. As part of this regular process of supplementary ad-hoc risk reporting, the subsidiaries are required to report new risks that may exceed a certain loss limit or significant deteriorations in existing risks. This is also the basis for determining or carrying out ad-hoc internal audits outside the standard audit calendar.

Further information on the risk management organisation and process is available in the "Forecast/Opportunities and Risk Report" and in the sustainability section of this report.

05 Disclosures in accordance with § 243a UGB (Austrian Commercial Code)

- As of the balance sheet date of December 31, 2022, share capital of Kontron AG amounts to EUR 63,630,568 and is divided into 63,630,568 non-par value bearer shares. In a resolution of the Annual General Meeting of Kontron AG on May 6, 2022, the required majority voted to increase the company's share capital by a total of EUR 2,465,535 by redeeming 2,465,535 fully paid-up, purchased treasury shares in accordance with Section 192 Paragraph 3 No. 2 in conjunction with paragraph 4 of the Austrian Stock Corporation Act in a simplified procedure without complying with the provisions on ordinary capital reduction and to amend the articles of association in Section 5 paragraphs 1 and 2. The equity developed as follows:

IN EUR	2022	2021
Subscribed capital as of 01.01.	66,096,103.00	66,096,103.00
- Capital reduction through redemption of treasury shares	-2,465,535.00	0.00
Subscribed capital as of 31.12.	63,630,568.00	66,096,103.00

- The right to exercise votes at the annual general meeting is unlimited. There are no known other limitations that might affect voting rights or the transferring of shares.
- With 27.64% of the shares held via two subsidiaries affiliated with Ennoconn Corporation, Ennoconn Corporation, Taipei, Taiwan, is the largest shareholder of Kontron AG as of December 31, 2022, to the knowledge of Kontron AG.
- No shares exist that grant special rights of control. Employees who own shares in Kontron AG can exercise their voting rights at the Annual General Meeting directly and at their own discretion. There is no associated voting rights control or the possibility to exercise voting rights with stock options or warrants.
- Kontron AG has had and still has stock option programs under which non-securitised stock options were granted to members of the Executive Board and senior executives of the Kontron Group. The programs AOP 2018 (with the 2018 tranche and the 2019 tranche) and the AOP 2024/2025 issued in November 2022 (with the 2024 tranche and the 2025 tranche) are currently ongoing. In addition, as authorised by the Annual General Meeting on June 16, 2020, a new warrant program comprising a total of 2,000,000 warrants (instruments in accordance with Section 174 of the Austrian Stock Corporation Act) was launched and these warrants were offered to employees of the Kontron Group. Around 120 executives and employees of the Kontron Group subscribed for warrants. Warrants were also issued to selected members of the Executive Board of Kontron AG. Following a 3-year waiting period and in the event that the threshold specified in the emissions conditions is reached, each warrant entitles the holder to subscribe for one share in Kontron AG at a predefined exercise price, which may be adjusted in accordance with the terms and conditions of the issue. The warrants were admitted to official trading on the Vienna Stock Exchange and are listed under ISIN AT0000A2HQA7.
- No stipulations exist that exceed the bounds of law and apply to the members of the Executive Board and Supervisory Board. According to Kontron AG's articles of association, the Annual General Meeting decides by a simple majority of the votes cast, and in cases where a majority of the share capital is required, by a simple majority of the share capital represented at the time of resolution, unless the law or Kontron AG's articles of association provide for a larger majority.

On treasury shares:

- › By resolution of the Annual General Meeting on May 6, 2022, the Executive Board was authorised to purchase bearer shares of the company totalling no more than 10% of the company's share capital for a period of 30 months from the date of this resolution, both on the stock exchange and over the counter, the equivalent value of which may not be more than 10% below or above the average stock market price of the last five trading days before the purchase of the shares. An over-the-counter purchase (Supervisory Board approval required) can also be made under exclusion of the shareholders' pro rata right of sale (reverse exclusion of subscription rights).
- › The Executive Board is also authorised to adopt a way of selling or using treasury shares other than on the stock exchange or through a public offer, also one that excludes shareholders' repurchase rights (reverse subscription rights), and to set the terms of sale, for a period of five years from the passing of a resolution and with the approval of the Supervisory Board and without the need for a new resolution of the Annual General Meeting. In addition, the Executive Board is authorised to reduce the share capital if necessary by redeeming these treasury shares with the approval of the Supervisory Board and without a further resolution of the Annual General Meeting for a period of 30 months from the date of this resolution. The Supervisory Board is authorised to adopt amendments to the articles of association resulting from the redemption of shares.

No use was made of this authorisation in financial year 2022. After the balance sheet date, the Executive Board of Kontron AG decided on February 3, 2023, to carry out a new share buyback program ("Share buyback program I 2023") on the basis of the above-mentioned resolution adopted by the Annual General Meeting on May 2, 2022. "Share buyback program I 2023" provides for purchases totalling up to EUR 10,000,000 with a maximum price of EUR 20 per share or up to 636,305 shares (1% of the share capital) and runs until August 6, 2023. By March 24, 2023, 281,289 treasury shares had been purchased at the total purchase price excluding incidental expenses of EUR 5,255,074.33.

As of December 31, 2022, Kontron had no treasury shares.

7. On authorised capital and authorised conditional capital

Authorised capital 2017:

- › By resolution of the Annual General Meeting on June 27, 2017, the Executive Board was authorised to increase the share capital in one or more tranches with the approval of the Supervisory Board by up to EUR 10,000,000 by issuing up to 10,000,000 new bearer shares in exchange for cash and/or contributions in kind within five years of registration of the corresponding amendment to the articles of association in the commercial register, including by way of indirect subscription rights in accordance with § 153 Paragraph 6 Austrian Stock Corporation Act (AktG), and to fix the issue price and issue conditions in agreement with the Supervisory Board ("Authorised Capital 2017").
- › From the authorised capital of up to EUR 10,000,000 in 2017, EUR 7,208,534 is still available due to its partial utilisation for a cash capital increase by way of an accelerated placement process in November 2017 – in the amount of EUR 1,382,623 by issuing 1,382,623 new shares – as well as for partial exploitation for a capital increase against contributions in kind ("non-cash capital increase Kontron Canada") – in the amount of EUR 1,408,843 by issuing 1,408,843 new shares.
- › The authorisation expired on August 24, 2022. No more of the authorised capital from 2017 is available.

Authorised capital 2019:

- › The Annual General Meeting of Kontron AG approved further authorised capital on May 21, 2019. According to this resolution, the Executive Board is authorised to increase the share capital up until June 25, 2024, by up to EUR 6,600,000 in one or more tranches in return for cash and/or contributions in kind, including partial exclusion of subscription rights and the partial authorisation of the Executive Board to exclude subscription rights, and to set the issue price and issue conditions in agreement with the Supervisory Board ("Authorised Capital 2019").
- › No use had been made of the existing authorisation to issue new shares from the authorised capital by December 31, 2022.

Authorised conditional capital 2019:

- › By resolution of the Annual General Meeting on May 21, 2019, the Executive Board was authorised, with the approval of the Supervisory Board, to conditionally increase the share capital by up to EUR 1,500,000 in order to grant stock options to employees, executives and members of the Executive Board of the company or an affiliated company for a period of up to five years after the amendment to the articles of association was registered in the commercial register ("Authorised conditional capital 2019"). The capital increase is earmarked and may only be carried out to the extent that holders of options from the 2018 stock option program (AOP 2018) tranche 2018 and tranche 2019, as well as from a possible future program that stipulates initial exercise of the options no earlier than three years after the options were granted and a threshold of 25% of the trading price of the company share on the Frankfurt Stock Exchange, exercise these options. Initial exercise of the options in AOP 2018 was permitted in an exercise window after expiry of the closed period on December 18, 2021.
- › The Annual General Meeting of June 16, 2020, decided to partially revoke the existing authorisation of the Executive Board relating to the Authorised Conditional Capital 2019, specifically the no longer usable sum of EUR 500,000 or 500,000 bearer shares, so that the Authorised Conditional Capital 2019 comprises a residual authorisation to conditionally increase the share capital for granting stock options by up to EUR 1,000,000 by June 25, 2024, subject to the approval of the Supervisory Board.
- › Therefore, no use was made of the authorised conditional capital 2019 in the past financial year 2022.
- › Furthermore, the members of the Executive Board have no powers that do not arise directly from the law, in particular with regard to the possibility of issuing or buying back shares.

Issue of warrants/authorised capital 2020:

- › The Annual General Meeting on June 16, 2020, authorised the Executive Board to increase the share capital by up to EUR 2,000,000 for the purpose of servicing conversion or subscription rights under warrants ("Authorised capital 2020") and in accordance with Section 169 of the Austrian Stock Corporation Act.
 - › At the same general meeting, it was decided to issue 2,000,000 warrants (instruments pursuant to Section 174 of the Austrian Stock Corporation Act). 1,500,000 warrants were allotted to selected members of the Executive Board of Kontron AG (those eligible for allotted shares) by the Supervisory Board. 500,000 warrants were publicly offered to selected key employees of the Kontron Group for subscription against the offer price per warrant as of July 13, 2020, on the basis of a prospectus approved by the Austrian Financial Market Authority. After the end of the offer period and a so-called short placement of warrants not subscribed in the public offer, the Executive Board, with the approval of the Supervisory Board, decided on the final number of warrants to be issued and the allocation of the warrants offered on the basis of the subscription declarations received. A total of 2,000,000 warrants were issued, consisting of 1,500,000 warrants allocated to those eligible and the 500,000 warrants offered to selected key employees of the Kontron Group. 112 eligible subscribers who had delivered subscription certificates for a total of 420,665 offered warrants received the full allocation according to the classification of the respective Group company and the respective management level of the eligible subscriber in accordance with the parameters set out in the prospectus. The remaining number of 79,335 offered warrants were issued to those eligible on the basis of their subscription certificates received for the short placement, against payment of the offer price per warrant. As of July 30, 2020, the warrants were admitted to official trading on the Vienna Stock Exchange and subsequently the warrants were or will be delivered to the respective subscribers and those eligible.
 - › The first exercise of the conversion or subscription right under the warrant is possible at the earliest 36 months after the issue of the warrant and only if the price of the Kontron AG share currently exceeds EUR 32.86, adjusted, if necessary, from time to time on the basis of the terms and conditions of the issue.
 - › For this reason, no use was made of the authorised capital 2020 in financial years 2021 and 2022.
8. There are loan agreements whose conditions could change in the event of a "change of control" or which could lead to a termination of the loan agreement. Kontron AG's loan agreements with the financing banks provide for a termination option on the part of the banks in the event of a change of control at Kontron AG. A change of control is basically defined as when a person or a group of persons acting in concert acquires 50% of the shares or voting rights or is given the opportunity to determine the majority of the members on the Executive Board and/or the Supervisory Board. The above definition was included in the following loan agreements,

among others: BAWAG one-off loan 2013, OeKB equity financing 2017, OeKB equity financing 2018 and OeKB equity financing 2021, and the facility agreement dated August 8, 2022, concluded with Erste Group Bank. In part, an increase in the shares of Ennoconn Corporation is exempted from the "change of control" in the loan agreements. The latter exception also applies, among other things, to the bonded loan agreements concluded in 2019. Change of control is defined in the concluded agreements as obtaining a controlling interest in Kontron AG, whereby an increase in the (direct or indirect) interest of Ennoconn Corporation (or its legal successors) in Kontron AG does not constitute a change of control.

9. Indemnification agreements as defined by Section 243a paragraph 1 line 9 of the Austrian Commercial Code do not exist.

Linz, March 27, 2023



Dipl.-Ing. Hannes Niederhauser



Dr. Clemens Billek



Dr. Peter Sturz



Dipl.-Ing. Michael Riegert

This management report contains statements that relate to the future development of Kontron AG as well as its economic development. These statements represent estimates that Kontron AG has made on the basis of all information available at the present time. If the underlying assumptions do not materialise or further risks occur, the actual results may differ from the results currently expected. Kontron AG can therefore not accept any liability for this information.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT IN TEUR	NOTES	2022	2021*
Revenues	(1)	1,096,095	1,002,935
Capitalised development costs	(2)	23,393	21,223
Other income	(3)	19,651	14,612
Expenses for materials and other services purchased	(4)	-726,637	-644,658
Personnel expenses	(5)	-258,755	-237,569
Depreciation and amortisation	(6)	-72,009	-50,012
Other operating expenses	(7)	-83,754	-66,469
Result from operations		-2,016	40,062
Finance income	(8)	1,411	1,379
Finance expenses	(8)	-10,049	-9,002
Financial result		-8,638	-7,623
Earnings before taxes		-10,654	32,439
Income taxes	(9)	-2,180	-1,988
Profit/loss from continuing operations		-12,834	30,451
Profit/loss from discontinued operations	(10)	244,714	18,513
Net income		231,880	48,964
Results from the period attributable to owners of non-controlling interests		-576	704
Results from the period attributable to owners of interests in parent company		232,456	48,260
Earnings per share from continuing operations (undiluted)	(11)	-0.19	0.47
Earnings per share from continuing operations (diluted)	(11)	-0.19	0.46
Earnings per share attributable to owners of interests in parent company (undiluted)	(11)	3.65	0.75
Earnings per share attributable to owners of interests in parent company (diluted)	(11)	3.59	0.74
Average number of shares in circulation (in thousands undiluted)		63,631	63,958
Average number of shares in circulation (in thousands diluted)		64,828	64,958

*) Adjustment due to application of IFRS 5 – see Notes section A

STATEMENT OF OTHER COMPREHENSIVE INCOME

STATEMENT OF OTHER COMPREHENSIVE INCOME IN TEUR	NOTES	2022	2021
Net income		231,880	48,964
Items that will not be reclassified to profit or loss			
Remeasurement according to IAS 19			
Gains(+)/losses(-) from remeasurement		4,255	150
Results from remeasurement of financial instruments at fair value through other comprehensive income		-1	-1
Deferred taxes on items that will not be reclassified to profit or loss		-978	-53
		3,276	96
Items that may be subsequently reclassified to profit or loss			
Unrealised gains/losses from currency translation		3,489	7,920
Net loss on debt instruments at fair value through other comprehensive income		-43	-1
		3,446	7,919
Other comprehensive income		6,722	8,015
Comprehensive income		238,602	56,979
of which attributable to			
Results from the period attributable to owners of non-controlling interests		-265	1,533
Results from the period attributable to owners of interests in parent company		238,867	55,446

CONSOLIDATED BALANCE SHEET

ASSETS IN TEUR	NOTES	31.12.2022	31.12.2021 (RECLASS.*)
NON-CURRENT ASSETS			
Property, plant and equipment	(12)	95,477	132,536
Intangible assets	(13)	72,424	104,207
Goodwill	(13)	189,412	208,251
Financial assets non-current	(14)	11,714	12,594
Contract assets non-current	(1)	1,061	194
Other non-current assets	(15)	8,960	21,018
Deferred tax assets	(16)	33,050	40,179
		412,098	518,979
CURRENT ASSETS			
Inventories	(17)	192,633	187,349
Trade receivables*	(18)	148,085	214,085
Contract assets current*	(1)	54,227	51,295
Financial assets current	(19)	134,326	19,902
Other receivables and assets current	(20)	55,421	64,011
Cash and cash equivalents	(21)	437,760	296,512
Assets classified as held for sale	(22)	6,310	0
		1,028,762	833,154
Total assets		1,440,860	1,352,133
EQUITY AND LIABILITIES IN TEUR			
	NOTES	31.12.2022	31.12.2021 (RECLASS.*)
EQUITY			
Subscribed capital	(23)	63,631	66,096
Capital reserves	(23)	122,582	168,283
Accumulated results	(23)	449,616	239,431
Other reserves	(23)	-1,994	-8,405
Treasury shares	(23)	0	-46,848
Equity attributable to owners of interests in parent company		633,835	418,557
Non-controlling interests	(23)	1,831	4,706
		635,666	423,263
NON-CURRENT LIABILITIES			
Financing liabilities non-current	(24)	193,768	238,376
Other financial liabilities non-current	(25)	27,714	54,084
Contract liabilities	(1)	5,532	16,952
Other liabilities non-current	(26)	1	488
Deferred tax liabilities	(16)	5,725	13,206
Provisions non-current	(27)	19,886	25,056
		252,626	348,162
CURRENT LIABILITIES			
Financing liabilities current	(24)	125,703	72,319
Trade payables	(28)	226,336	269,975
Contract liabilities	(1)	78,493	85,025
Other financial liabilities current	(29)	24,979	47,712
Provisions current	(27)	26,950	31,436
Other liabilities current	(30)	65,348	74,241
Liabilities classified as held for sale	(22)	4,759	0
		552,568	580,708
Total equity and liabilities		1,440,860	1,352,133

CONSOLIDATED CASH FLOW STATEMENT



CONSOLIDATED CASH FLOW STATEMENT IN TEUR

NOTES

2022

2021

CASH FLOWS FROM OPERATING ACTIVITIES FROM CONTINUING AND DISCONTINUED OPERATIONS

Earnings before tax from continuing and discontinued operations		245,062	54,224
Depreciation and amortisation		84,927	63,593
Interest expenses		11,477	10,039
Interest and other income from the disposal of financial assets		-1,603	-1,586
Increase/decrease of provisions		-5,466	-12,664
Gains/losses from the disposal of non-current non-financial assets		1,157	-1,766
Changes in inventories		-17,808	-25,927
Changes in trade receivable and contract assets		-22,802	-36,419
Changes in other receivables and assets		-13,710	-4,431
Changes in trade payable and contract liabilities		23,990	69,159
Changes in other liabilities		-9,203	-1,508
Other non-cash income and expenses		-7,920	-5,895
Gain on disposal of discontinued operations	(A)	-234,504	0

Cash and cash equivalents from operations **53,597** **106,819**

Income taxes paid -9,154 -11,541

Net cash flows from operating activities **44,443** **95,278**

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of non-current non-financial assets		-40,489	-46,990
Proceeds from sale of non-current non-financial assets		3,057	4,087
Disposal/purchase of financial instruments		12,962	-8,170
Payments to acquire subsidiaries less cash assumed and plus current account liabilities assumed	(A)	-20,527	-13,941
Proceeds /Payments from disposal/sale of subsidiaries less cash disposed and plus current account liabilities disposed		-1,735	-2,085
Proceeds (net) from disposal of discontinued operations	(A)	189,410	0
Interest income		991	783

Net cash flows from investing activities **143,669** **-66,316**

CASH FLOWS FROM FINANCING ACTIVITIES

Increase in financing liabilities and financial liabilities		1,726	74,385
Decrease in financing liabilities and financial liabilities		-58,422	-45,536
Interests paid		-8,661	-6,198
Acquisition of non-controlling interests	(A)	-3,155	-2,771
Dividends to owners of non-controlling interests		0	-360
Dividends to owners of interests in parent company		-22,271	-19,183
Payments for acquisition of treasury shares		0	-20,586

Net cash flows from financial activities **-90,783** **-20,249**

Changes in exchange rates 413 4,270

Changes in financial funds **97,742** **12,983**

Financial funds as of the beginning of the period (31) 267,934 254,951

Financial funds as of the end of the period **(31)** **365,676** **267,934**

Overdrafts (31) 68,542 24,181

Restricted cash (31) 3,542 4,397

Total cash and cash equivalents **(31)** **437,760** **296,512**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DEVELOPMENT OF EQUITY IN TEUR	NOTES	EQUITY ATTRIBUTABLE TO OWNERS OF INTERESTS IN PARENT COMPANY	
		SUBSCRIBED CAPITAL	CAPITAL RESERVES
as of January 1, 2021		66,096	169,441
COMPREHENSIVE INCOME			
Consolidated income		0	0
Other comprehensive income		0	0
		0	0
OTHER CHANGES			
Stock options	(38)	0	1,308
		0	1,308
TRANSACTIONS WITH OWNERS OF INTERESTS			
Acquisition of non-controlling interests	(23)	0	-2,466
Dividends	(23)	0	0
Repurchase of treasury shares	(23)	0	0
		0	-2,466
as of December 31, 2021		66,096	168,283
as of January 1, 2022		66,096	168,283
COMPREHENSIVE INCOME			
Consolidated income		0	0
Other comprehensive income		0	0
		0	0
OTHER CHANGES			
Stock options	(38)	0	-773
		0	-773
TRANSACTIONS WITH OWNERS OF INTERESTS			
Acquisition of non-controlling interests	(23)	0	-545
Dividends	(23)	0	0
Withdrawal of treasury shares	(23)	-2,465	-44,383
		-2,465	-44,928
as of December 31, 2022		63,631	122,582

EQUITY ATTRIBUTABLE TO OWNERS OF INTERESTS IN PARENT COMPANY				NON-CONTROLLING INTERESTS	EQUITY
ACCUMULATED RESULTS	OTHER RESERVES	TREASURY SHARES	TOTAL		
210,354	-15,591	-26,262	404,038	5,432	409,470
48,260	0	0	48,260	704	48,964
0	7,186	0	7,186	829	8,015
48,260	7,186	0	55,446	1,533	56,979
0	0	0	1,308	0	1,308
0	0	0	1,308	0	1,308
0	0	0	-2,466	-1,241	-3,707
-19,183	0	0	-19,183	-1,018	-20,201
0	0	-20,586	-20,586	0	-20,586
-19,183	0	-20,586	-42,235	-2,259	-44,494
239,431	-8,405	-46,848	418,557	4,706	423,263
239,431	-8,405	-46,848	418,557	4,706	423,263
232,456	0	0	232,456	-576	231,880
0	6,411	0	6,411	311	6,722
232,456	6,411	0	238,867	-265	238,602
0	0	0	-773	0	-773
0	0	0	-773	0	-773
0	0	0	-545	-2,610	-3,155
-22,271	0	0	-22,271	0	-22,271
0	0	46,848	0	0	0
-22,271	0	46,848	-22,816	-2,610	-25,426
449,616	-1,994	0	633,835	1,831	635,666

A.

GENERAL INFORMATION**Information about the Group and Kontron AG (formerly S&T AG)**

Kontron AG (until June 1, 2022 S&T AG) is a leading IoT technology company. Kontron is listed on Deutsche Börse's SDAX® and employs more than 4,400 people in 24 countries worldwide as of December 31, 2022. For more than 20 years, Kontron has been helping companies from a wide variety of industries to achieve economic goals using intelligent solutions. From more efficient industrial processes, smarter and safer transportation to advanced communication, medical and energy solutions, the company offers its customers value-added technologies. With a comprehensive solutions portfolio in its "IT services" segment, Kontron AG is also one of the leading providers of IT services and solutions in Central and Eastern Europe. Following the sale of its "classic" IT service business on December 29, 2022, the Kontron Group is following its growth strategy in the Internet of Things (IoT) technology sector.

Kontron AG is a public limited company under Austrian law and its headquarters are in 4020 Linz, Industriezeile 35, Austria. It is registered at the commercial register court in Linz under FN 190.272 m. The company's shares are listed in the Prime Standard of the Frankfurt Stock Exchange (FWB) in Frankfurt am Main, Germany.

Principles of accounting

The consolidated financial statements of Kontron AG have been compiled according to the financial reporting standards of the International Accounting Standards Board (IASB), of the International Financial Reporting Standards (IFRS) and to the interpretations of the IFRS Interpretation Committee (IFRS IC), as they are to be applied in the European Union, and the additional statements according to Section 245a (1) of the Austrian Civil Code (UGB). Unless otherwise noted, all amounts are denominated in thousands of euros (TEUR). When rounded amounts and percentages are added up, rounding-related calculation differences may occur due to the use of automated calculation aids.

COVID-19-pandemic / chip crisis / climate crisis

Following on from the high growth rates shown by the global economy in 2021 due to catch-up effects after the economic slump associated with the COVID-19-pandemic, a number of new challenges led to a tapering of economic growth in 2022. These include in particular the war in Ukraine, the associated energy crisis, as well as the high inflation rates and interest rate hikes to combat inflation. In financial year 2022, the global bottlenecks in the production of microchips and electronic components ("chip crisis") continued to negatively impact the Kontron Group's business in the form of logistics problems, in particular for deliveries from China due to its zero-COVID policy.

As an internationally active corporate group, Kontron cannot ignore the latest developments and discussions regarding climate change and sustainable business. The Group's management is committed to achieving the climate targets set by politicians (e.g. European Green Deal) and has voluntarily committed itself to the UN Global Compact. With this in mind, management continuously analyses potential sustainability risks, particularly in the areas of climate change and resource shortages. Kontron currently sees no significant risks to its business model in either area. As a result, no significant impact of such risks on the presentation of the Group's assets, finances and earnings is currently expected.

New and changed standards and interpretations

The application of the following new or changed standards and interpretations was mandatory for the first time in financial year 2022:

NEW AND CHANGED STANDARDS AND INTERPRETATIONS – MANDATORY SINCE JANUARY 1, 2022

IFRS 3	Amendments to IFRS 3 Reference to the conceptual framework (published: May 2020)
Miscellaneous	Annual improvements (2018-2020 cycle) (published: May 2020)
IAS 16	Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use (published: May 2020)
IAS 37	Amendments to IAS 37 Onerous Contracts – Costs of fulfilling a contract (published: May 2020)

The first-time application of these new or revised standards has no significant impact on Kontron AG's consolidated financial statements.

The following standards and interpretations or changes to standards have been adopted by the IASB, but are not yet mandatory to apply to financial year 2022. An early application of these standards is not planned at this time. The effects on the consolidated financial statements are currently being evaluated.

STANDARDS ADOPTED BY THE IASB – NOT YET MANDATORY TO APPLY IN FINANCIAL YEAR 2022

PERIOD
OF APPLICATION

		PERIOD OF APPLICATION
IFRS 17	Insurance contracts (published: May 2017)	January 1, 2023
IAS 1	Amendments to IAS 1 Classification of Liabilities as Current or Non-Current (published: January 2020)	January 1, 2023
IAS 8	Amendments to IAS 8 Definition of Accounting Estimates (published: February 2021)	January 1, 2023
IAS 1 / IFRS PS 2	Amendments to IAS 1 and IFRS Practice statement 2 Disclosure of Accounting Policies (published: February 2021)	January 1, 2023
IAS 12	Amendment to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (published: May 2021)	January 1, 2023

Principles of consolidation

Kontron AG's consolidated financial statements include Kontron AG (formerly S&T AG) and all group companies (subsidiaries) controlled directly or indirectly by Kontron AG as fully consolidated companies. As part of determining the scope of consolidation, Kontron AG (investor) analyses whether it directly or indirectly controls the potential subsidiary (investee). Control exists when

- › Kontron AG has power of disposition over the investee,
- › Kontron AG is exposed to variable returns or is entitled to rights to these variable returns due to its relationship with the investee, and
- › Kontron AG has the opportunity to use its power over the investee company to influence the level of variable returns.

The management of Kontron AG reviews the extent to which the requirements for consolidation continue to be met at each reporting date.

Subsidiaries are fully consolidated from the time when Kontron AG has control over them and can exercise control at any time.

Subsidiaries are consolidated as soon as control by the parent company ends; the assets and liabilities as well as proportionate equity components are derecognised accordingly.

Companies over which Kontron AG can have a significant influence (associated companies) are included in the consolidated financial statements using the equity method.

Shares in companies with a shareholding level below 20%, over which Kontron AG cannot exercise any significant influence, are recognised as financial assets and assigned to the category "at fair value through other comprehensive income without recycling" in accordance with IFRS 9.

The uniform reporting date for all companies included in the consolidated financial statements is December 31. The consolidated financial statements are prepared in euros, which is also the functional currency of Kontron AG.

The assets and liabilities of domestic and foreign companies included in the consolidated financial statements are recognised according to consolidated reporting and measurement methods.

All intragroup balances, business transactions, unrealised gains and losses from intragroup transactions and dividends are eliminated in full. In the consolidation processes, the income tax effects are taken into account and deferred taxes are recognised if necessary.

A subsidiary's losses are also attributed to non-controlling interests if this results in a negative balance.

A change in the amount of investment in a subsidiary is recognised as an equity transaction, unless there is a loss of control associated with it.

Business combinations are accounted for using the acquisition method. The cost of a company acquisition is calculated as the sum of the consideration transferred, measured at the fair value at the acquisition date, and the non-controlling interest in the acquired company. For each business combination, Kontron AG measures the non-controlling interest in the acquiree either at fair value or at the corresponding share of the acquiree's identifiable net assets measured at fair value. Costs incurred as a result of the business combination are recognised as an expense and reported as other operating expenses. The results of the companies acquired are included in the consolidated financial statements from the related acquisition date.

If the Group acquires a company, it assesses the appropriate classification and designation of the financial assets and liabilities assumed in accordance with the terms of the contract, economic circumstances and prevailing conditions at the time of acquisition.

An agreed contingent consideration is recognised at fair value at the acquisition date. Subsequent changes in the fair value of a contingent consideration that represent an asset or a liability are recognised through profit or loss. A contingent consideration that is classified as equity is not revalued and its subsequent settlement is accounted for in equity.

Callable or fixed-term equity shares in subsidiaries with put option that are held by non-controlling shareholders represent financial liabilities for the Kontron Group. Such liabilities are initially recorded at fair value in accordance with IFRS 9. Regardless of whether the

non-controlling shareholders are currently beneficial owners of the shares or not, the first consolidation takes place as an early acquisition, i.e. the shares covered by the put option are attributed to the Kontron Group from the outset as if the option had already been exercised. As a result, the liability from the put option is measured at fair value in profit or loss on each reporting date.

At initial recognition, goodwill is measured at acquisition cost, which is measured as a surplus of the total consideration transferred and the amount of the proportion with non-controlling interest over the acquired identifiable assets and assumed liabilities of the Group. If the fair value of the acquired net assets exceeds the total consideration transferred, the Group reassesses whether it has correctly identified all acquired assets and all liabilities assumed and reviews the procedures used to determine the amounts that were to be reported at the acquisition date. If, after reassessment, this consideration is still below the fair value of the acquired subsidiary's net assets, the difference is recognised through profit or loss.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of the impairment test, goodwill acquired in a business combination is assigned on the acquisition date to the cash-generating units of the Group that are expected to benefit from the business combination. This applies regardless of whether other assets or liabilities of the acquired company are allocated to these cash-generating units.

Group of consolidated companies

Comprised in the consolidated financial statements are Kontron AG and all subsidiaries upon which Kontron AG directly or indirectly exerts control. On December 31, 2022, Kontron AG's scope of consolidation consisted of 48 fully consolidated companies (PY: 78). Of these, 6 companies (PY: 7) are based in Austria and 42 companies (PY: 71) are based abroad. As of December 31, 2022, the Group has no shareholding in any company (PY: 0) that is accounted for using the equity method.

The number of fully consolidated companies has developed as follows:

GROUP COMPANIES (NUMBER)	2022	2021
Number of fully-consolidated companies as of January 1	78	81
Companies founded	0	2
Group companies merged	-8	-5
Companies acquired	2	4
Disposals	-24	-4
Number of fully-consolidated companies as of December 31	48	78

Change in the group of consolidated companies in 2022

The following companies were merged in the financial year 2022:

- › Enterprise Concept SRL, Bucharest, Romania: absorbing company Kontron Services Romania SRL (formerly S&T Romania SRL), Bucharest, Romania
- › Axino Solutions GmbH, Aachen, Germany: absorbing company S&T Deutschland GmbH, Mendig, Germany
- › S&T Slovakia s.r.o., Bratislava, Slovakia: absorbing company S&T CEE Holding s.r.o., Bratislava, Slovakia
- › PSB IT-Service GmbH, Ober-Mörlen, Germany: absorbing company CITYCOMP Service GmbH, Ostfildern, Germany
- › S&T Slovenija d.d., Ljubljana, Slovenia: absorbing company S&T Iskratel d.o.o., Kranj, Slovenia
- › S&T Austria GmbH, Linz, Austria: absorbing company computer betting company gmbh, Linz, Austria
- › Kontron Transportation Taiwan Co., Ltd., Taipei, Taiwan: absorbing company Kontron Asia Inc., Taipei, Taiwan
- › ITS Skopje, Skopje, North Macedonia: absorbing company ITS Softver d.o.o., Skopje, North Macedonia

In financial year 2022, the Kontron Group acquired shares in the following companies through business combinations, which will be fully consolidated within the Group:

- › Lucom GmbH Elektrokomponenten und Systeme, Fürth, Germany
- › Arce Mobility Solutions S.A.U., Bilbao, Spain

Acquisition of 100% of shares in Lucom GmbH Elektrokomponenten und Systeme, Fürth, Germany

On August 31, 2022, Kontron AIS GmbH, Dresden, Germany, a 100% subsidiary of Kontron AG, concluded a notarised purchase agreement for the acquisition of 100% of the shares of Lucom GmbH Elektrokomponenten und Systeme, Fürth, Germany. Lucom GmbH Elektrokomponenten und Systeme is a technology company specialising in 5G connectivity equipment and offers its customers products and services related to mobile communication and remote services (M2M & IIoT) as well as automation and security technology. In combination with special software solutions and innovative know-how of the Kontron Group, portfolios of high-margin products based on IoT hardware and software are to be created here in the long term. In addition, the business field of cloud computing is also to be developed accordingly in the direction of the Embedded Cloud.

The purchase price consists of a fixed purchase price paid in cash of TEUR 5,000. The newly acquired company was included as one of Kontron Group's consolidated companies starting September 1, 2022.

The assets and liabilities acquired were recognised at the following preliminary fair values upon the company's initial consolidation in the Group's consolidated financial statements:

NET ASSETS ACQUIRED	IN TEUR
Cash and cash equivalents	75
Property, plant and equipment and intangible assets	985
Deferred tax assets	53
Inventories	890
Trade receivables and contract assets (nominal value TEUR 223)	207
Other current receivables and assets	73
Other non-current liabilities	-145
Deferred tax liabilities	-234
Non-current and current provisions	-60
Trade payables and contract liabilities	-220
Other current liabilities	-240
Net assets at fair value	1,384

GOODWILL	IN TEUR
Consideration transferred	5,000
Net assets at fair value	-1,384
Goodwill	3,616

With this acquisition, Kontron AIS GmbH has expanded its expertise and customer structure with regard to IoT and VPN industrial routers, which are equipped with their own software. The focus here is on machine-to-machine connectivity, which will add to the expertise that Kontron AIS GmbH has in the field of automation. The potential this creates on the industrial market and the expected synergies are reflected in goodwill.

The goodwill resulting from the purchase price allocation was assigned to the "IoT Solutions Europe" segment.

10.A

NOTES 2022

The analysis of the cash flows due to the acquisition of the company takes the following form:

NET CASH FLOW	IN TEUR
Purchase price paid in cash	-5,000
Cash assumed through takeover of subsidiary	75
Cash flow from investing activities	-4,925
Transaction costs from the acquisition of the company	-30
Cash flow from operating activities	-30

Since full consolidation, the company has accounted for TEUR 1,795 of Group revenue and TEUR 100 of net income. Had first consolidation of the company taken place as of January 1, 2022, Group revenues would have changed by TEUR 4,001 and net income by TEUR 315.

Acquisition of 100% of the shares in Arce Mobility Solutions S.A.U., Bilbao, Spain

On August 29, 2022, Kontron Transportation GmbH, Vienna, Austria, signed a notarised purchase agreement with Kapsch TrafficCom AG, Vienna, Austria for its direct 100% subsidiary, Kontron Transportation España SL, Madrid, Spain, for the acquisition of Arce Mobility Solutions, S.A.U., Bilbao, Spain. Arce Mobility Solutions S.A.U. united the public transport division in Spain with the Kapsch TrafficCom Group under one roof. Kontron Transportation GmbH, as a leading provider of end-to-end communication systems for railways, also offers ticketing solutions for public transport. The company expects the acquisition to create synergies in several areas: expansion of the product portfolio and access to additional internal engineering capacities. In addition, Kontron Transportation GmbH is increasing its presence in the public transport sector on the Iberian market and is further expanding its existing business.

The purchase price consists of a fixed purchase price paid in cash of TEUR 7,600. The transaction was completed in December 2022. The newly acquired company was included as one of the Kontron Group's consolidated companies starting December 31, 2022.

The assets and liabilities acquired were recognised at the following preliminary fair values upon the company's initial consolidation in the Group's consolidated financial statements:

NET ASSETS ACQUIRED	IN TEUR
Cash and cash equivalents	985
Property, plant and equipment and intangible assets	2,010
Other non-current assets	3
Deferred tax assets	293
Inventories	338
Trade receivables and contract assets (nominal value TEUR 3,304)	3,070
Other current receivables and assets	40
Other non-current liabilities	-55
Deferred tax liabilities	-469
Non-current and current provisions	-475
Financing liabilities current	-234
Trade payables and contract liabilities	-2,660
Other current liabilities	-537
Net assets at fair value	2,310

GOODWILL	IN TEUR
Consideration transferred	7,600
Net assets at fair value	-2,310
Goodwill	5,290

The aim of the acquisition was to expand business on the Iberian market by increasing expertise and acquiring further customers in the public transport sector. This also complements the existing product portfolio as well as development competencies. These synergies, along with the expertise and know-how of the 115 employees acquired, are reflected in goodwill.

The goodwill resulting from the purchase price allocation was assigned to the "IoT Solutions Europe" segment.

The analysis of the cash flows due to the acquisition of the company takes the following form:

NET CASH FLOW	IN TEUR
Purchase price paid in cash	-7,600
Cash assumed through takeover of subsidiary	751
Cash flow from investing activities	-6,849
Transaction costs from the acquisition of the company	-5
Cash flow from operating activities	-5

As a result of the initial consolidation on December 31, 2022, the company did not contribute either to Group revenues or to Group net income in financial year 2022. Had first consolidation of the company taken place as of January 1, 2022, Group revenues would have changed by TEUR 9,443 and net income by TEUR 335.

Acquisition of assets of CNT Computer, Netzwerke, Technik GmbH, Saarwellingen, Germany, and CNP Computer, Netzwerktechnik Pusse GmbH, Saarwellingen, Germany

Effective January 1, 2022, S&T Deutschland GmbH, Mendig, Germany, a direct 100% subsidiary of Kontron AG, took over assets such as rental and customer contracts as well as IT equipment of CNT Computer, Netzwerke, Technik GmbH, Saarwellingen, Germany, and CNP Computer, Netzwerktechnik Pusse GmbH, Saarwellingen, Germany. CNT Computer, Netzwerke, Technik GmbH as well as CNP Computer, Netzwerktechnik Pusse GmbH particularly serve medium-sized companies in the field of ERP solutions, which will be served from the S&T Deutschland GmbH data centre in the future and will benefit from the extended range of services offered by S&T Deutschland GmbH. Furthermore, the acquisition and the new branch office will further strengthen the position of S&T Deutschland GmbH in the south-east of Germany.

The exclusively fixed purchase price for these assets amounted to TEUR 470.

The acquired assets represent a business in accordance with IFRS 3.

The acquired assets and liabilities have been accounted for in the consolidated financial statement during initial consolidation at the following attributed fair values:

NET ASSETS ACQUIRED	IN TEUR
Property, plant and equipment and intangible assets	648
Other non-current liabilities	-288
Deferred tax liabilities	-80
Other current liabilities	-77
Net assets at fair value	203

GOODWILL	IN TEUR
Consideration transferred	470
Net assets at fair value	-203
Goodwill	267

As part of an asset deal, S&T Deutschland GmbH has taken over not only office furnishings and equipment, but also customer relationships and employees. As a result, they have strengthened their own team and expanded their customer base to sell more services. This is reflected in goodwill. As part of the "Focus" project, S&T Deutschland GmbH and consequently this business were sold.

The goodwill resulting from the purchase price allocations was assigned to the "IT Services" segment.

The analysis of the cash flows due to the acquisition of the business takes the following form:

NET CASHFLOW	IN TEUR
Purchase price paid in cash	-470
Cash flow from investing activities	-470

Deconsolidations

Project “Focus” – sale of significant parts of the IT services business

On August 10, 2022, Kontron AG concluded agreements with VINCI Energies S.A. for the sale of a significant segment of the Kontron Group's IT services business as part of the “Focus” project. Through its Axians brand, VINCI Energies S.A. is a globally operating corporate group for information and communication technology. It is part of the listed French group VINCI. With the sale of its “classic” IT service business, the Kontron Group is pursuing its growth strategy in the Internet of Things (IoT) technology sector. After presentation of the antitrust approvals and the organisational process, the companies in question were legally transferred to the buyer and the divested companies were deconsolidated as of December 29, 2022. The sale includes IT services companies in Germany, Switzerland, Poland, the Czech Republic, Slovakia, Croatia, Serbia, North Macedonia, Albania and Montenegro. 65% of the preliminary purchase price and an agreed trademark usage fee of TEUR 392,391, a sum of TEUR 255,054, was paid in cash in December 2022. A further 20% of the purchase price is payable by March 31, 2023; this instalment includes purchase price adjustments based on the audited financial statements of the companies sold at the time the transaction was closed (closing accounts). The remaining purchase price is payable in instalments of 10% of the purchase price by December 29, 2023, and 5% of the purchase price by June 30, 2024, at the latest.

The companies in Moldova are to be sold in 2023 and are also reported as discontinued operations. The remaining subsidiaries in the “IT Services” segment are the IT services companies in Hungary, Romania and Austria (which corresponds to the operational segment of Kontron AG).

For the Kontron Group, the IT service business disposed of as part of the “Focus” project represents discontinued operations in accordance with IFRS 5. The consolidated income statement was retroactively adjusted accordingly. The amounts relating to the companies sold as part of the “Focus” project are therefore no longer included in the individual items of the consolidated income statement, but the profit or loss after tax is shown in the item “Profit/loss from discontinued operations”.

With closing on December 29, 2022, and loss of control, Kontron sold and deconsolidated the following companies as part of the “Focus” project:

- › S&T Deutschland GmbH, Mendig, Germany
- › CITYCOMP Service GmbH, Ostfildern, Germany
- › S&T CEE Holding s.r.o., Bratislava, Slovakia
- › S&T CZ s.r.o., Prague, Czech Republic
- › S&T Services Polska Sp.z.o.o., Warsaw, Poland
- › S&T Crna Gora d.o.o., Podgorica, Montenegro
- › S&T Poland Sp.z.o.o., Warsaw, Poland
- › S&T Hrvatska d.o.o., Zagreb, Croatia
- › S&T Macedonia d.o.o.e.l., Skopje, North Macedonia
- › S&T Albania Sh.p.k., Tirana, Albania
- › S&T Serbia d.o.o., Belgrade, Serbia
- › Amanox Solutions AG, Berne, Switzerland
- › hamcos IT Service GmbH, Hohentengen, Germany

In April and July 2022, Kontron AG acquired the remaining 51% of the shares in hamcos IT Service GmbH, Hohentengen, Germany, in two tranches for a purchase price of TEUR 1,500 and sold 100% of the shares in the company as part of the “Focus” transaction.

For procedural reasons, the sale of the companies S&T Mold S.R.L., Chisinau, Moldova and S&T IT Technology S.R.L., Chisinau, Moldova will not be carried out until financial year 2023. The corresponding assets and the directly related liabilities are shown in the consolidated balance sheet as “held for sale.”

The discontinued assets and liabilities at the time of sale as well as the net cash inflows are as follows:

NET ASSETS DISPOSED OF	IN TEUR
Cash and cash equivalents	63,083
Property, plant and equipment and intangible assets	61,436
Other non-current assets	9,768
Deferred tax assets	3,807
Inventories	14,125
Trade receivables and contract assets	87,261
Other current receivables and assets	15,188
Financing liabilities non-current	-2,857
Other non-current liabilities	-21,042
Deferred tax liabilities	-1,138
Non-current and current provisions	-1,498
Financing liabilities current	-2,931
Trade payables and contract liabilities	-85,524
Other current liabilities	-24,601
Net assets disposed of at carrying amount	115,077
Preliminary income from sale of subsidiaries	-363,963
Accumulated amount included in OCI	2,620
Result of deconsolidation (profit)	-246,266
Consideration received, satisfied in cash	255,054
Cash and cash equivalents disposed of	-63,083
Net cash inflow	191,971

The cash flows in the cash flow statement attributable to the discontinued operation are shown in the following table:

IN TEUR	2022	2021
Net cash flows from operating activities	-14,380	30,800
Net cash flows from investing activities	184,267	-3,552
Net cash flows from financial activities	-7,140	-7,589

Deconsolidation of other companies of the Kontron Group

In addition to the companies deconsolidated as part of the "Focus" project, the Kontron Group deconsolidated the following companies in financial year 2022:

- › FinTel Holding d.o.o. & co k.d., holdinška družba, Kranj, Slovenia: liquidation, deconsolidation March 2022
- › FinTel holding d.o.o., Kranj, Slovenia: liquidation, deconsolidation March 2022
- › RTSoft Project OOO, Moscow, Russia: sale, deconsolidation May 2022
- › Software Development Center RTSoft OOO, Moscow, Russia: sale, deconsolidation May 2022
- › RTSoft-ES OOO, Moscow, Russia: sale, deconsolidation May 2022
- › RTSoft Smart Grid OOO, Moscow, Russia: sale, deconsolidation May 2022
- › RTSoft Training Center, Moscow, Russia: sale, deconsolidation October 2022
- › Iskratel Ukraine LTD, Kiev, Ukraine: sale, deconsolidation December 2022
- › BeeIN d.o.o., Kranj, Slovenia: sale, deconsolidation December 2022
- › S&T Services Bel LCC, Minsk, Belarus: sale, deconsolidation December 2022
- › Kontron Transportation Saudi for Construction LLC, Riyadh, Saudi Arabia: liquidation, deconsolidation December 2022

The discontinued assets and liabilities as well as the net cash outflows are as follows:

NET ASSETS DISPOSED OF	IN TEUR
Cash and cash equivalents	1,748
Property, plant and equipment and intangible assets	5,187
Other non-current assets	224
Deferred tax assets	216
Inventories	1,338
Trade receivables and contract assets	462
Other current receivables and assets	437
Financing liabilities non-current	-42
Other non-current liabilities	-145
Deferred tax liabilities	-17
Non-current and current provisions	-160
Financing liabilities current	-550
Trade payables and contract liabilities	-1,983
Other current liabilities	-2,604
Net assets disposed of at carrying amount	4,111
Consideration received, satisfied in cash	13
Cash and cash equivalents disposed of	-1,748
Net cash outflow	-1,735

Acquisition of non-controlling interests

In addition to the acquisition of the remaining 51% of the shares in hamcos IT Service GmbH – see explanation under “Project “Focus” – sale of significant parts of the IT services business” – the Kontron Group acquired non-controlling interest in the following companies in financial year 2022:

COMPANY	SHAREHOLDINGS PRIOR TO PURCHASE	PURCHASE	CONSIDERATION IN TEUR	SHAREHOLDINGS AFTER PURCHASE
BeelN d.o.o.	75.00%	25.00%	3	100.00%
Affair OOO	48.00%	52.00%	1,687	100.00%

As of the balance sheet date of December 31, 2022, the following companies are part of the Kontron AG Group:

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COMPANY	HEADQUARTERS	DIRECT PARTICIPATION	PARTICIPATION PREVIOUS YEAR	FUNCTIONAL CURRENCY
Kontron AG	Linz, AT	Parent company	Parent company	EUR
S&T Austria GmbH	Linz, AT	-	100%	EUR
S&T Deutschland GmbH	Mendig, DE	-	100%	EUR
Axino Solutions GmbH	Aachen, DE	-	100%	EUR
Kontron AIS GmbH	Dresden, DE	100%	100%	EUR
RTSoft GmbH	Ismaning, DE	100%	100%	EUR
Lucom GmbH Elektrokomponenten und Systeme	Aachen, DE	100%	-	EUR
CITYCOMP Service GmbH	Ostfildern, DE	-	100%	EUR
PSB IT-Service GmbH	Ober-Mörlen, DE	-	100%	EUR
Kontron Technologies GmbH	Linz, AT	100%	100%	EUR
SecureGUARD GmbH	Linz, AT	69%	69%	EUR
computer betting company gmbh	Linz, AT	100%	100%	EUR
Kontron Services Romania SRL (formerly S&T Romania SRL)	Bukarest, RO	100%	100%	RON
Enterprise Concept SRL	Bukarest, RO	-	100%	RON
S&T Slovakia s.r.o.	Bratislava, SK	-	100%	EUR
S&T Plus s.r.o.	Prague, CZ	100%	100%	CZK
S&T Bulgaria EOOD	Sofia, BG	100%	100%	BGN
S&T CEE Holding s.r.o.	Bratislava, SK	-	100%	EUR
S&T CZ s.r.o.	Prague, CZ	-	100%	CZK
S&T Services Polska Sp.z.o.o.	Warsaw, PL	-	100%	PLN
S&T Crna Gora d.o.o	Podgorica, ME	-	100%	EUR
S&T Hrvatska d.o.o.	Zagreb, HR	-	100%	HRK
S&T Macedonia d.o.o.e.l.	Skopje, MK	-	100%	EUR
S&T Poland Sp.z.o.o.	Warsaw, PL	-	100%	PLN
S&T Services Bel LCC	Minsk, BYN	-	100%	BYR
S&T Consulting Hungary Kft.	Budaörs, HU	100%	100%	HUF
S&T Services Kft	Budaörs, HU	100%	100%	HUF
S&T Albania Sh.p.k.	Tirana, AL	-	100%	ALL
S&T Serbia d.o.o.	Belgrade, RS	-	100%	RSD

COMPANY	HEADQUARTERS	DIRECT PARTICIPATION	PARTICIPATION PREVIOUS YEAR	FUNCTIONAL CURRENCY
S&T Mold S.R.L.	Chisinau, MD	51%	51%	MDL
S&T IT Technology S.R.L.	Chisinau, MD	100%	100%	MDL
S&T MEDTECH SRL	Bukarest, RO	100%	100%	RON
Amanox Solutions AG	Berne, CH	-	100%	CHF
Kontron Austria GmbH	Engerwitzdorf, AT	100%	100%	EUR
Kontron Electronics AG	Rotkreuz, CH	100%	100%	CHF
hamcos IT Service GmbH	Sigmaringen, DE	-	49%	EUR
Kontron Beteiligungs GmbH	Ismaning, DE	100%	100%	EUR
Kontron Europe GmbH	Ismaning, DE	100%	100%	EUR
Kontron Modular Computers S.A.S.	Toulon, FR	100%	100%	EUR
Kontron UK Ltd.	Chichester, GB	100%	100%	GBP
Kontron Electronics GmbH	Frickenhausen, DE	100%	100%	EUR
Kontron Electronics Kft.	Tab, HU	100%	100%	HUF
Kontron America Inc.	San Diego, US	100%	100%	USD
Kontron Canada Inc.	Boisbriand, CA	100%	100%	USD
Kontron Asia Pacific Design Sdn. Bhd.	Penang, MY	100%	100%	MYR
Kontron Technology Beijing Co. Ltd.	Peking, CN	100%	100%	RMB
Kontron Hongkong Technology Co. Ltd.	HongKong, CN	100%	100%	RMB
Kontron Asia Inc.	Taipeh, TW	100%	100%	TWD
Kontron Asia Technology Inc.	Taipeh, TW	100%	100%	TWD
Quanmax Malaysia Sdn. Bhd	Penang, MY	100%	100%	MYR
Kontron Transportation Taiwan Co., Ltd.	Taipeh, TW	-	100%	TWD
Kontron Transportation GmbH	Vienna, AT	100%	100%	EUR
Kontron Transportation Sp. z o.o.	Warsaw, PL	100%	100%	PLN
Kontron Transportation España SL	Madrid, ES	100%	100%	EUR
Arce Mobility Solutions S.A.U.	Bilbao, ES	100%	-	EUR
Kontron Transportation Portugal, Unipessoal LDA	Lissabon, PT	100%	100%	EUR
Kontron Transportation s.r.o.	Prague, CZ	100%	100%	CZK
Kontron Transportation Hungary Kft.	Budaörs, HU	100%	100%	HUF

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COMPANY	HEADQUARTERS	DIRECT PARTICIPATION	PARTICIPATION PREVIOUS YEAR	FUNCTIONAL CURRENCY
Kontron Transportation Saudi for Construction LLC	Riad, SA	-	100%	SAR
Kontron Transportation Deutschland GmbH	Immenstaad am Bodensee, DE	100%	100%	EUR
Kontron Transportation France S.A.S.	Saint Quentin, FR	100%	100%	EUR
Kontron Transportation UK Ltd.	Harrow, GB	100%	100%	GBP
Kontron Public Transportation NV	Diegem, BE	100%	100%	EUR
FinTel Holding d.o.o. & co k.d., holdinška družba	Kranj, SI	-	100%	EUR
FinTel holding d.o.o.	Kranj, SI	-	100%	EUR
IskrateL d.o.o.	Kranj, SI	100%	100%	EUR
S&T Slovenija d.d.	Ljubljana, SI	-	100%	EUR
BeeIN d.o.o.	Kranj, SI	-	75%	EUR
ITS Skopje	Skopje, MK	-	100%	MKD
ITS Softver d.o.o.	Skopje, MK	100%	100%	MKD
IskraCom	Almaty, KZ	100%	100%	KZT
OOO IskrateL Tashkent	Tashkent, UZ	76%	76%	UZS
IskrateL Ukraine LTD	Kiev, UA	-	100%	UAH
AO IskraUralTel Yekaterinburg ^{*)}	Yekaterinburg, RU	48.40%	48.40%	RUB
Affair OOO	Moscow, RU	100%	48%	RUB
RTSoft AO	Moscow, RU	100%	100%	RUB
RTSoft Training Center	Moscow, RU	-	100%	RUB
Interactive Energy Lab OOO	Moscow, RU	-	100%	RUB
RTSoft Project OOO	Moscow, RU	-	74.50%	RUB
Software Development Center RTSoft OOO	Moscow, RU	-	100%	RUB
RTSoft-ES OOO	Moscow, RU	-	100%	RUB
RTSoft Smart Grid OOO	Moscow, RU	-	99%	RUB

*) Control over 51.6% of the shares with non-controlling interest due to a call option exercisable at any time up to and including December 31, 2023. The option is to be seen as a substantive right of Kontron AG as of the reporting date.

Change in the group of consolidated companies in 2021

As of December 31, 2021, the purchase price allocations in connection with the acquisition of shares in PSB IT-Service GmbH, Ober-Mörlen, Germany, in Enterprise Concept SRL, Bucharest, Romania, and the acquisition of the business of Ultraschalltechnik Halle GmbH, Halle (Saale), Germany, were recorded at preliminary fair values.

The final calculation of the acquired assets and liabilities at fair values and the resulting goodwill carried out in financial year 2022 did not result in any change compared to the preliminary recognition as of December 31, 2021.

B.

Accounting and valuation principles

Currency translation

The consolidated financial statements are prepared in euro, which is the functional currency of the parent company. Each subsidiary determines its functional currency, which is the currency of the primary economic environment. The financial statements of the foreign subsidiaries are subsequently converted according to the functional currency concept using the modified closing rate method in accordance with IAS 21.

Expenses and income are converted into the presentation currency of the consolidated financial statements at average exchange rates, while assets and liabilities are converted at closing rates. Foreign exchange gains and losses not yet realised on the balance sheet date are recognised in profit or loss for the period. The equity of the subsidiaries is converted at historical exchange rates, whereby changes in exchange rates are offset against equity without affecting profit or loss and are shown separately in the consolidated statement of changes in equity.

Compared to the previous year, the exchange rates of the most important currencies for the Kontron Group changed as follows:

CURRENCY 1 EURO =	2022 AVERAGE Y-T-D RATE	2022 CLOSING RATE	2021 AVERAGE Y-T-D RATE	2021 CLOSING RATE
ALL	118.95055	114.52762	122.46546	120.82491
BGL	1.95583	1.95583	1.95583	1.95583
BYN	3.01073	2.70181	3.00371	2.89671
CAD	1.36949	1.44400	1.48257	1.43930
CHF	1.00471	0.98470	1.08115	1.03310
CNY	7.07880	7.35820	7.62823	7.19470
CZK	24.56593	24.11600	25.64049	24.85800
DZD	149.76432	147.02031	159.65119	157.62916
GBP	0.85276	0.88693	0.85960	0.84028
HRK	7.53487	7.53650	7.52841	7.51560
HUF	391.28646	400.87000	358.51612	369.19000
KZT	486.06617	495.42150	504.74528	494.45462
MDL	19.88099	20.49198	20.90006	20.16026
MKD	61.60729	61.76473	61.59915	61.74426
MYR	4.62787	4.69840	4.90151	4.71840

CURRENCY 1 EURO =	2022 AVERAGE Y-T-D RATE	2022 CLOSING RATE	2021 AVERAGE Y-T-D RATE	2021 CLOSING RATE
PLN	4.68611	4.68080	4.56518	4.59690
RON	4.93131	4.94950	4.92148	4.94900
RUB	72.64626	75.65530	87.15272	85.30040
SAR	3.95170	4.01407	4.43703	4.25393
TWD	31.33854	32.85820	33.04654	31.43593
UAH	34.25643	39.38988	32.30321	30.98919
USD	1.05305	1.06660	1.18274	1.13260
UZS	11,647.13191	12,014.69122	12,552.58783	12,276.04410
RSD	117.44301	117.27068	117.57432	117.58108

Foreign currency transactions and balances

Foreign currency transactions are converted into the functional currency at the spot rate applicable at the time the transaction is first recognised. Monetary assets and liabilities denominated in a foreign currency are converted into the functional currency at each reporting date using the closing spot rate. Differences arising from the settlement or conversion of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are converted at the exchange rate at the date of the transaction.

Discretionary decisions, estimates and assumptions

The preparation of the consolidated financial statements requires estimates, discretionary decisions and assumptions to be made for certain items that affect the reported amounts of assets, liabilities, income and expenses. All estimates are reassessed on an ongoing basis and are based on historical experience and expectations with regard to future events. As a result of the uncertainty associated with these assumptions and estimates, actual results in future periods may result in adjustments to the assets and liabilities affected.

The main areas in which discretionary decisions, assumptions and estimates are applied include the reporting of acquisitions, the subsequent reporting of goodwill and other intangible assets, the recognition of deferred taxes on tax loss carryforwards, the measurement of inventories and trade receivables, the measurement of provisions, the reporting of leases and the assessment of legal risks as well as the recognition of revenues from contracts with customers. As far as the assumptions made are concerned, we refer to the explanations on the individual items.

Discontinued operations

Kontron sold a significant line of business within the IT service business ("Focus" project) in 2022. The sale included several subsidiaries, all of which are part of the Group's IT services business. Management has classified the divested companies as discontinued operations in these consolidated financial statements (for further details on the sale, see the explanations in section A. under "Project "Focus" – sale of significant parts of the IT services business"). In the opinion of management, the companies sold represent a separate major business component of the Group, as they each represent a separate cash-generating unit and the Group has simultaneously discontinued its entire IT services business with the sale. Of the IT service business, only the IT retail business was retained, which is to be more strongly oriented towards the Internet of Things in the future.

Purchase price allocations

For purchase price allocations in the context of company acquisitions, assumptions are made for the identification and valuation of acquired assets (primarily intangible assets), liabilities and contingent liabilities. When determining the fair values in the course of the purchase price allocation, assumptions are made, primarily about the expected cash flows and the discount rate. Other significant assumptions are the fair value determinations of contingent consideration and put options over non-controlling interests (details on the business combinations can be found in section A under "Changes in the consolidation scope").

Goodwill impairment test

Goodwill is tested for impairment as part of the annual impairment test. For the purpose of this impairment test, goodwill is measured at the level of cash-generating units on the basis of medium-term corporate planning at market- and company-specific discount rates, as well as expected growth rates and exchange rates (for details of the goodwill impairment tests, see section D, note (13)).

Development costs

Development costs are capitalised as per the accounting principles and valuation methods presented above. Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed. For the purpose of determining the amounts to be capitalised, management makes assumptions about the amount of the expected future cash flows from the project, the discount rates to be applied and the period of inflow of the expected future benefits (for details on capitalised development costs, see section D, note (13)).

Deferred tax assets

Deferred tax assets are recognised for unused tax loss carryforwards to the extent that it is probable that taxable income will be available for this purpose so that the loss carryforwards can actually be utilised. Assessment of the timing and amount of future taxable income as well as the future tax planning strategy plays an essential role in determining the amount of capitalisable tax assets. If an existing loss carryforward is not expected to be utilised within a reasonable period of five years on the basis of these future projections, this loss carryforward will not be capitalised (see details of deferred tax assets in section D, note (16)).

Inventory valuation

A standardised evaluation of slow-moving inventory was implemented to take the obsolescence risk into account. In the case of finished products, a systematic review is also carried out with a view to loss-free valuation, which is essentially influenced by sales price expectations, currency developments, the time of sale and the costs still to be expected (see details on inventory valuation in section D, note (17)).

Valuation of trade receivables

The Group uses an impairment matrix to measure expected credit losses on trade receivables and contract assets. The provision ratios are determined on the basis of the overdue period for various receivables portfolios.

The impairment matrix is based on the Group's historical default rates adjusted for forward-looking information. The historical default rates are updated at each reporting date. The assessment of the relationship between historical default rates and expected credit defaults is a significant estimate. The Group's historical defaults and future estimate may not be representative of actual customer defaults in the future.

Defined benefit pension plans and provisions for severance payments and anniversary bonuses

The expense from defined benefit pension commitments, severance payments and anniversary bonuses as well as the present value of these obligations are determined on the basis of actuarial valuations. These valuations are based on various assumptions such as discount rates, future wage and salary increases, pension increases and mortality tables, which may differ from actual developments in the future (see details on provisions for pension obligations and severance payments in section D, note (27)).

Legal risks

As an internationally operating group, the Kontron Group is exposed to a variety of legal risks arising from product liability, competition law, patent law, tax law and other laws as well as contractual obligations. Sufficient provisions have been made in the consolidated financial statements for existing risks. However, no assurance can be given that ongoing proceedings and court decisions will not result in expenses exceeding the provisions made.

Financial reporting of leases

IFRS 16 requires estimates that affect the measurement of lease liabilities and rights of use. These include, among other things, the provisions of contracts that fall under IFRS 16, the contract maturities and the incremental borrowing rate used to discount the future payment obligations. The incremental borrowing rate is derived from the risk-free interest rate of the underlying maturity, adjusted for country, currency and company risk.

Changes in estimates

In financial year 2022, no changes were made to estimates with a significant impact on the consolidated financial statements.

Changes in presentation due to a discontinued operation (IFRS 5)

With the conclusion of contracts for the sale of significant parts of the Kontron Group's IT service business ("Focus" project) in August 2022, the criteria for classification as a discontinued operation under IFRS 5 were met. As a result of the classification as a discontinued operation, corresponding reclassifications of earnings components within the consolidated income statement and in the segment information attributable to discontinued operations were made in the reporting period and in the comparative period. These include the results for the period of the companies sold in the course of the transaction, directly attributable costs to sell, and income and expenses directly attributable to discontinued activities, as well as the deconsolidation result. For the comparative period, the reclassifications were made retroactively.

Revenues from contracts with customers

Timing of the fulfilment of performance obligations

The Group sells consulting, installation and repair services. These services are rendered on a time or material basis and are recognised as revenue according to the time spent or upon acceptance of the service by the customer.

Revenue is recognised over time in cases where

- › the customer receives the benefit from a service of the company and can use it while the service is being provided,
- › the entity's performance creates or enhances an asset over which the customer acquires control during the creation or enhancement; or
- › the entity's performance creates an asset that has no alternative use to the entity and the entity has a legal right to payment for the services already provided.

If services are provided under a fixed-price contract, whereby the contract duration is usually less than one year, revenue is recognised over time according to the stage of completion. In the case of temporary contracts, the degree of completion is determined on the basis of the hours worked to date in relation to the planned total hours. For material contracts, the degree of completion is determined on the basis of the costs incurred to date in relation to the planned total costs.

If circumstances arise that change the original estimates of revenues, costs or completion degree, these estimates shall be adjusted. These adjustments may result in an increase or decrease in the revenues recorded so far and are shown in the results of the period in which management has become aware of these circumstances.

If the result from a customer contract cannot be reliably determined, the contract revenue will only be realised in the amount of the costs incurred. If total contract costs are likely to exceed the total contract revenue, the expected loss is recognised immediately as an expense.

Revenue from the sale of goods and products is recognised when the customer has acquired control of the goods and products sold. This occurs when the goods and products are dispatched, taking into account the Incoterms agreed with the customer in each case. Price discounts and volume rebates represent variable remuneration that is estimated when the contract is concluded and adjusted accordingly in the revenue, so that no significant reversals are highly likely to occur in later periods once the uncertainty associated with the variable remuneration no longer exists.

Allocating the transaction price to performance obligations

Contracts that include the delivery or provision of several separable products or services must be separated into individual components, with a separate revenue contribution determined for each component. In the Kontron Group, this can relate in particular to the combination of hardware installations combined with service business or product deliveries with extended warranty or maintenance services. The price for the entire multi-component transaction is allocated to the individual components on the proportionate individual selling prices basis and revenue is recognised separately for each component.

Principal versus agent consideration

When more than one party is involved in providing goods or services to a customer, an entity must distinguish whether it is acting as a principal and consequently recognises revenues on a gross basis, or as an agent with revenues recognised at the net amount. An entity acts as a principal when it has control over a promised product or service before transferring it to the customer. In the Kontron Group, this distinction is particularly relevant when selling hardware and software from third parties, since Kontron has no control over the products delivered to the customer in individual cases. For further information, see the explanations on the Group's performance obligations in section C, note (1).

Government grants

Government grants related to non-current assets are deducted from the carrying amount of the asset in accordance with the option in IAS 20. The grants are essentially research and development grants.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the acquisition or production cost of that asset. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Share-based payment

According to IFRS 2, a distinction is made in share-based payment between cash-settled and equity-settled transactions. For both instruments, the fair value is determined at the grant date. This is then allocated as a personnel expense over the period during which the beneficiaries acquire an unconditional entitlement to the instruments.

The current remuneration programs of Kontron AG provide for the option to deliver shares to the beneficiaries against payment of the exercise price or to offer a cash settlement, whereby the option lies solely with Kontron AG. As settlement in shares is intended and Kontron AG also has sufficient conditional capital, the commitment must be recognised as an equity-settled transaction. The expenses resulting from the granting of equity instruments and the corresponding increase in equity are recognised for the two stock option programs 2018 (tranche 2018 and tranche 2019) and the two stock option programs 2024/2025 (tranche 2024 and tranche 2025) over the period in which the vesting conditions must be satisfied (so-called vesting period). This period ends on the day of the first exercise, i.e. the date on which the employee concerned becomes irrevocably entitled to subscribe.

The fair values were determined using appropriate option pricing models. The share option plan measured at fair value is recognised in personnel expenses and equity.

Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments recognised as financial assets or financial liabilities are generally reported separately.

Financial instruments are initially recognised at fair value. For subsequent measurement, the financial instruments are assigned to one of the measurement categories listed in IFRS 9:

- › financial assets measured at amortised costs
- › financial assets measured at fair value through other comprehensive income (with recycling)
- › financial assets measured at fair value through profit or loss

In the case of financial assets classified as equity instruments, there is an option to measure them at fair value through other comprehensive income (without recycling).

Financial assets

Financial assets include, in particular, trade receivables, cash at bank, cash in hand, derivative financial assets and marketable securities and similar funds and financial investments. The classification of financial instruments is based on the business model in which the instruments are held and the composition of the contractual cash flows.

Financial assets measured at amortised costs (debt instruments)

Financial assets measured at amortised costs are non-derivative financial assets with contractual payments consisting exclusively of interest payments and repayments on the outstanding nominal amount and which are held with the aim of collecting the contractually agreed cash flows, such as trade receivables, finance lease receivables or cash and cash equivalents ("Hold to collect" business model).

After initial measurement, such financial assets are subsequently measured at amortised costs using the effective interest rate, less impairment for expected loss. Profits and losses are recognised in net income or loss for the period when the asset is derecognised, modified or impaired. The interest effects from the application of the effective interest method and effects from currency conversion are also recognised in profit or loss.

Financial assets (debt instruments) measured at fair value through other comprehensive income (with recycling)

Financial assets that are measured at fair value through other comprehensive income (with recycling) are non-derivative financial assets with contractual payments that consist exclusively of interest and repayments on the outstanding nominal amount and that are held with the aim of both collecting the contractually agreed cash flows and making sales ("Hold to collect and sell" business model). For financial instruments that are measured at fair value through other comprehensive income (with recycling), interest income, revaluations of foreign exchange gains and losses as well as impairment losses or value recovery are recognised as profit or loss and calculated in the same way as for financial assets measured at amortised costs. The remaining changes in fair value are recognised in other comprehensive income. On derecognition, the cumulative profit or loss from changes in fair value recognised in other comprehensive income is reclassified to profit or loss.

Financial assets (equity instruments) measured at fair value through other comprehensive income (without recycling)

On initial recognition, the Group may irrevocably elect to classify its equity instruments as equity instruments measured at fair value through other comprehensive income if they meet the definition of equity in IAS 32 (Financial Instruments: Presentation) and are not held for trading. The classification is done individually for each instrument.

Profits and losses on these financial assets are never reclassified to the income statement. Dividends are recognised in the income statement as other income if the legal entitlement to payment exists, unless the dividends recover part of the acquisition costs of the financial asset. In this case, the gains are recognised in other comprehensive income. Equity instruments measured at fair value through other comprehensive income are not tested for impairment.

The Group has elected to classify its equity instruments in this category.

Financial assets at fair value through profit or loss

The group of financial assets at fair value through profit or loss includes financial assets designated upon initial recognition as at fair value through profit or loss or financial assets that are required to be measured at fair value. Financial assets are classified as held for trading if they have been acquired for sale or repurchase in the short term.

Financial assets at fair value through profit or loss are recognised in the balance sheet at fair value, with changes in fair value recognised net in the income statement.

Impairment of financial assets

The Group recognises an allowance for expected credit losses on all financial instruments that are not measured at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows to be paid under the contract and the total cash flows the Group expects to receive, discounted at an approximation of the original effective interest rate.

Expected credit losses are recognised in two steps. For financial instruments whose default risk has not increased significantly since initial recognition, a risk provision is recognised in the amount of the expected credit losses based on a default event within the next twelve months (12-month ECL). For financial instruments whose default risk has increased significantly since initial recognition, a risk provision must be recognised in the amount of the expected credit losses over the entire remaining term of the respective instrument, regardless of when the default event occurs (lifetime ECL).

For trade receivables, finance lease receivables and contract assets from customer contracts, Kontron applies a simplified method to calculate expected credit losses in the form of a lifetime ECL using an impairment matrix. Therefore, Kontron does not track changes in credit risk in these financial instruments but instead recognises a provision for risk on the basis of the lifetime ECL at each reporting date.

The provision ratios are determined on the basis of the overdue period in days. The calculation includes the probability-weighted income, taking into account the interest effect as well as appropriate and reliable information on past events, current circumstances and expected future economic conditions available at the balance sheet date.

Impairment losses are reversed through profit or loss when the reason for impairment ceases to exist or there is an improvement.

Derecognition

A contractual asset, or part of a financial asset, is derecognised when the contractual rights to receive cash flows from the financial asset have expired or the contractual rights to receive cash flows from the financial asset have been transferred to third parties.

When the Group transfers its contractual rights to receive cash flows from the asset, it assesses whether and to what extent it retains the risks and rewards of ownership.

Financial liabilities

All financial liabilities are initially measured at fair value, less directly attributable transaction costs in the case of loans and liabilities.

The Group's financial liabilities include, in particular, trade payables and other liabilities, loans and overdrafts as well as finance lease liabilities.

Financial liabilities measured at amortised costs

After initial recognition, financial liabilities are measured at amortised costs using the effective interest method.

Liabilities to banks and trade payables are the most significant items in the consolidated financial statements.

A financial liability shall be derecognised when its underlying obligation has been fulfilled, terminated or ceased to exist. Where an existing financial liability is replaced by another financial liability of the same lender under substantially different terms or where the terms of an existing liability are materially modified, such a replacement or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment are valued at acquisition costs less accumulated scheduled straight-line depreciation and impairment losses. Acquisition costs include the purchase price, incidental costs less rebates, bonuses and discounts as well as capitalised borrowing costs. If the acquisition costs of certain items of a property, plant and equipment are material in relation to the total acquisition costs, then these components are recognised and depreciated individually.

Scheduled depreciation is based on the following useful lives:

USEFUL LIFE	YEARS
Buildings and leasehold improvement	4 – 40
Machinery and mechanical equipment	3 – 10
Operating and business equipment	3 – 10
Vehicle fleet	3 – 6
EDP equipment	3 – 5

The residual values, useful lives and depreciation methods are reviewed at the end of each financial year and adjusted prospectively if necessary.

In the case of asset disposals, the difference between the carrying amounts and the net disposal proceeds is recognised in profit or loss under other income (disposal proceeds higher than carrying amount) or under other operating expenses (disposal proceeds lower than carrying amount).

Intangible assets

Intangible assets acquired for consideration are recognised at acquisition cost, taking into account ancillary costs and cost reductions, and amortised on a straight-line basis over their economic useful lives.

Scheduled amortisation is based on the following useful lives:

USEFUL LIFE	YEARS
Software, licensing and trademark rights	2 – 10
Development costs and technology	3 – 10
Customer relations	3 – 5

Research costs are recognised as expenses in the period in which they are incurred. Development costs of a project are capitalised as an intangible asset only if the Group can demonstrate both the technical feasibility of completing the intangible asset allowing internal use or sale and the intention to complete and use or sell the intangible asset. The Group must also demonstrate the generation of future economic benefits from the asset, the availability of resources to complete the asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Development costs are measured after initial recognition using the cost model, i.e. at acquisition cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when the development phase is completed and from the time when the asset can be used. Amortisation is recognised over the period over which future benefits are to be expected. An impairment test is carried out annually during the development phase.

Capitalised development costs include all direct costs and overheads directly attributable to the development process. As part of the purchase price allocation, intangible assets are capitalised for the acquisitions, provided that the requirements for recognition in the balance sheet in accordance with IFRS 3 in conjunction with IAS 38 are met.

Residual carrying amounts, useful lives and amortisation methods are reviewed at the end of each financial year and adjusted prospectively if necessary.

Goodwill

Goodwill is not subject to scheduled amortisation, but is tested for possible impairment at least once a year as at December 31. The carrying amount of the respective cash-generating unit (CGU) or group of CGUs to which goodwill is allocated is compared with its recoverable amount. The recoverable amount is the higher of the two amounts of an asset's net selling price and its value in use. The value in use is determined from the discounted cash flows based on the financial plans approved by management. These cover a period of four years. Cash flows generated after a period of four years are extrapolated using a growth rate of 1.0% (PY: 1.0%), taking into account growth-related accumulation. The planning takes into account past experience as well as the management's current assessments of future market developments. The projected cash flows of cash-generating units are discounted using the weighted average cost of capital (WACC) before tax. If the recoverable amount is less than the carrying amount of the CGU, goodwill allocated to the CGU is initially impaired. In the event of an impairment exceeding the goodwill, there will be an amortisation of the remaining assets of the CGU in proportion to their carrying amounts, but not below their respective recoverable amounts. In addition, an impairment test is also carried out during the year if there is an indication of impairment.

Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are regularly reviewed for indications of impairment.

If there are indications of impairment, an impairment test is carried out and, if necessary, an impairment loss is recognised to the recoverable amount. The recoverable amount is the higher of the two amounts of an asset's net selling price and its value in use. The value in use is the present value of the estimated future cash flows expected from the continued use of an asset and the disposal at the end of its useful life.

For assets other than goodwill, an assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. A previously recognised impairment loss is only reversed if there has been a change in the assumptions used in determining the recoverable amount since the last impairment loss was recognised. The value recovery is limited to the extent that the carrying amount of an asset does not exceed its recoverable amount or the carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised for the asset in previous years.

Inventories

Inventories are recognised at acquisition and production cost or the net selling value, whichever is lower. Manufacturing costs comprise direct costs, production and material overhead, including value adjustments. Fixed overheads are taken into account based on the normal utilisation of the production facilities. Write-offs on inventories are made if the acquisition or production costs are higher than the expected net sales proceeds.

Contract balances from contracts with customers

In return for the transfer of promised goods and services, payments are made by the customer as remuneration. A contract asset represents the contingent right to consideration in exchange for complete fulfilment of the contractual services. When the right to receive the consideration becomes unconditional, a receivable is recognised accordingly. The contractual liability relates to payments received in advance, i.e. before the contractual services have been performed. Contractual liabilities are recognised as revenues as soon as the contractual services have been rendered.

Cash and cash equivalents

The balance sheet item "Cash and cash equivalents" includes cash in hand, bank balances and short-term deposits with an original term of less than three months. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the cash and cash equivalents defined above less cash and cash equivalents with disposal restrictions and current account liabilities.

Non-current assets held for sale and discontinued operations

Non-current assets or disposal groups are classified as held for sale if the associated carrying amount is realised primarily through a sale transaction and not through continued use. These assets are measured at the lower of either the carrying amount or fair value minus costs to sell. Impairments are recognised for these assets provided that the fair value less selling costs is below the carrying amount. In the event of a subsequent increase in fair value less costs to sell, the previously recognised impairment must be reversed. The attribution is limited to the impairment losses previously recognised for the assets in question.

Property, plant and equipment and intangible assets classified as held for sale are not subject to scheduled depreciation.

Assets and liabilities classified as held for sale are shown separately as current items in the balance sheet.

If the requirements for classifying assets as held for sale are no longer met, the assets must no longer be reported as held for sale. The assets are to be measured using the lower of either the carrying amount that would have resulted if the asset had not been classified as held for sale or the recoverable amount at the time that the requirements for classification as held for sale are no longer met.

Discontinued operations are not included in profit and loss from continuing operations and are presented in a separate item in the consolidated income statement as profit and loss after tax from discontinued operations.

Further explanations are given in section D, note (22). All other notes include amounts from continuing operations unless otherwise stated.

Income taxes

Income taxes include the current taxes levied in the individual countries on the taxable profit as well as the change in deferred taxes recognised in profit or loss.

Current income taxes are recognised in the amount expected to be payable based on the statutory provisions enacted or subsequently enacted by the balance sheet date. Tax receivables are offset with tax liabilities if they are due from the same tax authority and there is an offsettable claim.

Deferred taxes are calculated in accordance with IAS 12 using the balance sheet liability method. Accordingly, deferred taxes arise from the temporary differences between the valuations in the tax balance sheet and the consolidated balance sheet (temporary concept). This does not apply to deferred tax arising on the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting income nor taxable income. In addition, deferred taxes from loss carryforwards must also be recognised.

Deferred tax assets for deductible temporary differences, unused tax loss carryforwards and unused tax credits are recognised only to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the unused tax loss carryforwards and tax credits can be utilised.

Deferred taxes are calculated on the basis of the tax rates expected to apply to the period in which an asset is realised or a liability is settled. The tax rates (and tax laws) to be used are those which have been enacted at the balance sheet date.

Deferred tax assets are offset against deferred tax liabilities if the tax creditors are identical and offsetting is legally permissible.

Provisions

Provisions are recognized if the company has a current legal or constructive obligation to third parties due to a previous event, a resource outflow is probable and a reliable estimate of the amount of the obligation is possible. There is a regular review and adjustment of the estimates. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense arising from the provision is shown in the income statement less the reimbursement.

Non-current provisions are recognised at the present value of expected future cash flows if the discounting effect is material.

Provisions for non-current personnel obligations

Provisions for non-current personnel obligations include pension commitments, severance payments and anniversary bonuses, which are based on actuarial methods in accordance with IAS 19 using the projected unit credit method.

The present value of the defined benefit obligation (DBO) is calculated on the basis of the length of service and the expected salary development. The revaluations based on experience adjustments and changes in actuarial assumptions are recognised directly in equity in other comprehensive income in the period in which they occur – with the exception of anniversary provisions. Past service cost is recognised immediately in profit or loss irrespective of the vesting date at the time of the commitment.

Defined benefit pension commitments exist towards employees in Germany and France. In Germany, the statutory framework for occupational retirement provision is specified by the Occupational Pensions Act. In France, there are statutory and collective provisions requiring the company to make one-off payments to its employees upon retirement. The payments are regulated by collective agreements and are based on the length of service and the final salary before retirement.

Provisions for severance payments mainly relate to obligations to employees under Austrian law whose employment relationship began before January 1, 2003. Severance payments under Austrian law are one-off settlements that have to be paid due to labour law regulations when employees are dismissed by the employer and regularly when they retire. The severance payment depends on the number of years of service and the amount of remuneration. The Polish and Slovenian subsidiaries have similar obligations.

Benefits for defined contribution plans based on statutory or voluntary obligations are recognised as an expense when incurred.

Leases

Kontron as lessee

At the beginning of the lease period, the Group assesses whether the contract creates or contains a lease. This is the case when the contract gives the right to control the use of an identified asset for a certain period in exchange for payment of a fee. To assess whether a contract conveys the right to control an identified asset, the Group applies the definition of a lease under IFRS 16.

At the beginning of the lease period, all leases other than short-term leases with a term of 12 months or less and leases of low-value assets are recognised in the balance sheet as a right-of-use asset and a lease liability at the present value of the future lease payments. If an agreement contains both lease and non-lease items, the lease payments are allocated between the two items based on their relative individual selling prices and the non-lease payments are recognised as an expense.

The lease liability is recognised at the present value of the future lease payments over the reasonably certain period of use. The lease payments included in the measurement of the lease liability comprise:

- › Fixed payments, including de-facto fixed payments;
- › variable lease payments linked to an index or (interest) rate, measured for the first time using the index or interest rate applicable on the provision date;
- › amounts payable due to a residual value guarantee; and
- › the exercise price of a call option if the Group is reasonably certain to exercise it, lease payments for a renewal option if the Group is reasonably certain to exercise it, and penalties for early termination of the lease unless the Group is reasonably certain not to terminate early.

The payment series is discounted at the implicit interest rate of the lease or, if this is not readily determinable, at the appropriate incremental borrowing rate of the lease. All other variable payments are recognised as expenses. The lease liability is measured and amortised using the effective interest method. It is remeasured if the future lease payments change due to a change in an index or (interest) rate, if the Group adjusts its estimate of the probable payments under a residual value guarantee, or if the Group changes its estimate of the exercise of a purchase, renewal or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recognised in profit or loss if the carrying amount of the right-of-use asset has decreased to zero.

The acquisition cost of the right of use generally corresponds to the amount of the lease liability at the time of addition. These are to be additionally increased by initial direct costs. Incentive payments from the lessor that have already been paid in reduce the acquisition cost. As part of the subsequent measurement, the right of use is amortised on a straight-line basis over the term of the lease and adjusted for any impairment losses. If the leased asset becomes the property of the Group at the end of the lease or if a purchase option or a right of tender is sufficiently certain, the right of use is depreciated over the economic life of the underlying asset.

The lease term is the reasonably certain period of time over which an asset is leased. In addition to the non-terminable basic lease period, additional periods of extension options are included if their utilisation is sufficiently secure at the start of use and periods of notice if their exercise is not sufficiently secure. This assessment is reviewed when either events beyond the lessee's control or significant changes in circumstances occur that require a change in the lease term. The lease term is adjusted if a renewal option is exercised or a termination option is not exercised and these were not taken into account in the original estimate. The adjustment of the lease term results in a changed future payment series and thus to a revaluation of the lease liability using the current interest rate. The resulting difference is recognised in the right of use without affecting profit or loss. Derecognition amounts that exceed the carrying amount of the right of use are recognised as an expense in profit or loss.

Kontron as lessor

Finance lease

If the conditions for a finance lease are met, the present value of the future lease payments (net investment value) is recognised as a receivable from the lessee. The difference between the gross lease receivables and the net investment value is accrued as unrealised financial income. The financial income is distributed over the term of the contracts through a constant periodic interest rate on the outstanding net investments.

Operating leases

Assets leased to customers under operating leases are classified as property, plant and equipment and depreciated over their normal useful lives in accordance with the treatment of property, plant and equipment. The resulting rental income is recognised in the income statement on a straight-line basis over the term of the lease.

Determination of the fair value

Kontron AG measures financial instruments such as derivatives or contingent purchase price obligations at fair value at each reporting date. The fair values of financial instruments measured at amortised costs can be found in section E, note (33).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In measuring fair value, it is assumed that the transaction in which the asset is sold or the liability is transferred takes place either in the principal market for the asset or liability or in the most advantageous market for the asset or liability if there is no principal market.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability. It is assumed that the market participants will act in their best economic interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. The use of relevant observable inputs must be maximised while minimising the use of unobservable inputs.

All assets and liabilities for which fair value is determined or recognised in the financial statements are classified in the fair value hierarchy described below, based on the lowest level input factor that is material to the overall fair value measurement:

- › Level 1: the market prices used in an active market (unadjusted) of identical assets and liabilities
- › Level 2: Valuation techniques for which the lowest-level input that is significant to the overall fair value measurement is observable on the market, either directly or indirectly
- › Level 3: Valuation techniques for which the lowest-level input that is significant to the overall fair value measurement is not observable in the market



Notes to the consolidated income statement

01 Revenues from contracts with customers

Revenue streams

Revenues break down as follows:

IN TEUR	2022	2021 (ADJUSTED)	2021 (BEFORE ADJUSTMENT)
Sale of products featuring proprietary technologies (hardware and software)	518,169	454,158	454,158
Sale of products from third parties (hardware and software)	234,663	246,103	384,778
Recurring operating services	336,756	288,724	455,714
One-time project services	6,507	13,950	47,303
Total revenues from contracts with customers	1,096,095	1,002,935	1,341,953
Of which Austria	102,568	105,578	108,211
Of which outside Austria	993,527	897,357	1,233,742

The allocation of sales revenues according to the domestic/foreign category is based on the respective registered office of the customer.

2022 IN TEUR	IT SERVICES	IOT SOLUTIONS EUROPE	IOT SOLUTIONS AMERICA	TOTAL
Sale of products featuring proprietary technologies (hardware and software)	0	408,640	109,529	518,169
Sale of products from third parties (hardware and software)	95,077	139,402	184	234,663
Recurring operating services	125,847	191,304	19,605	336,756
One-time project services	522	5,985	0	6,507
Total revenues from contracts with customers	221,446	745,331	129,318	1,096,095

2021 IN TEUR (ADJUSTED)	IT SERVICES	IOT SOLUTIONS EUROPE	IOT SOLUTIONS AMERICA	TOTAL
Sale of products featuring proprietary technologies (hardware and software)	0	361,007	93,151	454,158
Sale of products from third parties (hardware and software)	88,403	157,380	320	246,103
Recurring operating services	122,644	156,528	9,552	288,724
One-time project services	8,761	4,552	637	13,950
Total revenues from contracts with customers	219,808	679,467	103,660	1,002,935
2021 IN TEUR (BEFORE ADJUSTMENT)	IT SERVICES	IOT SOLUTIONS EUROPE	IOT SOLUTIONS AMERICA	TOTAL
Sale of products featuring proprietary technologies (hardware and software)	0	361,007	93,151	454,158
Sale of products from third parties (hardware and software)	227,078	157,380	320	384,778
Recurring operating services	289,634	156,528	9,552	455,714
One-time project services	42,114	4,552	637	47,303
Total revenues from contracts with customers	558,826	679,467	103,660	1,341,953

Of the revenues generated in the financial year 2022, TEUR 0 (PY adjusted: TEUR 0; before adjustment: TEUR 2,295) result from activities as an agent, which are recognised at their net amount.

No sales with a right of return were made in financial year 2022.

Contract balances

IN TEUR	31.12.2022	31.12.2021 (RECLASS.)
Contract assets	55,288	51,489
Contract liabilities	84,025	101,977

Contract assets are initially recognised as revenue from development and IT projects for which Kontron has (partially) fulfilled its contractual obligations before the customer has paid the consideration or the consideration has become due. Upon maturity, the corresponding contract asset is reclassified to trade receivables.

Contract assets as of December 31, 2021, show a reclassification from trade receivables in the amount of TEUR 18,461, as the corresponding invoicing had not yet been carried out.

The development of the contract assets is as follows:

IN TEUR	31.12.2022	31.12.2021 (RECLASS.)
As of 1.1.	51,489	23,754
Additions	41,958	44,193
Partially invoiced	-30,838	-16,537
Reclassification to assets classified as held for sale	-7,232	0
Currency translation	-89	79
As of 31.12.	55,288	51,489

The contract liabilities mainly include customer down payments and advance payments received for project services for which the contractually guaranteed goods and services of Kontron have not (fully) been transferred or provided to the customer. Of the contract liabilities, TEUR 5,532 (PY: TEUR 16,952) are reported under non-current liabilities and TEUR 78,493 (PY: TEUR 85,025) are reported under current liabilities.

The development of contractual liabilities is as follows:

IN TEUR	2022	2021
As of 1.1.	101,977	85,992
Additions	70,185	63,325
Recognised as revenues	-53,885	-48,374
Reclassification to liabilities classified as held for sale	-31,612	0
Disposal from changes in consolidated companies	-1,443	0
Currency translation	-1,197	1,034
As of 31.12.	84,025	101,977

Performance obligations

Sale of products featuring proprietary technologies (hardware and software)

The performance obligation for the sale of proprietary technology products is fulfilled at the time when the control of the asset is transferred to the customer. This is generally the case on delivery of the proprietary technology products, taking into account the respectively agreed incoterms. The payment term is usually between 30 and 90 days after delivery. Price reductions or quantity discounts are only granted in exceptional cases. The same applies to return rights: in these cases, proprietary technology products are made available free of charge to customers as part of test positions or proof of concept.

The Group grants customary warranty rights for its own products that represent an assurance that the product in question meets the contractually agreed specifications (so-called assurance-type warranty). In a few cases, additional extended warranties or maintenance services are offered, which constitute a separate performance obligation in a combined contract. In these cases, the total consideration is allocated between performance obligations based on relative individual selling prices and revenues are recognised over the warranty or maintenance period.

Sale of products from third parties (hardware and software)

The performance obligation for trading in third-party products, for example HP, IBM, Cisco or Microsoft, where the sale of the hardware and software is the only performance obligation, is fulfilled at the time when control of the asset is transferred to the customer. This is generally the case when the products are delivered. The payment term is usually between 14 and 30 days after delivery. Subsequent price reductions, quantity discounts or return rights are only granted in exceptional cases. The legal warranty obligation in these cases lies with the manufacturer of the products. In this case, Kontron will only act as an agent for the handling of the manufacturer's warranty obligations against separate commissioning and payment by the manufacturer.

In the majority of cases, various consulting services in the area of product selection or licence optimisation together with the actual transfer of the software licence form a uniform performance obligation, which is why it can be assumed that Kontron acts as the principal. Only in exceptional cases does Kontron engage in pure license trading (such as a value added reseller). In this case, the Group does not acquire control of the delivered products or licenses before they are transferred to the customer. In these cases, Kontron acts as an agent and recognises revenues only to the extent of the net amounts to which it is entitled as consideration for the agency services.

Provision of recurring IT operating services

The performance obligation for recurring operating services, such as maintenance and support contracts for IT infrastructure and applications, is fulfilled over the period of the underlying contracts. Invoices are usually issued monthly with a payment term of between 14 and 30 days. There are no discounts in this area.

Provision of project services

The performance obligation for project services is fulfilled over the duration of the projects. Revenues in this area are recognised over time in accordance with the progress of the services rendered. As a rule, payment is due upon achievement of contractually agreed key dates with a payment term of between 14 and 30 days. Some contracts also provide for advance payments by customers.

The Group's performance obligations not fulfilled or only partially fulfilled as of December 31, 2022, will be offset by future revenues (transaction prices) in financial year 2023 and the following financial years:

IN TEUR	IT SERVICES	IOT SOLUTIONS EUROPE	IOT SOLUTIONS AMERICA	TOTAL
Financial year 2023	111,430	512,704	211,896	836,030
Financial years after 2023	10,031	556,092	57,412	623,535

IN TEUR	IT SERVICES	IOT SOLUTIONS EUROPE	IOT SOLUTIONS AMERICA	TOTAL
Financial year 2022	93,774	439,361	105,541	638,676
Financial years after 2022	43,057	439,489	38,461	521,007

02 Capitalised development costs

In the financial year 2022, development costs in the amount of TEUR 23,393 (PY adjusted: TEUR 21,223; PY before adjustment: 21,455) were capitalised.

03 Other income

Other income consists of the following items:

IN TEUR	2022	2021 (ADJUSTED)	2021 (BEFORE ADJUSTMENT)
Income from the derecognition of liabilities	1,411	245	251
Income from the release of contingent consideration	11,223	7,613	7,613
Charging on of costs, indemnification for damages experienced	253	131	447
Income from contraventions of contracts by clients	16	20	20
Income from sale of fixed assets	229	1,891	2,276
Rental income	442	494	628
Income from recoveries of trade receivables prior written-off	48	96	96
Income from cost allocations to discontinued operations	4,073	3,644	0
Other income	1,956	478	2,198
Total other income	19,651	14,612	13,529

Income from the release of contingent consideration amounts to TEUR 11,223 and results from the adjustment or derecognition of the purchase price liabilities in connection with the company acquisitions made in the previous periods. In the previous year, this resulted in income of TEUR 2,047 from earn-out adjustments to company results achieved, TEUR 468 associated with a final instalment and the subsequent dissolution of the remaining purchase price liability. An additional TEUR 5,099 resulted from the exercise of a contractually agreed call option, for which the strike price was below the passivated amount for the put option. For more details, see the explanations in section D, note (25).

The income from sale of fixed assets in the previous year mainly includes income from the sale of buildings and income from the transfer of rental rights.

Income from cost allocation to discontinued operations includes income from allocation of costs associated with management services and brand usage rights.

04 Expenses for materials and other services purchased

The cost of materials is the expense for the procurement and contract manufacturing of the products sold, including incidental acquisition costs.

The expenses for material and other services purchased consists of the following items:

IN TEUR	2022	2021 (ADJUSTED)	2021 (BEFORE ADJUSTMENT)
Expenses for materials	570,521	492,337	614,115
Services purchased	147,702	145,769	231,016
Incoming freight and others	8,414	6,552	6,599
Expenses for materials and other services purchased	726,637	644,658	851,730

05 Personnel expenses

Personnel expenses break down as follows:

IN TEUR	2022	2021 (ADJUSTED)	2021 (BEFORE ADJUSTMENT)
Wages and salaries	209,050	186,005	247,477
Expenses for severance payments, for payments into corporate employee benefit funds and similar obligations	912	2,766	2,788
Expenses for legal-mandated social levies and obligatory contributions	46,796	45,275	59,764
Other social security obligations	1,997	3,523	4,205
Personnel expenses	258,755	237,569	314,234

NUMBER OF EMPLOYEES	2022	2021 (ADJUSTED)	2021 (BEFORE ADJUSTMENT)
Employees Austria	625	617	617
Employees outside Austria	3,850	3,924	5,589
Employees as of end of the year	4,475	4,541	6,206

The average number of employees in continuing operations in financial year 2022 was 4,378 (PY adjusted: 4,509; before adjustment: 6,146).

Various subsidiaries of the Kontron Group made use of government support schemes such as short-time work in times of lockdowns. In total, the support services used for personnel expenses in the past financial year amounted to TEUR 341 (PY adjusted: TEUR 5,649; before adjustment: TEUR 5,891). In the consolidated financial statements, these are shown netted with the personnel expenses.

06 Depreciation and amortisation

The expense for depreciation and amortisation is composed as follows:

IN TEUR	2022	2021 (ADJUSTED)	2021 (BEFORE ADJUSTMENT)
Depreciation of property, plant and equipment	23,581	24,600	34,552
Impairment on tangible assets	551	0	0
Amortisation of intangible assets	22,448	25,412	29,041
Impairment on intangible assets	25,429	0	0
Total depreciation and amortisation	72,009	50,012	63,593

The impairment losses on intangible assets are primarily attributable to capitalised development projects, which have been discontinued due to Kontron's strategic realignment.

07 Other operating expenses

Other operating expenses break down as follows:

IN TEUR	2022	2021 (ADJUSTED)	2021 (BEFORE ADJUSTMENT)
Rental and leasing expenses	1,870	2,460	3,146
Maintenance and ancillary expenses	15,893	12,091	14,269
Insurance	2,254	2,116	2,789
Transport expenses	3,130	3,271	4,188
Travel expenses and expenses for company cars	8,198	5,770	8,887
Mail and telecommunication	1,776	1,634	2,440
Expenses for contracted personnel and consulting	14,053	10,734	12,943
Expenses for advertising	5,731	4,429	5,368
Legal, tax advisor and audit expenses	4,518	4,084	5,169
Expenses for training and education	1,064	1,038	1,543
Expenses for guarantees and indemnification	2,423	426	392
R&D expenses not eligible for capitalisation	4,340	4,569	4,574
Licenses expenses	3,763	4,337	4,550
Commissions	3,102	2,443	2,443
Bank commissions and similar expenses	1,652	1,697	2,194
Taxes and charges not comprised in taxes on income and earnings	2,660	2,402	3,143
Other operating expenses	7,328	2,970	6,667
Total other operating expenses	83,754	66,469	84,703

The rental and leasing expense item includes expenses for leases with a term of up to 12 months in the amount of TEUR 1,651 (PY adjusted: TEUR 2,249; before adjustment: TEUR 2,896). Expenses amounting to TEUR 204 (PY adjusted: TEUR 210; before adjustment: TEUR 250) are attributable to low-value leasing agreements.

08 Financial result

The financial result is broken down as follows:

IN TEUR	2022	2021 (ADJUSTED)	2021 (BEFORE ADJUSTMENT)
Interest income from banks	851	415	539
Interest income from finance leases	515	331	393
Other interest and finance income	45	611	654
Finance income	1,411	1,357	1,586
Interest paid to banks	-6,579	-4,867	-5,189
Interest expenses from finance leases	-1,197	-1,271	-1,413
Interest expenses from compounded purchase price liabilities	-286	-2,120	-2,120
Other interest and finance expenses	-1,987	-722	-1,317
Finance expenses	-10,049	-8,980	-10,039
Financial result	-8,638	-7,623	-8,453

Net results from financial instruments:

IN TEUR	2022	2021 (ADJUSTED)	2021 (BEFORE ADJUSTMENT)
At fair value through profit or loss	-498	554	597
At fair value through other comprehensive income	-44	-2	-2
Financial assets at amortised costs	-3,946	-942	-1,529
Liabilities at fair value	11,566	7,460	7,460
Total	7,078	7,070	6,526

The calculation of the net result from financial instruments includes value adjustments and write-ups, income and expenses from currency translation, gains or losses on disposal and other changes in the fair value of financial instruments recognised in profit or loss. The net result of liabilities at fair value includes redemption from contingent considerations for company acquisitions, in particular from the purchase price adjustment in connection with the acquisition of the Iskratel Group amounting to TEUR 10,369 (PY: TEUR 1,876).

09 Income taxes

The income tax expense is broken down as follows:

IN TEUR	2022	2021 (ADJUSTED)	2021 (BEFORE ADJUSTMENT)
Current income taxes	-10,634	-4,690	-8,972
Ensuing and reversal of temporary differences	9,143	-562	-1,193
Expense/income due to reporting of tax losses carried forward	-689	3,264	4,905
Income taxes reported in the consolidated income statement	-2,180	-1,988	-5,260

The following table shows a reconciliation of the expected income tax expense, which would theoretically result from applying the current domestic income tax rate of 25% (previous year: 25%) at Group level, to the income tax expense actually reported in the Group.

IN TEUR	2022	2021 (ADJUSTED)	2021 (BEFORE ADJUSTMENT)
Earnings before taxes	-10,654	32,439	54,224
Expenses for income taxes at a tax rate of 25% (PY: 25%)	2,664	-8,110	-13,556
Divergent non-Austrian rates of taxation	639	250	1,341
Income taxes for prior period	-336	-1,097	-944
Value adjustment in deferred taxes	-1,760	3,440	4,905
Utilisation of losses carried forward not previously capitalised	1,671	3,398	3,899
Non capitalised losses carried forward in current financial year	-5,425	-3,102	-3,191
Earnings/expenses with no effects on taxes	588	2,981	1,956
Other divergences	-221	252	330
Income tax expenses/earnings reported	-2,180	-1,988	-5,260

10 Profit/loss from discontinued operations

On August 10, 2022, Kontron AG concluded contracts with VINCI Energies S.A. for the sale of significant parts of the Kontron Group's IT Services business ("Focus" project) – for more details, see section A under "Project "Focus" – sale of significant parts of the IT services business". As a result of this agreement, the affected companies from the Kontron Group's "IT Services" segment will be reported as discontinued operations. The previous year's figures were adjusted retroactively.

The result of discontinued operations in the reporting period and the comparison period is as follows:

IN TEUR	2022	2021
Revenues	387,418	339,018
Capitalised development costs	372	232
Other income	1,667	2,561
Gain on sale of discontinued operations	234,503	0
Expenses for materials and other services purchased	-246,414	-207,072
Personnel expenses	-79,414	-76,665
Depreciation and amortisation	-12,919	-13,581
Other operating expenses	-28,260	-21,878
Result from operations	256,953	22,615
Finance income	192	231
Finance expenses	-1,428	-1,061
Financial result	-1,236	-830
Earnings before taxes	255,717	21,785
Income taxes	-11,003	-3,272
Profit/loss from discontinued operations	244,714	18,513

The profit from the sale of the discontinued operations includes expenses of TEUR 11,763 directly attributable to the sale. No income taxes were incurred as a result of the sale of the discontinued operations.

11 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to Kontron AG shareholders by the weighted average number of ordinary shares outstanding during the reporting period. Treasury shares held by the company shall be deducted when calculating the average number of shares outstanding.

For the calculation of diluted earnings per share, the result for the period is adjusted for all changes in expenses and income that would have resulted from a conversion of the outstanding stock options. For the calculation of the number of shares, the weighted average number of ordinary shares issued in the reporting period was increased by the weighted average number of shares that would result from the conversion of all stock options into ordinary shares.

As of the balance sheet date of December 31, 2022, the company has adopted four stock option programs. In addition, 2,000,000 warrants, consisting of 1,500,000 allotted and 500,000 publicly offered warrants, were issued in the financial year 2020 on the basis of a prospectus approved by the Austrian Financial Market Authority. For explanations, see section D, note (23) and section E, note (38).

Diluted earnings per share are calculated on the assumption that all option rights from the four stock option programs are exercised. The warrants are not included, as this only has to be done once the strike price of EUR 32.86 has been reached.

		2022	2021
Profit/loss from continuing operations	TEUR	-12,834	30,451
Profit/loss from discontinued operations	TEUR	244,714	18,513
Results from the period attributable to owners of non-controlling interests	TEUR	-576	704
Net income after subtraction of NCI (non-controlling interest)	TEUR	232,456	48,260
Average number of shares issued (undiluted)	Number in thousand	63,631	63,958
Average number of shares issued (diluted)	Number in thousand	64,828	64,958
Earnings per share from continuing operations (undiluted)	EUR/piece	-0.19	0.47
Earnings per share from continuing operations (diluted)	EUR/piece	-0.19	0.46

The following table shows the development of the average number of shares in circulation undiluted and diluted:

AVERAGE NUMBER OF SHARES IN CIRCULATION UNDILUTED (NUMBER IN THOUSAND)	2022	2021
Shares issued as of January 1	66,096	66,096
Effect of treasury shares as well as due to withdrawal following resolution by the Annual General Meeting	-2,466	-2,138
Average number of shares in circulation undiluted as of December 31	63,631	63,958

AVERAGE NUMBER OF SHARES IN CIRCULATION DILUTED (NUMBER IN THOUSAND)	2022	2021
Shares issued as of January 1	63,631	63,958
Effect of the stock options issued	1,197	1,000
Average number of shares in circulation diluted as of December 31	64,828	64,958

D.

Notes to the consolidated balance sheet

12 Property, plant and equipment

Property, plant and equipment developed as follows:

IN TEUR	PROPERTY, PLANT AND LEASEHOLD IMPROVEMENTS	OTHER FACILITIES, OPERATING AND BUSINESS EQUIPMENT	RIGHT OF USE	TOTAL
ACQUISITION COSTS				
As of January 1, 2022	64,547	65,176	95,914	225,637
Additions	966	9,231	13,620	23,817
Additions through changes in consolidated companies	15	47	681	743
Reclassifications	7	222	-229	0
Disposals	-2,411	-7,732	-13,228	-23,371
Disposals from changes in consolidated companies	-11	-387	-2,054	-2,452
Reclassification to assets classified as held for sale	-11,473	-15,598	-25,727	-52,798
Currency translation differences	694	2,429	416	3,539
As of December 31, 2022	52,334	53,388	69,393	175,115
ACCUMULATED DEPRECIATION				
As of January 1, 2022	9,431	34,175	49,495	93,101
Additions	2,203	10,469	16,913	29,585
Reclassifications	8	89	-97	0
Disposals	-2	-5,200	-11,401	-16,603
Disposals from changes in consolidated companies	-1	-93	-1,416	-1,510
Reclassification to assets classified as held for sale	-2,277	-11,191	-14,838	-28,306
Currency translation differences	621	2,427	323	3,371
As of December 31, 2022	9,983	30,676	38,979	79,638
Carrying amount as of December 31, 2022	42,351	22,712	30,414	95,477

IN TEUR	PROPERTY, PLANT AND LEASEHOLD IMPROVEMENTS	OTHER FACILITIES, OPERATING AND BUSINESS EQUIPMENT	RIGHT OF USE	TOTAL
ACQUISITION COSTS				
As of January 1, 2021	60,274	50,283	90,084	200,641
Additions	2,882	18,498	14,001	35,381
Additions through changes in consolidated companies	502	304	320	1,126
Reclassifications	1,211	-1,211	0	0
Disposals	-733	-3,369	-9,511	-13,613
Disposals from changes in consolidated companies	0	-923	-196	-1,119
Currency translation differences	411	1,594	1,216	3,221
As of December 31, 2021	64,547	65,176	95,914	225,637
ACCUMULATED DEPRECIATION				
As of January 1, 2021	6,966	23,240	35,315	65,521
Additions	2,230	11,567	20,755	34,552
Reclassifications	18	-18	0	0
Disposals	-55	-1,574	-7,080	-8,709
Disposals from changes in consolidated companies	0	-390	-132	-522
Currency translation differences	272	1,350	637	2,259
As of December 31, 2021	9,431	34,175	49,495	93,101
Carrying amount as of December 31, 2021	55,116	31,001	46,419	132,536

The Group has entered into lease agreements primarily for real estate and vehicles. Leasing agreements for real estate usually have terms of between 4 and 10 years. For vehicles, the term is usually between 3 and 5 years.

10.D

NOTES 2022

The carrying amounts of the rights of use by asset class are broken down as follows:

IN TEUR	2022	2021
Properties	23,923	34,698
Operating and business equipment	113	1,709
Car fleet	6,378	10,012
Total carrying amount of right of use assets	30,414	46,419

The depreciation amount of the rights of use by asset class breaks down as follows:

IN TEUR	2022	2021
Properties	11,507	13,792
Operating and business equipment	673	1,196
Car fleet	4,733	5,767
Total depreciation of right of use assets	16,913	20,755

13 Intangible assets and goodwill

The development of intangible assets is as follows:

IN TEUR	PURCHASED SOFTWARE AND LICENSES	CAPITALISED DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	GOODWILL	TOTAL
ACQUISITION COSTS					
As of January 1, 2022	38,142	115,324	74,506	208,251	436,223
Additions	4,215	25,206	0	0	29,421
Additions through changes in consolidated companies	0	0	2,900	9,172	12,072
Reclassifications	-774	774	0	0	0
Disposals	-1,444	-18,758	-379	0	-20,581
Disposals from changes in consolidated companies	-1,120	-2,720	-194	-465	-4,499
Reclassification to assets classified as held for sale	-2,185	-1,431	-21,526	-27,955	-53,097
Currency translation differences	2,272	3,902	613	409	7,196
As of December 31, 2022	39,106	122,297	55,920	189,412	406,735
ACCUMULATED AMORTISATION					
As of January 1, 2022	19,399	48,107	56,258	0	123,764
Additions	3,481	42,947	8,914	0	55,342
Reclassifications	0	0	0	0	0
Disposals	-663	-18,371	-233	0	-19,267
Disposals from changes in consolidated companies	-44	-57	-152	0	-253
Reclassification to assets classified as held for sale	-896	-875	-17,563	0	-19,334
Currency translation differences	2,131	2,204	312	0	4,647
As of December 31, 2022	23,408	73,955	47,536	0	144,899
Carrying amount as of December 31, 2022	15,698	48,342	8,384	189,412	261,836

The amortisation of capitalised development costs includes an impairment loss of TEUR 25,429 in the current financial year. This was due to the strategic realignment of Kontron AG. See also the explanations in section C, note (6). The goodwill disposed of was calculated on the basis of the ratio of the values in use between the discontinued and continuing operations and concerns the cash-generating units "Services DACH" and "Services EE."

10.D

NOTES 2022

IN TEUR	PURCHASED SOFTWARE AND LICENSES	CAPITALISED DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	GOODWILL	TOTAL
ACQUISITION COSTS					
As of January 1, 2021	33,665	89,981	71,542	199,481	394,669
Additions	4,953	20,954	0	0	25,907
Additions through changes in consolidated companies	43	0	3,132	7,746	10,921
Reclassifications	-557	557	0	0	0
Disposals	-1,696	-773	-1,031	0	-3,500
Disposals from changes in consolidated companies	-12	0	0	0	-12
Currency translation differences	1,745	4,605	863	1,024	8,237
As of December 31, 2021	38,141	115,324	74,506	208,251	436,222
ACCUMULATED AMORTISATION					
As of January 1, 2021	14,850	31,283	46,257	0	92,390
Additions	4,569	13,974	10,498	0	29,041
Reclassifications	13	-13	0	0	0
Disposals	-1,663	-291	-1,031	0	-2,985
Disposals from changes in consolidated companies	-9	0	0	0	-9
Currency translation differences	1,639	3,154	534	0	5,327
As of December 31, 2021	19,399	48,107	56,258	0	123,764
Carrying amount as of December 31, 2021	18,742	67,217	18,248	208,251	312,458

Other intangible assets include the brands identified in the context of company acquisitions with a carrying amount of TEUR 2,964 as of December 31, 2022 (PY: TEUR 5,274), customer relations of TEUR 3,599 (PY: TEUR 7,224), order backlog of TEUR 1,144 (PY: TEUR 1,420) and technologies of TEUR 677 (PY: TEUR 4,330).

As of the balance sheet date, the Kontron Group had no intangible assets with indefinite useful lives, except for goodwill (PY: TEUR 0).

Goodwill results from the positive differences between the costs of company acquisitions and the fair values of the net assets acquired at the acquisition date. The goodwill recognised relates to the following cash-generating units (CGU):

IN TEUR	2022	2021
Cash-generating unit "Services DACH"	21,268	33,861
Cash-generating unit "Services EE"	9,448	24,583
Cash-generating unit "IoT Solutions"	6,462	6,462
Cash-generating unit "IoT Industry"	56,413	54,658
Cash-generating unit "IoT Transportation"	64,832	59,409
Cash-generating unit "IoT Communications"	5,316	3,951
Cash-generating unit "IoT Asia"	6,129	6,129
Cash-generating unit "IoT America"	19,544	19,198
Goodwill as of December 31	189,412	208,251

The following table shows the pre-tax discount rates used in the impairment tests for the individual cash-generating units:

	2022	2021
Cash-generating unit "Services DACH"	13.2%	11.4%
Cash-generating unit "Services EE"	15.9%	13.4%
Cash-generating unit "IoT Solutions"	14.2%	10.3%
Cash-generating unit "IoT Industry"	13.8%	13.1%
Cash-generating unit "IoT Transportation"	12.0%	10.0%
Cash-generating unit "IoT Communications"	16.0%	12.0%
Cash-generating unit "IoT Asia"	12.5%	12.3%
Cash-generating unit "IoT America"	12.4%	12.3%

To determine the discount rates, peer groups were determined in each case for the corresponding CGU.

10.D

NOTES 2022

The average revenue and EBIT growth underlying the 2023–2026 financial plans is:

AVERAGE PLANNED GROWTH 2023–2026	REVENUE	EBIT
Cash-generating unit "Services DACH"	4.7%	5.4%
Cash-generating unit "Services EE"	5.2%	12.1%
Cash-generating unit "IoT Solutions"	7.7%	32.9%
Cash-generating unit "IoT Industry"	6.9%	26.0%
Cash-generating unit "IoT Transportation"	9.8%	34.2%
Cash-generating unit "IoT Communications"	10.6%	41.0%
Cash-generating unit "IoT Asia"	9.8%	22.2%
Cash-generating unit "IoT America"	13.5%	86.4%

The increase in the average growth rates of the cash-generating units "IoT Solutions" and "IoT Transportation" results from a significantly more positive expected business development in the healthcare and transportation sectors.

The average revenue and EBIT growth underlying the 2022–2025 financial plans is:

AVERAGE PLANNED GROWTH 2022–2025	REVENUE	EBIT
Cash-generating unit "Services DACH"	3.9%	17.8%
Cash-generating unit "Services EE"	5.0%	24.8%
Cash-generating unit "IoT Solutions"	3.1%	18.5%
Cash-generating unit "IoT Industry"	8.3%	37.0%
Cash-generating unit "IoT Transportation"	9.8%	15.7%
Cash-generating unit "IoT Communications"	8.2%	47.3%
Cash-generating unit "IoT Asia"	5.5%	19.9%
Cash-generating unit "IoT America"	8.8%	149.8%

In the financial year 2022, as in the previous year, no impairment of goodwill was necessary.

Neither a 10% reduction in expected cash flows nor a 10% increase in the weighted average cost of capital before tax would result in an impairment of goodwill for a cash-generating unit.

14 Non-current financial assets

The non-current financial assets are composed as follows:

IN TEUR	2022	2021
Receivables from finance leases	6,119	8,717
Other investments	866	961
Securities	241	305
Receivables from loans granted	840	754
Deposits	972	1,428
Purchase price entitlements	2,340	0
Other non-current receivables	336	429
Total non-current financial assets as of December 31	11,714	12,594
LEASE RECEIVABLES (FROM THE COMPANY'S LESSOR OPERATIONS)	2022	2021
Lease receivables (gross)		
Remaining term up to 1 year	6,307	6,675
Remaining term between 1 and 5 years	6,550	9,249
Remaining term > 5 years	0	0
	12,857	15,924
Unrealised future interest income from lease receivables	-521	-628
Net receivables from finance leases	12,336	15,296
COMPOSITION	2022	2021
Current receivables (up to 1 year)	6,217	6,579
Non-current receivables (between 1 and 5 years)	6,119	8,717
Non-current receivables (> 5 years)	0	0
Net receivables from finance leases	12,336	15,296

The default risk from lease receivables from customers is managed on the basis of the Group's policies and procedures. Due to the comparable customer portfolio, the expected default rates of the trade receivables are used as a basis. Impairment requirements are analysed at each reporting date using the impairment matrix to determine expected credit losses. Impairment ratios are determined based on days past due with similar default patterns. The analysis did not reveal any material default risk at the reporting date.

The average interest rate of the lease receivables (current and non-current) was 3.43% in the financial year 2022 (PY: 2.93%).

15 Other non-current assets

Other non-current assets are composed as follows:

IN TEUR	2022	2021
Prepayments to subcontractors for the provision of services constituting part of the supplying of services	3,567	12,397
Other non-financial assets	5,393	8,621
Total other non-current assets	8,960	21,018

16 Deferred taxes

Deferred tax assets and liabilities arising from temporary differences between tax and accounting valuations, as well as their recognition in the statement of profit or loss and in other comprehensive income, are allocated to the following items:

IN TEUR	DEFERRED TAX ASSETS 01.01.2022	DEFERRED TAX ASSETS 31.12.2022	CHANGE IN THE PERIOD	THEREOF: RECOGNIZED IN PROFIT OR LOSS	THEREOF: RECOGNIZED IN OCI
PPE and intangible assets	599	1,442	843	621	0
Trade receivables and inventories	7,008	6,925	-83	215	0
Provisions and deferred liabilities	10,505	8,952	-1,553	2,807	-1,006
Tax losses carried forward	35,819	28,933	-6,886	-689	0
Balancing	-13,752	-13,202	550		
Amount recognised in balance sheet	40,179	33,050	-7,129	2,954	-1,006

IN TEUR	DEFERRED TAX LIABILITIES 01.01.2022	DEFERRED TAX LIABILITIES 31.12.2022	CHANGE IN THE PERIOD	THEREOF: RECOGNIZED IN PROFIT OR LOSS	THEREOF: RECOGNIZED IN OCI
PPE and intangible assets	-24,050	-15,820	8,230	6,484	0
Trade receivables and inventories	-2,000	-1,740	260	-553	0
Provisions and deferred liabilities	-908	-1,367	-459	-431	-23
Balancing	13,752	13,202	-550		
Amount recognised in balance sheet	-13,206	-5,725	7,481	5,500	-23

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IN TEUR	DEFERRED TAX ASSETS 01.01.2021	DEFERRED TAX ASSETS 31.12.2021	CHANGE IN THE PERIOD	THEREOF: RECOGNIZED IN PROFIT OR LOSS	THEREOF: RECOGNIZED IN OCI
PPE and intangible assets	823	599	-224	-548	0
Trade receivables and inventories	7,065	7,008	-57	-188	0
Provisions and deferred liabilities	12,157	10,505	-1,652	-1,091	-39
Tax losses carried forward	30,944	35,819	4,875	3,264	0
Balancing	-14,373	-13,752	621		
Amount recognised in balance sheet	36,616	40,179	3,563	1,437	-39

IN TEUR	DEFERRED TAX LIABILITIES 01.01.2021	DEFERRED TAX LIABILITIES 31.12.2021	CHANGE IN THE PERIOD	THEREOF: RECOGNIZED IN PROFIT OR LOSS	THEREOF: RECOGNIZED IN OCI
PPE and intangible assets	-24,240	-24,050	190	785	0
Trade receivables and inventories	-3,124	-2,000	1,124	1,082	0
Provisions and deferred liabilities	-280	-908	-628	-602	0
Balancing	14,373	13,752	-621		
Amount recognised in balance sheet	-13,271	-13,206	65	1,265	0

The addition to deferred tax assets from company acquisitions amounts to TEUR 346 (PY: TEUR 170), and deferred tax liabilities increased by TEUR 704 (PY: TEUR 366).

In the financial year 2022, the deferred tax assets for loss carryforwards were decreased by TEUR 6,886 (PY adjusted: Increase TEUR 3,264) on the basis of the tax planning results for the next five years. Based on the planning of the companies, deferred tax assets of TEUR 28,933 were recognised for losses carried forward that are expected to be utilised (PY: TEUR 35,819). The Group has not recognised deferred taxes in connection with tax losses carried forward of TEUR 54,964 (PY adjusted: TEUR 45,835) that can be offset against future taxable income, as the actual offset against future taxable profits is uncertain. The non-capitalised losses carried forward can be carried forward without time limit and in the amount of TEUR 44,053 (PY adjusted: TEUR 36,757) and TEUR 10,911 (PY: TEUR 9,077) can be carried forward with a time limit.

The deferred tax assets for losses carried forward result in particular from Kontron AG and its tax group. Loss carryforwards were only recognised to the extent that they can be expected to be used in the next 5 years in accordance with tax planning.

As in previous years, Kontron AG generated a positive tax result in the financial year 2022. Positive results can also be assumed for future periods. In addition to expected improvements in the operating business, income from brand and licence usage agreements with Group companies and income from management services and guarantee commissions charged to Group companies in particular contribute to the continued stable profitability of Kontron AG and subsequently of the Austrian tax group.

In the reporting year, deferred taxes in the amount of TEUR 1,029 were recognised directly in equity (PY: TEUR 39).

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

Deferred tax assets of TEUR 3,721 (PY: TEUR 7,836) from other deductible temporary differences were not recognised as it is currently uncertain whether they can be offset against future taxable profits. In addition, in accordance with IAS 12.39, deferred tax liabilities were not recognised for temporary differences of TEUR 42,148 (PY: TEUR 108,070) from investments in subsidiaries, as the parent company is able to control the timing and these temporary differences will not be reversed in the foreseeable future.

17 Inventories

The reported inventories are composed as follows:

IN TEUR	2022	2021
Finished products and merchandise	74,261	89,711
Raw, auxillary and operating materials	123,599	100,411
Unfinished products	43,736	31,996
Impairments	-48,963	-34,769
Total inventories as of December 31	192,633	187,349

The impairment of inventories, which was recognised as an expense in the reporting period, amounts to TEUR 18,238 (PY adjusted: TEUR 6,377, before adjustment: TEUR 7,023). Of this, TEUR 16,278 is attributable to impairment losses following the adjustment of the portfolio made necessary by the realignment of the Group. The expense from the impairment of inventories is reported in the cost of materials. The carrying amount of inventories measured at net realisable value as at December 31, 2022, is TEUR 66,147 (PY: TEUR 49,337).

18 Trade receivables and contract assets

The trade receivables item is composed as follows:

IN TEUR	2022	2021 (RECLASS.)
Trade receivables	155,942	222,302
Value adjustment for expected credit-caused losses	-7,857	-8,217
Trade receivables as of December 31	148,085	214,085

After reclassification, trade receivables of TEUR 18,461 as of December 31, 2021 are shown as current contract assets.

Some companies of the Kontron Group practice the "hold to collect and sell" business model with regard to trade receivables, as the contractual cash flows are collected both through customer payments and through sales to various house banks under factoring agreements. As a result, these trade receivables fall into the category "fair value through other comprehensive income". The classification of trade receivables in this category does not have any material impact on the consolidated financial statements of Kontron, as the majority of trade receivables are expected to be settled within one year, and for this reason, it is assumed that the fair value approximates the previous measurement standard of amortised costs. The other trade receivables are classified as "amortised costs", as the Group applies the "Hold" business model to these trade receivables. The receivables sold are derecognised in accordance with the derecognition rules of IFRS 9. As at the balance sheet date December 31, 2022, trade receivables sold as part of the factoring programs amounted to TEUR 97,926.

The Group recognises an allowance for expected credit losses (ECL) on all receivables at fair value through other comprehensive income and at amortised cost. For receivables measured at amortised cost, the allowance is recognised in other operating expenses.

The development of the allowance for expected credit losses from trade receivables is as follows:

IN TEUR	2022	2021
Valuation allowance as of January 1	8,217	8,334
Valuation allowance for expected credit losses	2,435	1,671
Write-off	-190	-1,933
Disposals from changes in consolidated companies	-253	-9
Reclassification to assets classified as held for sale	-2,457	0
Currency translation differences	105	154
Valuation allowance as of December 31	7,857	8,217

The allowance for trade receivables is determined using an impairment matrix, which was determined from historical bad debt losses and adjusted for expected future deviations.

For trade receivables measured at fair value through other comprehensive income, the impairment is recognised in other comprehensive income in accordance with IFRS 9. The impairment loss recognised in other comprehensive income as of December 31, 2022, amounts to TEUR 48 (PY: TEUR 49). A portion of the trade receivables serves as collateral for short-term financing. For details, see section D, note (24).

The carrying amount of the current contract assets as of December 31, 2022, is TEUR 54,227 (PY after reclassification: TEUR 51,295).

The default risk on contract assets is managed based on the Group's policies and procedures. Due to the comparable customer portfolio, the expected default rates of trade receivables are used as a basis. Impairment requirements are analysed at each reporting date using the impairment matrix to determine expected credit losses. The analysis did not reveal any material default risk as at the reporting date.

19 Current financial assets

The current financial assets break down as follows:

IN TEUR	2022	2021
Receivables from finance leases *)	6,217	6,579
Deposits	12,662	3,460
Current portion of loans granted	468	496
Receivables from annual bonuses	102	53
Creditors with debtor accounts	366	813
Deposits for guarantees	497	291
Derivative financial instruments	0	325
Purchase price entitlements	114,014	0
Other current financial assets	0	7,885
Total current financial assets	134,326	19,902
*) Receivables from finance leases – gross	6,307	6,675
Unrealised interest income	-90	-96
Present value of receivables from finance leases	6,217	6,579

The reported purchase price claim exists against VINCI Energies S.A. for the IT Service division sold as part of the "Focus" project. Details can be found in Section A under "Project "Focus" – sale of significant parts of the IT services business".

In financial year 2021, the other financial receivables included a fixed-term deposit of Kontron AG in the amount of TEUR 7,000.

20 Other current assets

Other current non-financial assets break down as follows:

IN TEUR	2022	2021
Advances	3,618	5,815
Prepayments to subcontractors for the performing of services in conjunction with services to be provided	35,323	40,440
Receivables due from EU support programs and research premiums	4,717	5,096
Receivables from prepayments of income tax and other taxes	6,755	5,169
Value added tax	1,987	3,346
Other receivables current	3,021	4,145
Total other current assets	55,421	64,011

21 Cash and cash equivalents

Cash and cash equivalents amounting to TEUR 437,760 (PY: TEUR 296,512) are cash on hand and bank balances that are available within three months. These bear interest at the applicable interest rates for short-term deposits.

IN TEUR	2022	2021
Cash on hand	204	76
Credit balances at banks	437,556	296,436
Total cash and cash equivalents	437,760	296,512

As at the reporting date, there were restrictions on the disposal of the amounts included in this item, which were deposited as collateral due to financing with banks or due to balance compensation, in the amount of TEUR 3,542 (PY: TEUR 4,397).

22 Assets and liabilities classified as held for sale

As of December 31, 2022, current assets in the consolidated balance sheet include TEUR 6,310 (PY: TEUR 0) as long-term assets and disposal groups held for sale. Current liabilities in the consolidated balance sheet as of December 31, 2022, include liabilities directly related to non-current assets and disposal groups held for sale amounting of TEUR 4,759 (PY: TEUR 0). The change in carrying amounts was connected to the sale of significant parts of the Kontron Group's IT service business. In accordance with the agreements made, the two Group companies in Moldova (S&T Mold S.R.L., Chisinau, Moldova, and S&T IT Technology S.R.L., Chisinau, Moldova) will not be sold until 2023 (see section A "Project "Focus" – sale of significant parts of the IT services business"). For this reason, they were classified as "held for sale" as of December 31, 2022. As of December 31, 2022, the main groups of assets and liabilities of the two companies were as follows:

RECLASSIFICATION TO ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE	IN TEUR
Cash and cash equivalents	1,394
Property, plant and equipment and intangible assets	382
Deferred tax assets	21
Inventories	1,146
Trade receivables and contract assets	2,650
Other current receivables and assets	717
Reclassification to assets classified as held for sale	6,310
Deferred tax liabilities	19
Trade payables and contract liabilities	874
Other current liabilities	3,866
Reclassification to liabilities classified as held for sale	4,759

The assets and liabilities of the two units were each measured at the lower of either the carrying amount or fair value minus costs to sell. The fair values were calculated on the basis of the purchase agreement concluded with the contractual partner. No impairment requirement was identified. Property, plant and equipment and intangible assets classified as held for sale ceased to be subject to scheduled amortisation from August 2022.

23 Equity

Subscribed capital

As of December 31, 2022, the share capital of Kontron AG amounted to TEUR 63,631 (PY: TEUR 66,096). It is divided into 63,630,568 (PY: 66,096,103) no-par value bearer shares.

In a resolution of the Annual General Meeting of Kontron AG on May 6, 2022, the required majority voted to decrease the company's share capital by a total of EUR 2,465,535 by withdrawing 2,465,535 fully paid-up, purchased treasury shares in accordance with Section 192 Paragraph 3 No. 2 in conjunction with paragraph 4 of the Austrian Stock Corporation Act in a simplified procedure without complying with the provisions on ordinary capital reduction and to amend the Articles of Association in Section 5 paragraphs 1 and 2.

Authorised capital

By resolution of the Annual General Meeting of June 27, 2017, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the share capital within five years after registration of the corresponding amendment to the Articles of Association by up to EUR 10,000,000 – if necessary in several tranches and with partial exclusion of subscription rights – by issuing up to 10,000,000 new no-par value bearer shares with voting rights in exchange for cash and/or contributions in kind, if necessary by way of indirect subscription rights, once or several times ("Authorised Capital 2017").

From the Authorised Capital 2017 (Section 5 paragraph 5 of the Articles of Association) of up to EUR 10,000,000 are available due to a partial utilisation for a cash capital increase by way of an accelerated placement procedure in November 2017 – in the amount of EUR 1,382,623 through the issue of 1,382,623 new shares – as well as a partial utilisation for a capital increase against contributions in kind ("Kontron Canada capital increase against contributions in kind") – in the amount of EUR 1,408,843 through the issue of 1,408,843 new shares – EUR 7,208,534 were still available.

The authorisation expired on August 24, 2022. No more of the Authorised Capital 2017 is available.

At the Extraordinary General Meeting of Kontron AG on May 21, 2019, the shareholders resolved a new, additional authorised capital, under which the Executive Board, with the consent of the Supervisory Board, is authorised to increase the share capital until June 25, 2024 – also with partial or total exclusion of the subscription rights of the shareholders due to a partial direct exclusion and/or as a result of the granted authorisation of the Executive Board to exclude in certain cases – by up to EUR 6,600,000 ("Authorised Capital 2019"). No use was made of the existing authorisations to issue new shares from the authorised capital until December 31, 2022.

Authorised conditional capital

The Annual General Meeting on May 21, 2019, resolved an authorised conditional capital, with which the Executive Board was authorised, pursuant to Section 159 paragraph 3 of the Austrian Stock Corporation Act (AktG), to conditionally increase the share capital by up to EUR 1,500,000 for the granting of stock options until June 25, 2024, subject to the approval of the Supervisory Board ("Authorised Conditional Capital 2019"), whereby the capital increase is earmarked for a specific purpose and may only be carried out to the extent that holders of options from the Stock Option Program 2018 – Tranche 2018 and Tranche 2019 as well as a potential future program are entitled to exercise their options for the first time no earlier than three years after the granting of the option and an exercise hurdle of 25% of the stock exchange price of the Company's share on the Frankfurt Stock Exchange, which must be higher than the exercise price. The options can be exercised for the first time during an exercise window following expiry of the vesting period on December 18, 2021.

The Annual General Meeting of June 16, 2020, decided to partially revoke the existing authorisation of the Executive Board relating to the Authorised Conditional Capital 2019, specifically the no longer usable sum of EUR 500,000, so that the Authorised Conditional Capital comprises a residual authorisation to conditionally increase the share capital for granting stock options by up to EUR 1,000,000 by June 25, 2024, subject to the approval of the Supervisory Board. Therefore, no use was made of the Authorised Conditional Capital 2019 in financial year 2022.

Issue of warrants / authorised capital 2020

The Annual General Meeting on June 16, 2020, authorised the Executive Board to increase the share capital by up to EUR 2,000,000 for the purpose of servicing conversion or subscription rights under warrants ("Authorised Capital 2020") in accordance with Section 169 of the Austrian Stock Corporation Act.

The same Annual General Meeting on June 16, 2020, resolved to issue 2,000,000 warrants (instruments pursuant to Section 174 of the Austrian Stock Corporation Act). 1,500,000 warrants were allotted to selected members of the Executive Board of Kontron AG (those eligible for allotted shares) by the Supervisory Board. 500,000 warrants were publicly offered to selected key employees of Kontron Group for subscription against the offer price per warrant as of July 13, 2020, on the basis of a prospectus approved by the Austrian Financial Market Authority. After the end of the offer period and a so-called short placement of warrants not subscribed in the public offer, the Executive Board, with the approval of the Supervisory Board, decided on the final number of warrants to be issued and the allocation of the warrants offered on the basis of the subscription declarations received. A total of 2,000,000 warrants were issued, consisting of the 1,500,000 warrants allocated to the allottees and the 500,000 warrants offered to selected key employees of the Kontron Group. 112 eligible subscribers who had delivered subscription certificates for a total of 420,665 offered warrants received the full allocation according to the classification of the respective Group company and the respective management level of the eligible subscriber in accordance with the parameters set out in the prospectus. The remaining number of 79,335 offered warrants were issued to those eligible on the basis of their subscription certificates received for the short placement, against payment of the offer price per warrant. As of July 30, 2020, the warrants were admitted to official trading on the Vienna Stock Exchange and subsequently the warrants were or will be delivered to the respective subscribers and those eligible. The first exercise of the conversion or subscription right under the warrant is possible at the earliest 36 months after the issue of the warrant and only if the price of the Kontron AG share currently exceeds EUR 32.86, adjusted, if necessary, from time to time on the basis of the terms and conditions of the issue. For this reason, no use was made of the Authorised Capital 2020 in financial years 2021 and 2022.

Otherwise, the members of the Executive Board have no powers that do not arise directly from the law, in particular with regard to the possibility of issuing or buying back shares.

Treasury shares

By resolution of the Annual General Meeting on May 6, 2022, the Executive Board was authorised to purchase bearer shares of the company totalling no more than 10% of the company's share capital for a period of 30 months from the date of this resolution, both on the stock exchange and over the counter, the equivalent value of which may not be more than 10% below or above the average stock market price of the last five trading days before the purchase of the shares. An over-the-counter purchase (Supervisory Board approval required) can also be made under exclusion of the shareholders' pro rata right of sale (reverse exclusion of subscription rights).

The Executive Board is also authorised to adopt a way of selling or using treasury shares other than on the stock exchange or through a public offer, also one that excludes shareholders' repurchase rights (reverse subscription rights), and to set the terms of sale, for a period of five years from the passing of a resolution and with the approval of the Supervisory Board and without the need for a new resolution of the Annual General Meeting. In addition, the Executive Board is authorised to reduce the share capital if necessary by redeeming these treasury shares with the approval of the Supervisory Board and without a further resolution of the Annual General Meeting for a period of 30 months from the date of this resolution. The Supervisory Board is authorised to adopt amendments to the Articles of Association resulting from the redemption of shares.

No use was made of these authorisations in financial year 2022.

As a result of the redemption of treasury shares (2,465,535 shares) as of June 3, 2022, Kontron AG does not hold any treasury shares as of December 31, 2022.

After the balance sheet date, the Executive Board of Kontron AG decided on February 3, 2023, to carry out a new share buyback program ("Share buyback program I 2023") on the basis of the above-mentioned resolution adopted by the Annual General Meeting on May 6, 2022. "Share buyback program I 2023" provides for purchases totalling up to EUR 10,000,000 with a maximum price of EUR 20 per share or up to 636,305 shares (1% of the share capital) and runs until August 6, 2023. By March 24, 2023, 281,289 treasury shares had been purchased at the total purchase price excluding incidental expenses of TEUR 5,255.

Capital reserve

The capital reserve mainly includes the premiums paid from capital increases carried out, the offsetting of differences from the acquisition or sale of non-controlling interests, and the offsetting entry of the personnel expenses recognised from the valuation of the stock option programs.

Other equity components

Other equity components include changes in equity not recognised in profit or loss, such as revaluations in accordance with IAS 19, currency conversion differences and results from the subsequent measurement and revaluation of financial instruments.

The individual components of other comprehensive income break down into other equity components as follows:

IN TEUR	OTHER COMPONENTS OF EQUITY	DEBT INSTRUMENTS AT FAIR VALUE THROUGH OCI (IFRS 9)	ACTUARIAL GAINS/ LOSSES ACC. IAS 19	MARKET VALUATION RESERVES	ADJUSTEMENTS ITEMS FOR CURRENCY TRANSLATION
As of January 1, 2021	-15,591	50	-2,596	60	-13,105
Other result					
Unrealised profit/loss from currency translation	7,091	0	0	0	7,091
Actuarial gains/losses acc. IAS 19	97	0	97	0	0
Impairment of debt instruments at fair value through OCI	-1	-1	0	0	0
Result from remeasurement of financial instruments measured at fair value through OCI	-1	0	0	-1	0
As of December 31, 2021	-8,405	49	-2,499	59	-6,014
Other result					
Unrealised profit/loss from currency translation	3,178	0	0	0	3,178
Actuarial gains/losses acc. IAS 19	3,277	0	3,277	0	0
Impairment of debt instruments at fair value through OCI	-43	0	0	-43	0
Result from remeasurement of financial instruments measured at fair value through OCI	-1	-1	0	0	0
As of December 31, 2022	-1,994	48	778	16	-2,836

Dividend

Upon the proposal of the Management Board and the Supervisory Board, the Annual General Meeting of Kontron AG on May 6, 2022, resolved to distribute a dividend of EUR 0.35 per dividend-bearing share from the net profit of Kontron AG of EUR 63,811,339.03 reported in the separate financial statements according to the Austrian Commercial Code (UGB) as of December 31, 2021, and to carry forward the remaining amount to new account. As of Tuesday, May 23, 2022, stock exchange trading was ex-dividend. The dividend was paid as of May 25, 2022.

Non-controlling interests

The non-controlling interests show the shares in the equity of subsidiaries attributable to other shareholders. The shares have developed as follows:

IN TEUR	2022	2021
Non-controlling interests as of January 1	4,706	5,432
Additions to non-controlling interests	0	2
Results for the period attributable to non-controlling interests	-576	704
Acquisition of non-controlling interests	1,145	-307
Dividends / distributions attributable to non-controlling interests	0	-1,018
Other comprehensive income attributable to non-controlling interests	311	829
Disposal of non-controlling interests	-3,755	-936
Non-controlling interests as of December 31	1,831	4,706

The result from the acquisition of non-controlling interests is comprised of TEUR 994 from the acquisition of the remaining 52% of the shares in Affair OOO, Moscow, Russia, and of TEUR 151 from the acquisition of the remaining 25% of the shares in BeelN d.o.o., Kranj, Slovenia (see section A "Change in the group of consolidated companies in 2022").

The disposal of non-controlling interests as a result of deconsolidation concerns the sale of the 55% stake in RTSoft Project OOO, Moscow, Russia, held by Affair OOO, Moscow, Russia (see section A "Change in the group of consolidated companies in 2022").

Of the non-controlling interests reported in the balance sheet, TEUR 1,678 relate to assets and liabilities held for sale in connection with the companies in Moldova.

24 Financing liabilities

The items non-current financing liabilities and current financing liabilities include loans, overdrafts and bonded loans issued.

The financing liabilities reported in the balance sheet break down as follows:

IN TEUR	31.12.2022			31.12.2021		
	TOTAL	OF WHICH NON- CURRENT	OF WHICH CURRENT	TOTAL	OF WHICH NON- CURRENT	OF WHICH CURRENT
Bonded loans	167,500	167,500	0	167,500	167,500	0
Acquisition loans	25,449	15,789	9,659	42,902	25,449	17,454
Other loans	41,981	10,478	31,503	54,452	45,428	9,024
Overdrafts	84,541	0	84,541	45,841	0	45,841
Total financing liabilities	319,471	193,768	125,703	310,695	238,376	72,319

Bonded loans

Kontron AG issued a bonded loan of TEUR 160,000 in April 2019 and a further bonded loan of TEUR 7,500 in March 2021. The issue was made in different tranches with different maturities or interest rate agreements.

DURATION	INTEREST RATE AGREEMENT FIXED / VARIABLE	TRANCHE IN TEUR
Until April 17, 2024	fixed interest / 1.046%	75,000
Until April 17, 2026	fixed interest / 1.439%	10,000
Until April 17, 2024	variable interest / 6mE + 100 bps	49,000
Until April 17, 2026	variable interest / 6mE + 120 bps	6,000
Until April 30, 2026	variable interest / 6mE + 120 bps	20,000
Until March 24, 2026	fixed interest / 1.100%	7,500
Total bonded loans		167,500

The existing bonded loan agreements and credit agreements contain contractual agreements in the amount of TEUR 167,500 for compliance with financial covenants, which require compliance with a consolidated equity ratio of greater than or equal to 30%. Failure to comply with this financial covenant entitles the lender to terminate the respective financing agreement. In addition, a "margin step-up" was agreed: If the ratio of net debt (including lease liabilities in accordance with IFRS 16) to EBITDA of the previous financial year is greater than 3 on the reporting date, the lender is entitled to an interest rate that is 50 basis points higher than the base conditions. As at the reporting date of December 31, 2022, the Group equity ratio was 44.1% and thus above the contractually stipulated threshold. Furthermore, the net debt to EBITDA ratio as at December 31, 2022, does not lead to an increase in the lenders' margin.

ACQUISITION LOANS

The acquisition loans existing as at December 31, break down as follows:

IN TEUR	LOAN AMOUNT	MATURITY	INTEREST	AMORTIZATION
Shares in Kontron Electronics GmbH / Kontron S&T AG	30,000	31.03.2023	0.54%	quarterly
Shares in Iskratel	37,500	31.12.2025	0.44%	quarterly

IN TEUR	31.12.2022			31.12.2021		
	TOTAL	OF WHICH NON-CURRENT	OF WHICH CURRENT	TOTAL	OF WHICH NON-CURRENT	OF WHICH CURRENT
Shares in Kontron Electronics GmbH / Kontron S&T AG	1,765	0	1,765	8,823	1,764	7,059
Shares in Kontron AG (Kontron S&T AG)	0	0	0	2,500	0	2,500
Shares in Iskratel	23,684	15,789	7,894	31,579	23,684	7,895
Total acquisition loans	25,449	15,789	9,659	42,902	25,448	17,454

In the financial year 2018, a loan agreement for TEUR 30,000 was concluded with Raiffeisenlandesbank Oberösterreich, Raiffeisen Bank International AG and Raiffeisenlandesbank Steiermark AG for the purpose of refinancing the purchase of shares in Kontron Electronics GmbH and for financing the share purchase programme relating to remaining free float shareholders of Kontron S&T AG, which was acquired in 2016. The loan is secured with bill of exchange guarantees from the Republic of Austria.

In the financial year 2021, a loan agreement for TEUR 37,500 was concluded with Raiffeisenlandesbank Oberösterreich, Raiffeisen Bank International AG and Raiffeisenlandesbank Steiermark AG for the purpose of refinancing the "Iskratel" share purchase. The loan is secured by bill of exchange guarantees from the Republic of Austria.

The two equity financings with the Austrian Kontrollbank assuming liability in the original amount of TEUR 37,500 (acquisition of Iskratel) and TEUR 30,000 (acquisition of Kontron Electronics GmbH) stipulate a minimum equity ratio of 30% and a maximum ratio of net debt to EBITDA of 3.0. Both financial covenants were met as at December 31, 2022.

In financial year 2022, a loan agreement for TEUR 50,000 was concluded with Erste Group Bank AG for the purpose of general working capital financing (excluding M&A). The term for this overall line has been agreed until August 8, 2027, although utilisation is possible in the form of cash advances with terms of between three, six or twelve months. The line is granted as blank credit. As of December 31, 2022, a balance of TEUR 50,000 is outstanding. The loan agreement provides for a minimum equity ratio of 30% and a maximum ratio of net debt to EBITDA of 3.0. Both covenants were met as at December 31, 2022.

Other loans

In financial year 2019, a financing line of TEUR 30,000 was extended prematurely by two years until June 30, 2023, and is fully utilised as of the reporting date of December 2022, 31. In the course of the extension, a fixed interest rate of 1.66% (from February 1, 2020 1.40%) was agreed.

The loan agreement provides for a minimum equity ratio of 25% as a financial covenant. Furthermore, the ratio of adjusted net debt to EBITDAR (Earnings before Taxes, Depreciation and Rent & Operating Lease Expenses) must not exceed 2.5. Both financial covenants were met as at the balance sheet date. In addition, the credit line is secured with liens in the amount of TEUR 3.500 and TEUR 2.000 on the building leasehold property Industriezeile 35, 4020, Linz, Austria.

No loans were taken on in connection with the company acquisitions in financial year 2022.

The loans assumed in the course of the company acquisitions in the financial year 2020 amount to TEUR 14,649 (PY: TEUR 16,481) as at the reporting date of December 31, 2022. This is a long-term financing line amounting to TEUR 11,434 (PY: TEUR 12,910) and an investment loan of TEUR 3,214 (PY: TEUR 3,571), the investment loan was disposed of as part of the "Focus" transaction.

The loans mature on September 27, 2030, and December 31, 2031, respectively, and bear interest at a variable rate of 3.806% (6M-EU-RIBOR + 1.35%) and a fixed rate of 1.30%.

Both financings are secured with liens on commercial buildings.

Other current financing liabilities – bank overdrafts

As of December 31, 2022, the Group had short-term bank overdrafts totalling TEUR 84,569 (PY: TEUR 45,841). The interest rate for overdrafts ranges from 0.537% to 19.25% (PY: 0.25% and 4.66%).

To secure overdrafts of subsidiaries, trade receivables of TEUR 3,205 (PY: TEUR 1,255) were assigned as part of a blanket assignment to secure these short-term financial liabilities and other assets amounting to TEUR 2,632 (PY: TEUR 2,988) were pledged. Furthermore, there are liens on buildings for utilised current account liabilities amounting to TEUR 1,445 (PY: TEUR 405).

In the case of the financing liabilities recognised on the reporting date, no payment disruptions occurred during the reporting period with regard to the redemption and interest payments, the sinking fund or the terms of redemption of the liabilities.

25 Other non-current financial liabilities

The other non-current financial liabilities reported in the balance sheet break down as follows:

IN TEUR	2022	2021
Lease liabilities	25,806	39,105
Liabilities from consideration ensuing from corporate acquisitions	0	9,576
Liabilities from corporate acquisitions	100	1,377
Liabilities due to a research support society	1,808	3,996
Other	0	30
Total other non-current financial liabilities	27,714	54,084

The lease liabilities developed as follows:

IN TEUR	2022	2021
As of January 1	61,999	68,163
Additions	15,442	14,001
Additions through changes in consolidated companies	681	320
Disposals	-1,135	-2,860
Reclassification to liabilities classified as held for sale	-12,001	0
Increase in interest	1,351	1,413
Payments	-23,558	-19,038
As of December 31	42,779	61,999
Of which current	16,973	22,894
Of which non-current	25,806	39,105

Possible future cash outflows of TEUR 2,047 (PY: TEUR 3,126) were not included in the lease liabilities, as it is not sufficiently certain that the leasing contracts will be extended.

The total amount of lease payments in the financial year 2022 was TEUR 25,943 (PY: TEUR 22,184), of which TEUR 2,072 (PY: TEUR 2,896) related to short-term leases with a maximum term of twelve months; TEUR 313 (PY: TEUR 250) was spent on leases for assets of low value.

Income from the subleasing of rights of use amounted to TEUR 660 in the current financial year (PY: TEUR 71).

Non-current liabilities for contingent consideration from company acquisitions amount to TEUR 0 (PY: TEUR 9,576) as of the balance sheet date of December 31, 2022. The previous year's figure mainly related to the acquisition of the Iskratel Group in financial year 2020. In financial year 2022, a settlement was made on the amount of the consideration due for acquisition of the Iskratel Group. Accordingly, the remaining liability had to be derecognised.

The significant inputs used in determining the fair value of the contingent consideration are as follows:

FINANCIAL INSTRUMENTS	EVALUATION PROCEDURE	INPUT PARAMETERS
Other non-current financial liabilities	Discounted cash flow method	Sales revenues and results of strategic corporate planning, risk-adequate interest rate before taxes

The development of the Level 3 fair values is as follows:

IN TEUR	CURRENT PORTION	NON-CURRENT PORTION	TOTAL
As of January 1, 2021	3,366	27,527	30,893
Addition (acquisition)	310	301	611
Recognised as income	-1,876	-5,567	-7,443
Recognised as expenses	153	0	153
Interest expenses	378	1,741	2,119
Payment	-1,810	-7,230	-9,040
Reclassification	7,196	-7,196	0
As of December 31, 2021	7,717	9,576	17,293
Recognised as income	-915	-9,612	-10,527
Interest expenses	108	179	287
Payment	-6,910	-143	-7,053
As of December 31, 2022	0	0	0

26 Contract liabilities and other non-current liabilities

The other non-current liabilities shown in the balance sheet break down as follows:

IN TEUR	2022	2021
Contract liabilities	5,532	16,952
Other	1	488
Total of contract liabilities and other non-current liabilities	5,533	17,440

27 Provisions

The provisions reported in the balance sheet break down as follows:

IN TEUR	2022	2021
Provisions for pension commitments	7,183	9,962
Provisions for severance payments	9,769	11,504
Provisions for Jubilee payments	1,747	2,068
Provisions for guarantees and warranty services	1,033	1,364
Other non-current provisions	155	157
Non-current provisions as of December 31	19,886	25,056
Provisions for guarantees and warranty services	8,259	8,918
Provisions for pending losses	8,301	8,479
Provisions for legal and trial costs	6,681	8,007
Other current provisions	3,710	6,032
Current provisions as of December 31	26,950	31,436
Total provisions as of December 31	46,837	56,492

Provisions for pension commitments

Defined benefit pension commitments exist towards employees of the Kontron Group in Germany and France.

Legal framework and description of commitments:

In Germany, the legal framework for occupational pension schemes is provided by the Occupational Pensions Act (BetrAVG), which sets out the minimum legal requirements for occupational pension schemes. In addition, regulations and rulings from labour law must be followed. The pension scheme is a pension paid out as a retirement pension, early retirement pension, disability pension for reduced earning capacity or survivor's pension.

As of the reporting date, 9 employees at Kontron Europe GmbH and 45 employees at Kontron Transportation Deutschland GmbH participate in pension plans. The pension obligations of these companies are not covered by plan assets, which is normal market practice for smaller companies. The average term of the pension obligations at Kontron Europe GmbH is 1.96 years, and 17.5 years at Kontron Transportation Deutschland GmbH.

The benefit plan in place at Kontron AIS GmbH as at the reporting date, in which 3 employees participate, is covered by plan assets. The plan assets consist of independently managed pension fund assets. The term of the benefit plan is 11.22 years.

Due to legal and collective bargaining provisions in France, Kontron Modular Computers S.A.S. as well as Kontron Transportation France S.A.S. are obliged to make one-off payments to their employees upon retirement. The payments are regulated by collective agreements and are based on the length of service and the final salary before retirement. An employee who retires from the company early, whether voluntarily or initiated by the employer, will not receive any payment. As of the reporting date, 84 employees at Kontron Modular Computers S.A.S. (PY: 95 employees) and 139 employees at Kontron Transportation France S.A.S. (PY: 128 employees) participate in the plans.

Significant risks from the defined benefit commitments, which could primarily result from interest rate developments and longevity, are not expected.

Composition and development of the provision:

The following table shows the development of the pension obligation and the plan assets for the defined benefit plans.

IN TEUR	2022	2021
Pension obligations (DBO) as of January 1	11,251	11,564
Change of valuation method	0	-352
Ongoing service costs	409	300
Interest expenses	102	71
Preliminary total recognized in the net income	512	19
Remeasurement: actuarial gains (-) / losses (+)		
due to demographic assumptions	3	6
due to financial assumptions	-3,162	-221
due to experience-caused corrections	87	230
Preliminary total contained in other comprehensive income	-3,072	16
Pension payments made	-553	-348
Pension obligations (DBO) as of December 31	8,138	11,251
Market value of plan assets as of December 31	-955	-1,289
Net liabilities from pension obligations as of December 31	7,183	9,962

In 2021, the IFRS IC published its agenda decision "Attributing Benefit to Periods of Service (IAS 19)", in which it addressed the period over which the service cost for a specific defined benefit plan is to be allocated. In financial year 2021, the decision resulted in a reduction of pension obligations at the two subsidiaries in France of TEUR 352.

The fair value of the plan assets decreased by TEUR 334 to TEUR 955 in the reporting period (PY: TEUR 1,289). Of this change in value, TEUR 12 (PY: TEUR 10) was recognised in net interest result and TEUR -289 (PY: TEUR 25) in other comprehensive income. The pension benefits paid from the plan assets amounted to TEUR 57 (PY: TEUR 57).

On actuarial gains and losses in the period amounting to TEUR 2,783 (PY: TEUR 38), deferred taxes of TEUR -732 (PY: TEUR -17) were recognised in other comprehensive income.

The valuation of the obligation is based on the following actuarial assumptions:

ACTUARIAL ASSUMPTIONS 2022	GERMANY	FRANCE
Discount factor	3.80%-4.21%	3.75%-3.80%
Remuneration trends	0.00%-2.50%	2.00%-2.50%
Pension Trends	2.00%-2.50%	n.a.

ACTUARIAL ASSUMPTIONS 2021	GERMANY	FRANCE
Discount factor	1.00%-1.07%	0.80%
Remuneration trends	0.00%-2.00%	2.00%-2.40%
Pension Trends	1.75%-2.00%	n.a.

The projected unit credit method is used as the actuarial valuation method. The calculations are based on the INSEE 2016–2018 for France (December 31, 2021: INSEE 2015–2017) and the 2018 G mortality tables by K. Heubeck for Germany.

The sensitivity analysis of the basic assumptions results in the following amounts:

	CHANGE OF ASSUMPTION	INCREASING OS ASSUMPTION	REDUCTION OF THE ASSUMPTION
31.12.2022			
Discount rate	0.50%	-441	478
Future increases of remuneration	0.50%	197	-188
Pension trend	1.00%	371	-312
31.12.2021			
Discount rate	0.50%	-786	885
Future increases of remuneration	0.50%	311	-293
Pension trend	1.00%	685	-561

The increase in life expectancy by one year leads to an increase in the total obligation of TEUR 110.

The following amounts are expected to be paid in the next 10 years in connection with pension benefits:

WITHIN THE NEXT 12 MONTH	BETWEEN 2 AND 5 YEARS	BETWEEN 5 AND 10 YEARS	TOTAL
547	1,907	3,343	5,797

Provisions for severance payments

Obligations from severance payments for employees in Austria whose employment began before January 1, 2003 are covered by defined benefit plans. These are one-off severance payments that have to be paid to employees due to labour law regulations when employees are dismissed and regularly when they retire. The amount depends on the number of years of service and the amount of remuneration.

Obligations from severance payments for employees in foreign subsidiaries also represent one-off severance payments due to labour law regulations that must be paid upon termination of the employment relationship. The amount of the entitlement depends on the length of service and the amount of remuneration.

The valuation of the obligation is based on the following actuarial assumptions:

ACTUARIAL ASSUMPTIONS 2022	AUSTRIA	POLAND	SLOVENIA
Discount factor	3.95%	6.80%	3.80%
Biometric calculation basis	AVÖ 2018-P for salaried employees	Polish Life Expectancy Tables 2021	Mortality Tables Slovenia 2007
Fluctuation	No fluctuation taken into account	age-dependent: 0.00% - 12.90%	age-dependent: 0.00% - 18.00%
Salary increases	3.45%	10.00%	3.40%
ACTUARIAL ASSUMPTIONS 2021	AUSTRIA	POLAND	SLOVENIA
Discount factor	0.95%	3.40%	0.80%
Biometric calculation basis	AVÖ 2018-P for salaried employees	Polish Life Expectancy Tables 2020	Mortality Tables Slovenia 2007
Fluctuation	No fluctuation taken into account	age-dependent: 0.00% - 12.90%	age-dependent: 0.00% - 17.00%
Salary increases	2.00%	4.00%	2.00% - 2.30%

The development of the present value of the severance payments obligations is as follows:

IN TEUR	2022	2021
Present value of the severance payments obligations as of January 1	11,504	11,521
Service costs	354	423
Interest expenses	104	59
Revaluations	-1,523	-152
Benefits paid	-499	-532
Changes in consolidated companies	0	158
Reclassification to liabilities classified as held for sale	-168	0
Changes from currency translation	-3	27
Present value of the severance payments obligations as of December 31	9,769	11,504

The service cost is recognised in the consolidated income statement under personnel expenses; the interest expense is recognised under finance expenses.

The revaluations are made up as follows:

IN TEUR	2022	2021
Alterations in demographic assumptions	-799	-158
Alterations in financial assumptions	-913	-163
Adjustments based on experience	189	169
Profits (+) / losses (-) recognized from revaluations	-1,523	-152

The profits/losses from revaluations are recognised in other comprehensive income (OCI) in equity in the period in which they arise.

A sensitivity analysis of the actuarial assumptions considered material for the calculation of the expected defined benefit obligation shows the effects on the present value of the obligation as presented below:

	CHANGE OF ASSUMPTION	INCREASE OF THE ASSUMPTION	REDUCTION OF THE ASSUMPTION
31.12.2022			
Discount rate	0.25%	-213	222
Future increases of remuneration	0.25%	214	-207
31.12.2021			
Discount rate	0.25%	-269	246
Future increases of remuneration	0.25%	256	-235

The sensitivity analysis is based on the change of one assumption while keeping all other assumptions constant. In reality, however, it is rather unlikely that these influencing variables do not correlate.

For employees in Austria whose employment began on or after January 1, 2003, contributions amounting to 1.53% of remuneration are paid to an external employee pension fund. The payments for this defined contribution plan amounted to TEUR 461 in financial year 2022 (PY: TEUR 434) and were recognised in personnel expenses.

Other provisions

Other non-current provisions developed as follows in the reporting year:

IN TEUR	GUARANTEES AND WARRANTIES	OTHERS	TOTAL
As of January 1, 2021	2,852	2,220	5,072
Addition	449	577	1,026
Reclassification	-1,260	-14	-1,274
Usage	-15	-582	-597
Release	-700	-16	-716
Currency translation difference	38	40	78
As of December 31, 2021	1,364	2,225	3,589
Change in scope of consolidation	60	0	60
Addition	473	460	933
Reclassification	-415	0	-415
Usage	-13	-669	-682
Release	-459	-21	-480
Reclassification to liabilities classified as held for sale	-16	-86	-102
Currency translation difference	39	-9	30
As of December 31, 2022	1,033	1,900	2,933

The other non-current provisions shown in the table above also include provisions for anniversary bonuses.

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Other current provisions developed as follows in the reporting year:

IN TEUR	GUARANTEES AND WARRANTIES	LEGAL AND LITIGATION COSTS	PENDING LOSSES	OTHERS	TOTAL
As of January 1, 2021	9,348	7,011	13,125	10,989	40,473
Change in scope of consolidation	218	0	1,590	69	1,877
Addition	1,685	226	1,213	2,506	5,630
Reclassification	1,260	1,398	14	-1,398	1,274
Usage	-3,243	-499	-6,690	-4,535	-14,967
Release	-569	-131	-910	-1,629	-3,239
Currency translation difference	219	2	137	30	388
As of December 31, 2021	8,918	8,007	8,479	6,032	31,436
Change in scope of consolidation	0	0	475	-160	315
Addition	3,804	89	2,250	3,880	10,023
Reclassification	415	0	54	-54	415
Usage	-2,900	-10	-1,043	-4,228	-8,181
Release	-860	-71	-1,249	-617	-2,797
Reclassification to liabilities classified as held for sale	-1,234	-1,293	-673	-1,185	-4,385
Currency translation difference	116	-41	8	41	124
As of December 31, 2022	8,259	6,681	8,301	3,709	26,950

The provisions for product warranties cover the expected warranty claims for sold products during the warranty period.

Provisions for legal and litigation costs mainly include provisions for potential litigation, settlements and penalties for critical projects.

The provision for pending losses includes the risks from the valuation of the regular projects. This also includes project follow-up costs for customer projects that have already been accepted.

28 Trade payables

Trade payables are non-interest bearing and all have a remaining term of up to one year.

29 Other current financial liabilities

Other current financial liabilities break down as follows:

IN TEUR	2022	2021
Current leasing liabilities	16,973	22,894
Current component of conditional consideration	0	7,717
Liabilities from the acquisition of companies	0	1,027
Debitors with credit balances and credits due to clients	1,190	530
Deferred liabilities – others	4,983	6,045
Other interest bearing loans	472	8,523
Others	1,361	976
Total other current financial liabilities	24,979	47,712

30 Other current liabilities

Other current liabilities break down as follows:

IN TEUR	2022	2021
Liabilities from value added tax and wage taxes	14,864	19,805
Liabilities due to employees	30,096	34,813
Liabilities from social charges	4,792	4,827
Current income tax liabilities	10,722	4,307
Prepayments received	578	1,991
Others	4,296	8,498
Total other current liabilities	65,348	74,241

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Other disclosures

31 Notes to the consolidated cash flow statement

The consolidated cash flow statement shows the origin and use of cash flows broken down into cash flow from operating activities and cash flow from investing and financing activities.

Cash and cash equivalents in the consolidated cash flow statement comprise all cash and cash equivalents reported in the consolidated balance sheet, i.e., cash on hand and bank balances, to the extent that they are available within three months from the date of deposit, less liabilities from bank overdrafts to the extent that these form an integral part of the company's cash management, and restricted bank balances.

IN TEUR	2022	2021
Cash on hand	204	76
Credit balances at banks	437,556	296,436
Cash and cash equivalents according to consolidated balance sheet	437,760	296,512
Overdrafts	-68,542	-24,181
Restricted cash	-3,542	-4,397
Total cash and cash equivalents	365,676	267,934

Cash flows from investing and financing activities are determined on a cash-related basis, while cash flows from operating activities are indirectly derived from earnings before income taxes. Interest received is attributed to the investing activity, interest paid is attributed to the financial activity. The repayment of lease liabilities is reported in the cash flow from financing activities under the item "Decrease in financing liabilities and financial liabilities".

Please refer to Section A for information on the cash-effectiveness of business acquisitions.

The following table shows financing liabilities and liabilities from bank overdrafts, provided that they do not form an integral part of cash management, as well as liabilities from Group leases, broken down into their cash and non-cash portions:

IN TEUR	CASH EFFECTIVE CHANGES		NON-CASH EFFECTIVE CHANGES		31.12.2022
	01.01.2022		New leases	Other changes	
Bonded loans	167,500	0	0	0	167,500
Acquisition- and other loans and overdrafts	119,014	-32,371	0	-3,214	83,429
Lease liabilities	61,999	-23,558	15,442	-11,104	42,779
Total liabilities from financial activities	348,513	-55,929	15,442	-14,318	293,708

IN TEUR	CASH EFFECTIVE CHANGES		NON-CASH EFFECTIVE CHANGES		31.12.2021
	01.01.2021		New leases	Other changes	
Bonded loans	160,000	7,500	0	0	167,500
Acquisition- and other loans and overdrafts	78,526	40,562	0	-74	119,014
Lease liabilities	68,163	-19,038	14,001	-1,127	61,999
Total liabilities from financial activities	306,689	29,024	14,001	-1,201	348,513

The lease liabilities are reported under the balance sheet items other current and non-current financial liabilities.

The other changes in the financial year 2022 include non-cash effective changes from company acquisitions amounting to TEUR 681 (PY: TEUR 327), a reduction in lease liabilities due to the early termination of leases amounting to TEUR 1,135 (PY: TEUR 2,431), the accrual of interest on lease liabilities of TEUR 1,351 (PY: TEUR 1,413) as well as currency effects, especially concerning the lease liabilities. In addition, the non-cash effective changes include the divestiture of loans totalling TEUR 3,214 and lease liabilities of TEUR 12,001 as a result of the deconsolidations.

32 Segment reporting

The Kontron Group has the following reportable operating segments as of December 31, 2022:

- › “IT Services” segment: The business segment “IT Services” comprises consulting and sales of third-party hardware and software products as well as their implementation and operation in the DACH region and Eastern Europe. The portfolio offered includes the areas of planning (consulting), implementation (integration) and outsourcing of IT services. The “IT Services” business segment includes all companies that were sold in the course of the “Focus” project and are therefore defined as discontinued operations. The previous year's figures were adjusted accordingly.
- › “IoT Solutions Europe” segment: The “IoT Solutions Europe” business segment includes proprietary technologies for the vertical markets of industrial automation, medical technology, public transport, telecommunications and smart energy. It focuses on the development of secure solutions using a combined range of hardware products, middleware and services in the areas of IoT and Industry 4.0. The “IoT Solutions Europe” segment is focused on the markets in Europe and parts of Asia.
- › “IoT Solutions America” segment: The “IoT Solutions America” segment differs from the “IoT Solutions Europe” segment primarily due to the geographical market; since 2020, the product portfolio offered in the segment has largely been the same as that of the “IoT Solutions Europe” segment.

EBITDA and gross profit (revenues less cost of materials and other purchased services) of the operating segments are monitored separately by management on the basis of IFRS in order to make decisions on the allocation of resources and to determine the profitability of the segments. The development of the segments is assessed on the basis of EBITDA and gross profit and evaluated in accordance with the Group EBITDA and gross profit in the consolidated financial statements.

The transfer prices between the business segments are based on acquisition or production costs on the basis of normal capacity utilisation plus a uniform Group mark-up.

2022 IN TEUR	IT SERVICES	IOT SOLUTIONS EUROPE	IOT SOLUTIONS AMERICA	CONSOLIDATION/ RECONCILIATION	TOTAL
Total revenues	229,742	908,415	146,484		1,284,641
Internal revenues	-8,296	-163,084	-17,166	-188,546	
Revenues	221,446	745,331	129,318		1,096,095
Gross profit	58,526	278,084	32,848		369,458
EBITDA before HQ-Charging	5,609	64,779	-395		69,993
EBITDA after HQ-Charging	14,390	58,424	-2,821		69,993
Depreciation and amortisation				-72,009	-72,009
Finance income				1,411	1,411
Finance expenses				-10,049	-10,049
Income taxes				-2,180	-2,180
Result for the period				-12,834	-12,834
Segment assets	566,322	592,973	75,997		1,235,292
Segment liabilities	427,492	351,345	23,454		802,292
Segment investments	6,999	25,468	5,260		37,728

2021 (ADJUSTED) IN TEUR	IT SERVICES	IOT SOLUTIONS EUROPE	IOT SOLUTIONS AMERICA	CONSOLIDATION/ RECONCILIATION	TOTAL
Total revenues	227,185	813,652	115,411		1,156,248
Internal revenues	-7,377	-134,185	-11,751	-153,313	
Revenues	219,808	679,467	103,660		1,002,935
Gross profit	49,598	278,786	29,894		358,277
EBITDA before HQ-Charging	15,163	73,719	1,191		90,074
EBITDA after HQ-Charging	24,033	67,449	-1,409		90,074
Depreciation and amortisation				-50,012	-50,012
Finance income				1,379	1,379
Finance expenses				-9,002	-9,002
Income taxes				-1,988	-1,988
Result for the period				30,451	30,451
Segment assets	460,797	589,268	81,223		1,131,288
Segment liabilities	568,515	338,897	21,458		928,870
Segment investments	17,624	24,216	5,448		47,288
2021 (BEFORE ADJUSTMENT) IN TEUR	IT SERVICES	IOT SOLUTIONS EUROPE	IOT SOLUTIONS AMERICA	CONSOLIDATION/ RECONCILIATION	TOTAL
Total revenues	577,368	813,652	115,411		1,506,431
Internal revenues	-18,542	-134,185	-11,751	-164,479	
Revenues	558,826	679,467	103,660		1,341,953
Gross profit	181,543	278,786	29,894		490,223
EBITDA before HQ-Charging	51,359	73,719	1,191		126,270
EBITDA after HQ-Charging	60,229	67,449	-1,409		126,270
Depreciation and amortisation				-63,593	-63,593
Finance income				1,586	1,586
Finance expenses				-10,039	-10,039
Income taxes				-5,260	-5,260
Result for the period				48,964	48,964
Segment assets	460,797	589,268	81,223		1,131,288
Segment liabilities	568,515	338,897	21,458		928,870
Segment investments	17,624	24,216	5,448		47,288

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“EBITDA before HQ-Charging” represents EBITDA before expenses for headquarters are cleared by Kontron AG, while “EBITDA after HQ-Charging” contains all costs. Furthermore, the “IT Services” segment comprises all costs ensuing from Kontron AG (expenses for headquarters) that cannot be apportioned among the other segments due to functionalities. The effects upon consolidated income that are not directly associated with the operating businesses of the segments are therefore also reported in the “IT Services” segment.

Segment assets comprise current and non-current assets without allocation of goodwill, investments and securities.

Segment liabilities comprise current and non-current liabilities.

Information about geographical areas:

IN TEUR	2022		2021 (ADJUSTED)	2021 (BEFORE ADJUSTMENT)	
	REVENUES	NON-CURRENT ASSETS	REVENUES	REVENUES	NON-CURRENT ASSETS
Germany	178,594	44,758	156,454	232,520	75,671
North America	109,819	14,869	96,498	98,276	23,236
Austria	102,568	31,372	105,578	108,211	44,658
Hungary	90,479	9,193	92,058	92,155	8,905
Romania	77,534	9,090	68,568	68,665	10,543
Slovenia	68,366	36,686	65,585	66,077	37,675
China	66,968	2,187	53,679	54,058	2,838
Russia	56,297	4,960	68,839	68,857	9,983
France	47,504	14,963	40,811	42,256	14,803
Czech Republic	42,414	884	30,419	68,245	3,274
Switzerland	33,579	1,250	20,575	40,242	2,469
Great Britain	19,528	834	30,734	32,505	1,040
Ireland	15,324	0	15,897	17,109	0
Sweden	14,832	0	14,391	14,449	0
Malaysia	13,289	166	8,690	8,710	96
Other countries	158,999	6,963	134,157	329,617	22,764
	1,096,095	178,175	1,002,935	1,341,953	257,955

The presentation of non-current assets includes property, plant and equipment, intangible assets as well as non-current contract assets and other non-current assets.

The presentation of revenues by geographical area is based on the respective registered office of the customer.

The Group did not generate 10% or more of the reported revenues with any single external customer.

33 Additional information on financial instruments

The following table shows the carrying amounts of all financial instruments recognised in the consolidated financial statements by category in accordance with IFRS 9:

	MEASUREMENT CATEGORY ACC. IFRS 9	CARRYING AMOUNT 31.12.2022	FAIR VALUE 31.12.2022
ASSETS			
Cash and cash equivalents	at amortised costs	437,760	437,760
Trade receivables			
of which:	at amortised costs	124,296	124,296
of which:	FV through OCI (with recycling)	23,789	23,789
FV hierarchy			LEVEL 3
Other current financial assets	at amortised costs	134,326	134,326
FV hierarchy			LEVEL 2
Other non-current financial assets			
of which:	at amortised costs	7,295	7,295
of which:	FV through profit and loss	866	866
FV hierarchy			LEVEL 3
of which:	FV through OCI (with recycling)	241	241
FV hierarchy			LEVEL 1
LIABILITIES			
Other current financial liabilities	at amortised costs	24,507	24,507
FV hierarchy			LEVEL 3
Trade payables	at amortised costs	226,336	226,336
Current financing liabilities	at amortised costs	125,703	125,703
Non-current financing liabilities	at amortised costs	193,768	190,502
Other non-current financial liabilities	at amortised costs	27,714	27,714
FV hierarchy			LEVEL 3

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	MEASUREMENT CATEGORY ACC. IFRS 9	CARRYING AMOUNT 31.12.2021	FAIR VALUE 31.12.2021
ASSETS			
Cash and cash equivalents	at amortised costs	296,512	296,512
Trade receivables			
of which:	at amortised costs	215,513	215,513
of which:	FV through OCI (with recycling)	17,033	17,033
FV hierarchy			LEVEL 3
Other current financial assets			
of which:	at amortised costs	19,577	19,577
of which:	FV through profit and loss	325	325
FV hierarchy			LEVEL 2
Other non-current financial assets			
of which:	at amortised costs	9,900	9,900
of which:	FV through profit and loss	961	961
FV hierarchy			LEVEL 3
of which:	FV through OCI (with recycling)	305	305
FV hierarchy			LEVEL 1
LIABILITIES			
Other current financial liabilities			
of which:	at amortised costs	31,472	31,472
of which:	FV through profit and loss	7,717	7,717
FV hierarchy			LEVEL 3
Trade payables	at amortised costs	269,975	269,975
Current financing liabilities	at amortised costs	72,319	72,319
Non-current financing liabilities	at amortised costs	238,376	227,753
Other non-current financial liabilities			
of which:	at amortised costs	44,508	44,508
of which:	FV through profit and loss	9,576	9,576
FV hierarchy			LEVEL 3

The fair value of the non-current financing liabilities was determined using a DCF method and a discount rate in line with the market. The own credit risk as at December 31, 2022, was assessed as immaterial.

34 Capital management

The primary objective of the Group's capital management is to ensure that, in order to support its operations and maximise shareholder value, it has a credit rating with banks that enables obtaining debt financing at the lowest possible cost. From the management's point of view, a key indicator for achieving the credit rating is the equity ratio in the Group. As at the reporting date, the Group equity ratio was 44.1% (PY: 31.3%). Management monitors capital using the debt-equity ratio, which is the ratio of net financial debt to the sum of equity and net financial debt. Monitoring is carried out as part of the monthly reporting of the Group companies and is reported to the Executive Board. As of the reporting date, net financial liabilities amounted to TEUR 367,434 (PY: TEUR 632,358) and the sum of equity and net financial liabilities to TEUR 1,003,100 (PY: TEUR 1,055,621), resulting in a gearing ratio of 37% (PY: 60%). Net financial debt includes interest-bearing loans, trade payables and other liabilities less cash and cash equivalents as well as short-term deposit. Equity capital comprises the equity capital reported in the balance sheet. If necessary, the Group may increase the equity ratio within the framework of the authorised capital by issuing new shares. The Group manages its capital structure and makes adjustments taking into account changes in the economic environment. In order to maintain or adjust the capital structure, the Group may make adjustments to dividend payments to shareholders or issue new shares.

IN TEUR	2022	2021
Equity	635,666	423,263
Total equity and liabilities	1,440,860	1,352,133
Equity ratio	44.1%	31.3%
Non-current liabilities	252,626	348,162
Current liabilities	552,568	580,708
	805,194	928,870
Cash and cash equivalents	-437,760	-296,512
Net financial liabilities	367,434	632,358
Equity	635,666	423,263
Equity and net financial liabilities	1,003,100	1,055,621
Debt ratio	36.6%	59.9%

As of December 31, 2022, no changes have been made to the objectives, policies and procedures. The financial ratios required by the banks for the granting of framework credit lines were met.

35 Risk management

The main financial liabilities used by the Group – except for derivative financial instruments – include bank loans, bonded loans and short-term overdraft facilities, lease liabilities, trade payables and other liabilities. The main purpose of these financial liabilities is to finance the Group's operations. The Group has various financial assets, such as trade receivables, other receivables as well as cash and current deposits, which result directly from its business activities.

In addition, the Group has derivative financial instruments that are used to hedge against currency and interest rate risks arising from the Group's business activities and its sources of financing. Trading in derivatives for speculative purposes is not conducted in accordance with the Group's internal guidelines.

The Group is exposed to market, credit and liquidity risks. The management of these risks is the responsibility of the Group's management. The management decides on strategies and procedures to control individual types of risk, which are presented below.

Liquidity risk

The Group continuously monitors the risk of a possible liquidity bottleneck by means of liquidity planning in order to identify any financing requirements at an early stage and to coordinate them with its banking partners.

The Group's objective is to maintain a balance between continuously meeting its funding needs and ensuring flexibility through the use of short-term overdraft facilities and other sources of funding.

As of December 31, 2022, the Group's financial liabilities have maturities as shown below. The figures are based on the contractual, non-discounted payments.

2022	UP TO 1 YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Financing liabilities	130,098	196,875	2,673	329,646
Lease liabilities	17,612	29,676	1,114	48,402
Trade payables	226,336	0	0	226,336
Other financial liabilities	8,005	1,908	0	9,913
	382,051	228,459	3,787	614,297
2021	UP TO 1 YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Financing liabilities	60,672	251,319	7,526	319,517
Lease liabilities	23,532	43,003	1,441	67,976
Trade payables	269,975	0	0	269,975
Other financial liabilities	24,818	16,326	0	41,144
	378,997	310,648	8,967	698,612

The carrying amount of financing liabilities as of December 31, 2022, is TEUR 319,472 (PY: TEUR 310,695) and consists of non-current financing liabilities of TEUR 193,768 (PY: TEUR 238,376) and of short-term bank loans and overdraft facilities amounting to TEUR 125,703 (PY: TEUR 72,319). The interest accrued on interest-bearing liabilities amounts to TEUR 9,544 (PY adjusted: TEUR 8,938).

The Kontron Group uses a reverse factoring program for supplier financing in selected Group companies and for certain suppliers. These agreements may also lead to greater utilisation of existing payment terms. The liabilities remain part of the working capital used in the normal operating cycle of the company. However, in balance sheet terms as well as in terms of civil law, there are no effects that result in a reclassification of trade payables to another type of liability in the balance sheet.

The agreement does not result in any extension of existing payment terms (these are generally between 60 and 120 days) and the liabilities covered relate exclusively to the purchase of inventories for production in connection with customer contracts. Kontron is not required to provide (additional) collateral for these liabilities.

As of December 31, 2022, liabilities amounting to TEUR 40,488 (PY: TEUR 22,871) are covered by this program. The liabilities are shown in the consolidated balance sheet under "Trade payables".

Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk includes the following three types of risk: foreign currency risk, interest rate risk and other price risks. Financial instruments exposed to market risk include interest-bearing loans, deposits, available-for-sale financial assets and derivative financial instruments.

Foreign currency risk

The Group is exposed to currency risks from individual transactions. These risks result from purchases and sales of an operating unit in a currency other than the functional currency of that unit. The main currency risks result from the change in the US dollar/EUR exchange rate. As a global company, Kontron makes revenue and material purchases in US dollars and euros. The resulting currency effects are partially offset over time. Remaining peaks are hedged through the use of short-term futures contracts or options transactions. To optimise the hedging strategy, the risk from the difference between foreign currency income and expenses of planned transactions that are highly likely to occur within the framework of Group planning is eliminated or limited by using various hedging instruments.

As of December 31, 2022, one subsidiary has foreign exchange forward contracts in place to hedge purchasing volumes or other positions with a market value of less than TEUR 1. The fair value of the foreign exchange forward contracts with a nominal volume of TEUR 5,005 amounted to TEUR 327 as of December 31, 2021. Open foreign exchange forward contracts accounted for TEUR 327 in financial year 2021.

For the presentation of currency risks, IFRS 7 requires a currency sensitivity analysis that shows the effects of hypothetical changes in relevant risk variables on income and equity. Relevant risk variables are basically all non-functional currencies in which Group companies enter into financial instruments. The periodic effects are determined by relating the hypothetical changes in the risk variables to the portfolio of financial instruments on the reporting date. It is assumed that the portfolio on the balance sheet date is representative for the entire year.

The following table shows the sensitivity of the Group's earnings before tax (due to the change in fair value of monetary assets and liabilities) to a reasonably possible change in the exchange rate of the US dollar. All other variables remain constant. The value fluctuations examined have no direct effect on equity.

	EXCHANGE RATE USD	EFFECT ON EARNINGS BEFORE TAXES IN TEUR
Financial year 2022	+10%	-1,936
	-10%	1,936
Financial year 2021	+10%	-622
	-10%	622

The following table shows the sensitivity of the result from the market valuation of the foreign exchange forward contracts existing at December 31, 2022. The impact on the result of a fictitious change of the euro against the foreign currency by 5% or 10% is shown:

CHANGE IN VALUE OF EURO	EFFECT ON EARNINGS BEFORE TAXES IN TEUR	
	FINANCIAL YEAR 2022	FINANCIAL YEAR 2021
+5%	0	223
+10%	0	425
-5%	0	-246
-10%	0	-520

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from variable rate financing and invested time deposits. A change in the general interest rate level could lead to an increase or decrease in interest expenses or interest income.

The following interest rate sensitivity analysis was prepared assuming that interest rates would have been 100 basis points higher or lower in all currencies for variable interest rates and for short-term fixed interest rates (cash advances) during the reporting period. This represents the management's assessment of a justified possible change in interest rates.

As a basis, the interest rate risk exposure of financial instruments was determined as of the balance sheet date, and it was assumed that the outstanding liabilities or receivables were outstanding for the entire year as of the reporting date.

Approximately 31% (PY: 33%) of the financing liabilities amounting to TEUR 319,472 (PY: TEUR 310,695) are subject to variable interest rates. This includes tranches from the bonded loan totalling TEUR 75,000 (PY: TEUR 75,000). Acquisition loans amounting to TEUR 25,449 (PY: TEUR 42,902), tranches of the bonded loan totalling TEUR 92,500 (including a new tranche of TEUR 7,500 taken up in 2021), further bank loans amounting to TEUR 30,000, and the financing framework of TEUR 50,000 concluded in financial year 2022 which was fully used in the form of cash advances with terms of three months each, have fixed interest rates. In addition, an overdraft facility of TEUR 15,000 taken over in the course of the acquisition of Kontron Transportation (formerly Kapsch CarrierCom) is fixed.

If interest rates had been 100 basis points higher and all other variables had been held constant, the interest result would have been TEUR 977 lower (PY: TEUR 1,019). The interest rate fluctuations examined have no direct effect on equity. With regard to the liabilities reported in the balance sheet, the Group is currently not exposed to any material interest rate risk.

To hedge interest rate changes on existing floating-rate loans, an interest rate swap of TEUR 15,000 with a five-year term until September 30, 2024, was concluded in the financial year 2019. The fair value of the interest rate swap as of December 31, 2022, amounts to TEUR 842 (PY: TEUR -87). The requirements for hedge accounting are not met.

The following table shows the sensitivity of the result from the market valuation of the interest rate swap existing as at December 31, 2022. The impact on earnings of a fictitious change in the interest rate of 50 or 100 basis points is shown:

CHANGE IN INTEREST RATE	EFFECT ON EARNINGS BEFORE TAXES IN TEUR	
	FINANCIAL YEAR 2022	FINANCIAL YEAR 2021
+50 basis points	100	187
+100 basis points	199	371
-50 basis points	-102	-191
-100 basis points	-205	-387

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation. The Group is exposed to credit risks in the course of its operating activities (in particular risks arising from trade receivables) as well as risks in the course of financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

To minimise credit risk, depending on the form of payment and amount being serviced, credit rating information is obtained, or historical data from the existing business relationship (and in particular payment patterns) are used to avoid payment defaults. For this purpose, the Group has introduced an accounts receivable management system that monitors the receivables on an ongoing basis. In addition, trade receivables are mainly covered by credit insurance. Insofar as default risks are nevertheless identifiable for the individual financial assets, these risks are recognised through value adjustments. A concentration of default risks from business relationships with individual debtors or groups of debtors is not recognisable.

The balance sheet amount of financial assets indicates, irrespective of existing collateral, the maximum credit risk in the event that business partners are unable to meet their contractual payment obligations. The corresponding disclosures can be found in the chapter "Additional information on financial instruments".

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The following overview shows the default risk position of the Group's trade receivables determined with the help of an impairment matrix:

31.12.2022	NOT OVERDUE	1 TO 60 DAYS OVERDUE	61 TO 90 DAYS OVERDUE	91 TO 180 DAYS OVERDUE	181 TO 270 DAYS OVERDUE	271 TO 365 DAYS OVERDUE	MORE THAN 365 DAYS OVERDUE
Estimated total gross carrying amount of delinquent payments	117,850	20,033	2,653	3,051	2,934	1,858	7,562
Expected credit losses	241	192	698	408	220	552	5,546

The previous year was as follows:

31.12.2021	NOT OVERDUE	1 TO 60 DAYS OVERDUE	61 TO 90 DAYS OVERDUE	91 TO 180 DAYS OVERDUE	181 TO 270 DAYS OVERDUE	271 TO 365 DAYS OVERDUE	MORE THAN 365 DAYS OVERDUE
Estimated total gross carrying amount of delinquent payments	195,577	22,386	4,528	3,809	1,510	3,165	9,788
Expected credit losses	490	180	132	311	416	776	5,913

With regard to the trade receivables that are neither impaired nor in arrears, there are no indications as at the reporting date that the debtors will not meet their payment obligations. This also applies to overdue, unimpaired trade receivables.

36 Other financial obligations

Contingent liabilities

In the context of the operating business of the Kontron Group, the Group has issued performance and bid bonds of TEUR 14,390 (PY: TEUR 28,065). These performance and bid bonds mainly result from Kontron's subsidiaries in France with TEUR 835 (PY: TEUR 799), Slovenia with TEUR 5,678 (PY: TEUR 8,684), Russia with TEUR 2,303 (PY: TEUR 2,372), Spain with TEUR 790 (PY: TEUR 0), Germany with TEUR 930 (PY: TEUR 989) and Belgium with TEUR 2,839 (PY: TEUR 2,865). In addition, there are various guarantees amounting of TEUR 1,015 (PY: TEUR 4,754).

37 Auditor's fees

For services rendered by the auditor KPMG Austria GmbH Wirtschaftsprüfung- und Steuerberatungsgesellschaft in financial year 2022, TEUR 444 (PY: TEUR 661) was spent. Of this amount, TEUR 325 (PY: TEUR 499) is attributable to the audit of the financial statements and TEUR 119 (PY: TEUR 162) to other services.

38 Stock option programs

The company has adopted stock option programs for employees, officers and members of the Executive Board of the Company or any of its affiliates.

Stock Option Program 2024/2025 (Tranche 2024 and Tranche 2025)

In November 2022, a total of 1,500,000 stock options were granted to the members of the Executive Board of Kontron AG and senior employees of Kontron AG as well as the executives of selected group companies on the basis of the Stock Option Program 2024/2025, with 750,000 stock options planned for a 2024 tranche and a further 750,000 stock options for a 2025 tranche.

The term of the stock option program began on the issue date and ends after 60 months. The stock options can be exercised after a waiting period. The waiting period begins on the date of issue and ends after 36 months. The exercise periods defined in the Stock Option Program 2024/2025 (Tranche 2024 and Tranche 2025) are 30 stock exchange trading days each, beginning on the second stock exchange trading day after the publication of quarterly, semi-annual or annual reports and after the day of the annual press conference. Stock options not exercised expire at the end of the term. The stock options are only transferable between option holders, not to third parties. The Stock Option Program 2024/2025 (Tranche 2024 and Tranche 2025) provides for the company's sole right to deliver shares to the allottees against payment of the exercise price or to pay their entitlement in cash.

The fair value of the stock options granted was determined at the grant date using the option pricing model based on the Monte Carlo method and the random walk theory.

Stock Option Program 2018 (Tranche 2018 and Tranche 2019)

In December 2018, a total of 1,000,000 stock options were granted to the members of the Executive Board of Kontron AG and senior employees of Kontron AG as well as the executives of selected Group companies on the basis of the Stock Option Program 2018 (Tranche 2018).

The term of the stock option program began on the issue date and ends after 60 months. The stock options can be exercised after a waiting period. The waiting period begins on the date of issue and ends after 36 months. The exercise periods defined in the Stock Option Program 2018 (Tranche 2018) are 30 stock exchange trading days each, beginning on the second stock exchange trading day after the publication of quarterly, semi-annual or annual reports and after the day of the annual press conference. Stock options not exercised expire at the end of the term. The stock options are only transferable between option holders, not to third parties. The Stock Option Program 2018 (Tranche 2018 and Tranche 2019) provides for the company's sole right to deliver shares to the allottees against payment of the exercise price or to pay their entitlement in cash.

The fair value of the stock options granted was determined at the grant date using the Black/Scholes option pricing model.

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The following table shows the key parameters at the time the stock option programs were granted:

	STOCK OPTION PROGRAM 2018 (TRANCHE 2018)	STOCK OPTION PROGRAM 2018 (TRANCHE 2019)	STOCK OPTION PROGRAM 2024/2025 (TRANCHE 2024)	STOCK OPTIONS PROGRAM 2024/2025 (TRANCHE 2025)
Number of stock options	500,000	500,000	750,000	750,000
Day of issuance	December 21, 2018	December 21, 2018	November 14, 2022	November 14, 2022
Term	5 years	5 years	5 years	5 years
Exercising price	Closing quote on issuance day	Closing quote on issuance day	Closing quote on issuance day	Closing quote on issuance day
Stock quote on the day of issuance	EUR 15.71	EUR 15.71	EUR 15.30	EUR 15.30
Dividend yield	1.44%	1.44%	-	-
Expected volatility	36.80%	36.80%	33.29%	33.29%
Interest rate	2.59%	2.59%	2.47%	2.47%
Expected term of the options	4.43 years	4.43 years	3.93 years	3.93 years
Option price	EUR 3.74	EUR 3.74	EUR 3.42	EUR 3.42

As of December 31, 2022, the number of outstanding stock options in Stock Option Program 2024/2025 (Tranche 2024) is 750,000 (PY: 0), and in Stock Option Program 2024/2025 (Tranche 2025) 750,000 (PY: 0). There are a total of 500,000 (PY: 500,000) outstanding stock options for Stock Option Program 2018 (Tranche 2018) and a total of 500,000 (PY: 500,000) stock options outstanding for Stock Option Program 2018 (Tranche 2019).

In financial year 2022, income for Stock Option Programs amounting to TEUR 774 (PY: expenditure of TEUR 1,308) was recognised in personnel expenses.

In 2020, the company issued warrants on the basis of a prospectus approved by the FMA. A total of 2,000,000 warrants, comprising 1,500,000 allotted and 500,000 publicly offered warrants, were issued. As of July 30, 2020, the warrants were admitted to official trading on the Vienna Stock Exchange and delivered to the respective subscribers and allottees. The first exercise of the conversion or subscription right is possible at the earliest 36 months after the issue of the warrant and only if the price of the Kontron AG share exceeds EUR 32.86.

39 Remuneration report

The remuneration report presents the basic features, structure and amount of the Executive Board and Supervisory Board remuneration system.

Remuneration of the Executive Board

The structure of Executive Board remuneration is geared towards sustainable and results-oriented corporate governance. The remuneration of the Executive Board takes into account the responsibility and scope of activities of the individual members and is based on the tasks of the individual Executive Board member, their personal performance, the size and economic situation of the company or the division for which they are responsible and, in particular, the success and future prospects of the company. In addition, the customary nature of the remuneration structure in the company's peer environment is taken into account. Since 2021, the improvement of the Kontron Group's performance regarding ESG topics has been included in the medium-term incentive.

The total remuneration of the Executive Board members consists of several non-performance-related fixed and performance-related variable short-term and long-term components. The non-performance-related Executive Board remuneration consists of the fixed gross salary paid monthly and fixed benefits in kind, which cover the use of company cars, car allowance lump sums, meal lump sums and garage parking spaces provided. The extent to which the pre-agreed key performance indicators are achieved is used to calculate the performance-related one-year variable remuneration, whereby extraordinary effects, such as acquisitions in particular, are assessed separately. The key figures are calculated on the basis of the audited consolidated financial statements of the Kontron Group. In financial year 2022, transaction bonuses were granted for completion of the "Focus" project, whereby a premium amount dependent on the sales proceeds of the IT service companies was agreed. The transaction bonuses will be paid out in financial year 2023. In addition, two members of the Executive Board were granted stock options from the Stock Option Program 2018 (Tranche 2019) in recognition of their services in this connection.

Generally, by granting subscription rights from Stock Option Programs (variable remuneration in kind), an additional long-term, performance-related, share-based remuneration component was created which promotes the interest of the beneficiaries in a sustainable corporate and earnings development of the company in the future. The stock options granted under the various Stock Option Programs can only be exercised after multi-year holding periods defined in the programs and when certain thresholds have been reached. In financial year 2022, three members of the Executive Board were granted stock options with a total value of TEUR 1,026 under Stock Option Program 2024/2025 (Tranche 2024 and Tranche 2025) adopted in November 2022 as long-term, performance-based remuneration. The total remuneration granted to the Executive Board in financial year 2022 amounted to TEUR 4,583 (PY: TEUR 1,353), with the increase compared to the previous year due to the transaction bonuses and stock options granted.

In the financial year 2022, a total of TEUR 1,166 (PY: TEUR 1,112) was paid as remuneration to the Executive Board.

Pension commitments and payments to a member of the Executive Board in the event of early termination of Executive Board activities, including following a change of control, have not been agreed.

No loans or assumption of liability in favour of members of the Executive Board were granted in the reporting year.

The following tables show the grants awarded and the inflows paid out in the financial year. For the grants awarded, in addition to the actual amount awarded, the possible minimum amount and the maximum amount to be achieved are also indicated. The subscription rights granted for stock options from stock option programs are calculated according to fair value (option price) at the time of granting. The fixed remuneration components and the inflow from the one-year variable remuneration are reported for the inflow in the financial year. If stock options from stock options granted in previous years were exercised in the financial year, the relevant inflow amount for tax purposes is stated.

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GRANTS MADE IN THE FINANCIAL YEAR IN TEUR

HANNES NIEDERHAUSER
CEO
21.05.2012

RICHARD NEUWIRTH
CFO (UNTIL 30.09.2022)
01.07.2013

	2022	2022 (MIN)	2022 (MAX)	2021	2022	2022 (MIN)	2022 (MAX)	2021
REMUNERATION INDEPENDENT OF PERFORMANCE								
Gross salary	7	7	7	7	225	225	225	275
Fixed remuneration in kind ¹⁾	12	12	12	12	9	9	9	12
Total fixed remuneration	19	19	19	19	234	234	234	287
PERFORMANCE-RELATED REMUNERATION								
One-year variable remuneration ²⁾					503		908	140
Multi-year variable remuneration								
Stock option and warrant programs — with long-term share-based incentive effect ³⁾								
SOP 2018 (Tranche 2018)								
SOP 2018 (Tranche 2019)	232	232	232		103	103	103	
Warrants 2020 ⁴⁾								
SOP 2024/25 (Tranche 2024)	342	342	342					
SOP 2024/25 (Tranche 2025)	342	342	342					
Total variable remuneration	916	916	916		605	103	1,010	140
Total	934	934	934	19	839	336	1,244	427

GRANTS MADE IN THE FINANCIAL YEAR IN TEUR

CLEMENS BILLEK
CFO (FROM 01.10.2022) & CCO (FROM 02.05.2022)
02.05.2022

PETER STURZ
COO, SERVICES EE
06.11.2012

	2022	2022 (MIN)	2022 (MAX)	2021	2022	2022 (MIN)	2022 (MAX)	2021
REMUNERATION INDEPENDENT OF PERFORMANCE								
Gross salary	100	100	100		270	270	270	260
Fixed remuneration in kind ¹⁾	4	4	4		12	12	12	12
Total fixed remuneration	104	104	104		282	282	282	272
PERFORMANCE-RELATED REMUNERATION								
One-year variable remuneration ²⁾	50	25	50		552		1,328	229
Multi-year variable remuneration								
Stock option and warrant programs — with long-term share-based incentive effect ³⁾								
SOP 2018 (Tranche 2018)								
SOP 2018 (Tranche 2019)								
Warrants 2020 ⁴⁾								
SOP 2024/25 (Tranche 2024)	342	342	342					
SOP 2024/25 (Tranche 2025)	342	342	342					
Total variable remuneration	734	709	734		552		1,328	229
Total	838	813	838		833	282	1,610	500

1) Fixed remuneration in kind included: Car allowance, if applicable, garage spaces and meal allowances

2) Bonus based on individually agreed performance indicators including transaction bonus for the "Focus" project, amount depends on IT Services sales revenue

3) Allowance from SOP = granted SOP number of units x option price

4) The allocated warrants 2020 represent the long-term variable remuneration of the Executive Board for three financial years. There is a waiting period of three years and an exercise threshold in relation to the development of the share price. In addition, further warrants were acquired for consideration by the Executive Board under the 2020 warrant program on the basis of the public prospectus (for the number of 2022 warrants held as at December 31, 2022, see "Corporate Governance Report").

**INFLOW IN THE FINANCIAL YEAR
IN TEUR**
HANNES NIEDERHAUSER
CEO
21.05.2012

RICHARD NEUWIRTH
CFO (UNTIL 30.09.2022)
01.07.2013

	2022	2021	2022	2021
REMUNERATION INDEPENDENT OF PERFORMANCE				
Gross salary	7	7	225	275
Fixed remuneration in kind ¹⁾	12	12	9	12
Total fixed remuneration	19	19	234	287
PERFORMANCE-RELATED REMUNERATION				
One-year variable remuneration ²⁾			98	155
Multi-year variable remuneration				
Stock option and warrant programs — with long-term share-based incentive effect ³⁾				
SOP 2018 (Tranche 2018)				
SOP 2018 (Tranche 2019)				
Warrants 2020 ⁴⁾				
SOP 2024/25 (Tranche 2024)				
SOP 2024/25 (Tranche 2025)				
Total variable remuneration			98	155
Total	19	19	332	442

**INFLOW IN THE FINANCIAL YEAR
IN TEUR**
CLEMENS BILLEK
CFO (FROM 01.10.2022) & CCO (FROM 02.05.2022)
02.05.2022

PETER STURZ
COO, SERVICES EE
06.11.2012

	2022	2021	2022	2021
REMUNERATION INDEPENDENT OF PERFORMANCE				
Gross salary	100		270	260
Fixed remuneration in kind ¹⁾	4		12	12
Total fixed remuneration	104		282	272
PERFORMANCE-RELATED REMUNERATION				
One-year variable remuneration ²⁾	25		66	
Multi-year variable remuneration				
Stock option and warrant programs — with long-term share-based incentive effect ³⁾				
SOP 2018 (Tranche 2018)				
SOP 2018 (Tranche 2019)				
Warrants 2020 ⁴⁾				
SOP 2024/25 (Tranche 2024)				
SOP 2024/25 (Tranche 2025)				
Total variable remuneration	25		66	
Total	129		347	272

1) Fixed remuneration in kind included: Car allowance, if applicable, garage spaces and meal allowances

2) Bonus based on individually agreed performance indicators

3) Variable remuneration in kind: exercised stock options (number of shares x (share price at disposal date - option price granted)) + granted stock options and warrants (number of shares x option price)

4) The allocated warrants 2020 represent the long-term variable remuneration of the Executive Board for three financial years. There is a waiting period of three years and an exercise threshold in relation to the development of the share price. In addition, further warrants were acquired for consideration by the Executive Board under the 2020 warrant program on the basis of the public prospectus (for the number of 2022 warrants held as at December 31, 2022, see "Corporate Governance Report").

10.E

NOTES 2022

GRANTS MADE IN THE FINANCIAL YEAR IN TEUR

MICHAEL JESKE
COO, SERVICES DACH (UNTIL 30.09.2022)
28.05.2009

MICHAEL RIEGERT
COO, IOT EUROPE
01.01.2022

	2022	2022 (MIN)	2022 (MAX)	2021	2022	2022 (MIN)	2022 (MAX)	2021
REMUNERATION INDEPENDENT OF PERFORMANCE								
Gross salary	116	116	116	150	140	140	140	
Fixed remuneration in kind ¹⁾	8	8	8	11	24	24	24	
Total fixed remuneration	124	124	124	161	164	164	164	
PERFORMANCE-RELATED REMUNERATION								
One-year variable remuneration ²⁾	127		370	55	40	40	40	
Multi-year variable remuneration								
Stock option and warrant programs — with long-term share-based incentive effect ³⁾								
SOP 2018 (Tranche 2018)								
SOP 2018 (Tranche 2019)								
Warrants 2020 ⁴⁾								
SOP 2024/25 (Tranche 2024)					342	342	342	
SOP 2024/25 (Tranche 2025)					342	342	342	
Total variable remuneration	127		370	55	724	724	724	
Total	251	124	494	216	888	888	888	

GRANTS MADE IN THE FINANCIAL YEAR IN TEUR

CARLOS QUEIROZ
COO, IOT SOLUTIONS EUROPE (UNTIL 31.12.2021)
21.08.2017

TOTAL

	2022	2022 (MIN)	2022 (MAX)	2021	2022	2022 (MIN)	2022 (MAX)	2021
REMUNERATION INDEPENDENT OF PERFORMANCE								
Gross salary				183	858	858	717	875
Fixed remuneration in kind ¹⁾				9	68	68	68	55
Total fixed remuneration				192	926	926	926	930
PERFORMANCE-RELATED REMUNERATION								
One-year variable remuneration ²⁾					1,271	65	2,695	424
Multi-year variable remuneration								
Stock option and warrant programs — with long-term share-based incentive effect ³⁾								
SOP 2018 (Tranche 2018)								
SOP 2018 (Tranche 2019)					334	334	334	
Warrants 2020 ⁴⁾								
SOP 2024/25 (Tranche 2024)					1,026	1,026	1,026	
SOP 2024/25 (Tranche 2025)					1,026	1,026	1,026	
Total variable remuneration					3,657	2,451	5,082	424
Total				192	4,583	3,377	6,008	1,353

1) Fixed remuneration in kind included: Car allowance, if applicable, garage spaces and meal allowances

2) Bonus based on individually agreed performance indicators including transaction bonus for the "Focus" project, amount depends on IT Services sales revenue

3) Allowance from SOP = granted SOP number of units x option price

4) The allocated warrants 2020 represent the long-term variable remuneration of the Executive Board for three financial years. There is a waiting period of three years and an exercise threshold in relation to the development of the share price. In addition, further warrants were acquired for consideration by the Executive Board under the 2020 warrant program on the basis of the public prospectus (for the number of 2022 warrants held as at December 31, 2022, see "Corporate Governance Report").

**INFLOW IN THE FINANCIAL YEAR
IN TEUR**
MICHAEL JESKE
COO, SERVICES DACH (UNTIL 30.09.2022)
28.05.2009
MICHAEL RIEGERT
COO, IOT EUROPE
01.01.2022

	2022	2021	2022	2021
REMUNERATION INDEPENDENT OF PERFORMANCE				
Gross salary	116	150	140	
Fixed remuneration in kind ¹⁾	8	11	24	
Total fixed remuneration	124	161	164	
PERFORMANCE-RELATED REMUNERATION				
One-year variable remuneration ²⁾	52	28		
Multi-year variable remuneration				
Stock option and warrant programs — with long-term share-based incentive effect ³⁾				
SOP 2018 (Tranche 2018)				
SOP 2018 (Tranche 2019)				
Warrants 2020 ⁴⁾				
SOP 2024/25 (Tranche 2024)				
SOP 2024/25 (Tranche 2025)				
Total variable remuneration	52	28		
Total	176	188	164	

**INFLOW IN THE FINANCIAL YEAR
IN TEUR**
CARLOS QUEIROZ
COO, IOT SOLUTIONS EUROPE (UNTIL 31.12.2021)
21.08.2017
TOTAL

	2022	2021	2022	2021
REMUNERATION INDEPENDENT OF PERFORMANCE				
Gross salary		183	858	875
Fixed remuneration in kind ¹⁾		9	68	54
Total fixed remuneration		192	926	929
PERFORMANCE-RELATED REMUNERATION				
One-year variable remuneration ²⁾			240	183
Multi-year variable remuneration				
Stock option and warrant programs — with long-term share-based incentive effect ³⁾				
SOP 2018 (Tranche 2018)				
SOP 2018 (Tranche 2019)				
Warrants 2020 ⁴⁾				
SOP 2024/25 (Tranche 2024)				
SOP 2024/25 (Tranche 2025)				
Total variable remuneration			240	183
Total		192	1,166	1112

1) Fixed remuneration in kind included: Car allowance, if applicable, garage spaces and meal allowances

2) Bonus based on individually agreed performance indicators

3) Variable remuneration in kind: exercised stock options (number of shares x (share price at disposal date - option price granted)) + granted stock options and warrants (number of shares x option price)

4) The allocated warrants 2020 represent the long-term variable remuneration of the Executive Board for three financial years. There is a waiting period of three years and an exercise threshold in relation to the development of the share price. In addition, further warrants were acquired for consideration by the Executive Board under the 2020 warrant program on the basis of the public prospectus (for the number of 2022 warrants held as at December 31, 2022, see "Corporate Governance Report").

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board in the financial year 2022 consisted of a position-dependent, annual fixed remuneration and attendance fees for participation in Supervisory Board and committee meetings.

The remuneration of the members of the Supervisory Board is determined in such a way that it is in line with the tasks and situation of the company. The remuneration of the Supervisory Board shall promote the business strategy and long-term development of the company by taking into account the responsibility and scope of activities of the individual Supervisory Board members as well as the economic situation of the company. In order to ensure unbiased supervision of the management by the Supervisory Board, no variable remuneration, bonuses or share-based payments are granted to the members of the Supervisory Board.

Supervisory Board remuneration generally consists of an annual fixed fee and an attendance fee for Supervisory Board and committee meetings. In view of the greater responsibility and the wider scope of activities, the Chairman of the Supervisory Board, his/her Deputy and the Chairman of the Audit Committee are granted a higher lump-sum remuneration than the ordinary members of the Supervisory Board. The fixed annual remuneration amounts to TEUR 50 for the Chair of the Supervisory Board, TEUR 40 for his deputy and TEUR 30 for each additional member. The chairman of the audit committee is paid TEUR 20 for his work, and the deputy chairman of the audit committee is paid TEUR 10.

In addition, each member is paid TEUR 1.5 for attending Supervisory Board or committee meetings in person or via video/audio conferencing system. If several sessions are held on one day, the session fee shall only be granted once for that day. The fee was not changed in 2022 compared to the previous year.

If members of the Supervisory Board take on a special activity in the company, they may be granted special remuneration for this by resolution of the Annual General Meeting. This was not the case in the financial year 2022.

COMPONENTS OF SUPERVISORY BOARD REMUNERATION IN TEUR	2022	2021
Chairperson of the Supervisory Board	50	50
Remuneration of the Deputy Chairperson	40	40
Remuneration members	30	30
Audit Committee Chairperson	20	20
Audit Committee Deputy Chairperson	10	10
Meeting fees for personal attendance or qualified telephone/video participation in Supervisory Board and committee meetings ¹⁾	2	2
Meeting fee per committee meeting (attendance or qualified telephone/video participation) ¹⁾²⁾	2	2

1) Meeting fees for personal attendance or qualified telephone/video participation in Supervisory Board and committee meetings

2) not applicable if Supervisory Board meeting takes place on the same day

The remuneration is paid annually in arrears based on the approval of the Annual General Meeting. In financial year 2022, the remuneration of the members of the Supervisory Board totalled TEUR 299 (PY: TEUR 245). The increase compared to the previous year is due to the increased number of Supervisory Board meetings and the fees paid out in this connection.

The remuneration of the members of the Supervisory Board in financial years 2022 and 2021, broken down by fixed remuneration component and meeting fees, is as follows:

REMUNERATION OF THE SUPERVISORY BOARD BY MEMBERS IN TEUR	FIXED REMUNERATION		MEETING FEES ¹⁾		TOTAL REMUNERATION	
	2022	2021	2022	2021	2022	2021
Mag. Claudia Badstöber (Chairwoman)	60	60	21	9	81	69
Mag. Bernhard Chwatal (Deputy Chairman)	60	60	21	9	81	69
Hui-Feng Wu (Ed Wu) ²⁾	15	30	0	2	15	32
Fu-Chuan Chu (Steve Chu)	30	30	15	8	45	38
Joseph John Fijak ³⁾	15	0	11	0	0	0
Yu-Lung Lee (Max Lee) ⁴⁾	0	15	0	2	0	17
You-Mei Wu (Yolanda Wu) ⁵⁾	30	15	21	6	51	21
Total	210	210	89	35	299	245

1) Meeting fees based on the number of personal or video participations in Supervisory Board and committee meetings

2) Hui-Feng Wu (Ed Wu) left the Supervisory Board with effect from May 6, 2022, the fixed remuneration for 2022 was calculated on a pro rata basis

3) Joseph John Fijak joined the Supervisory Board with effect from May 6, 2022, the fixed remuneration for 2022 was calculated on a pro rata basis

4) Yu-Lung Lee (Max Lee) left the Supervisory Board on June 8, 2021, the fixed remuneration 2021 was calculated on a pro rata basis

5) You-Mei Wu (Yolanda Wu) joined the Supervisory Board on June 8, 2021, the fixed remuneration 2021 was calculated on a pro rata basis

In the financial year 2022, the members of the Supervisory Board did not receive any other remuneration or other benefits for services rendered personally, such as consulting and mediation services, apart from those mentioned above.

No loans or assumption of liability in favour of members of the Supervisory Board were granted in the reporting year.

D&O insurance

The company has taken out directors and officers liability insurance (D&O insurance) in favour of the Executive Board and the Supervisory Board as well as the management of the consolidated subsidiaries. No deductible has been agreed for the D&O insurance, which covers the legal liability arising from Executive Board, Supervisory Board and management activities.

40 Related parties disclosure

In the course of normal business operations, relationships of supply and service provision exist with affiliated companies and persons. Contractual agreements are in place. The fee is settled at market prices. The relationships with related parties in the financial year 2022 and as of December 31, 2022, can be presented as follows:

2022 IN TEUR	PROCURED GOODS AND SERVICES	GOODS AND SERVICES SUPPLIED	FINANCIAL INCOME	FINANCIAL EXPENSE	RECEIVABLES	LIABILITIES
Business relationship with the Executive and Supervisory Board	0	0	0	0	0	0
Business relationship with associated companies	0	0	0	0	0	0
Business relationship with the parent company or its controlling company	51,643	28,993	0	0	14,619	22,479
Business relationship with subsidiaries	224	769	30	0	0	0
Business relationship with other related persons and companies	347	0	0	357	241	3,632
2021 IN TEUR	PROCURED GOODS AND SERVICES	GOODS AND SERVICES SUPPLIED	FINANCIAL INCOME	FINANCIAL EXPENSE	RECEIVABLES	LIABILITIES
Business relationship with the Executive and Supervisory Board	0	8	0	0	0	0
Business relationship with associated companies	0	0	0	0	0	0
Business relationship with the parent company or its controlling company	30,145	20,977	0	0	9,873	12,609
Business relationship with subsidiaries	642	1,482	2	0	461	46
Business relationship with other related persons and companies	846	0	0	249	675	8,594

Purchased goods and services from related parties relate to deliveries of goods and payments for rental agreements for the use of office space of a Group company to the local managing director. The duration of the rental agreement was fixed at one year. However, it is assumed that further rental agreements will be concluded for the following years. The services rendered to related parties relate to the supply of goods. The liabilities to related parties relate to a shareholder loan.

The business relationships with subsidiaries relate to the goods and services provided and received with affiliated companies not included in the consolidated financial statements.

The business relationships with the parent company or its controlling company refer to Ennoconn Corporation, Taiwan, which holds a 27.64% stake in Kontron AG as at December 31, 2022 and in whose scope of consolidation the Kontron Group has been included on the basis of de facto control since July 1, 2017, and Hon Hai Precision Industry Co., Ltd., the largest single shareholder of Ennoconn Corporation with a 34.66% stake. In terms of their content, the goods and services purchased from Ennoconn and Hon Hai Precision Industry Co., Ltd. comprise the order-specific production of electronic products such as embedded boards, industrial PCs or embedded systems for the segments “IoT Solutions Europe” and “IoT Solutions America”. The main customer companies within the Kontron Group are Kontron Europe GmbH and its subsidiaries in North America and Canada.

In financial year 2022, Ennoconn Corporation, Taiwan, joined a Deutsche Bank AG reverse factoring program that has existed since 2020. Under this program, Deutsche Bank AG discounts Ennoconn Corporation receivables against Kontron Europe GmbH, Kontron Canada Inc. and Kontron America Inc. At the end of the agreed payment term (120 days across the Group), Deutsche Bank AG, which acts as a payment provider for Kontron, debits the accounts of the Kontron companies named with the outstanding invoice amounts.

In December 2022, Kontron AG sold 100% of its shares in S&T Services Bel LLC, Minsk, Belarus, to the company's management.

There are no value adjustments for receivables from related parties (PY: TEUR 0).

With regard to the remuneration of the members of the Executive Board of Kontron AG and the remuneration of the members of the Supervisory Board, please refer to Note (39) Remuneration report.

41 Exempting group accounting

With regard to the consolidated Kontron Beteiligungs GmbH, Ismaning, Germany, the consolidated Kontron Europe GmbH, Ismaning, Germany, and the consolidated Kontron Electronics GmbH, Frickenhausen, Germany, the consolidated financial statements of Kontron AG are deemed to be exempting consolidated financial statements in accordance with the provisions of § 291 German Commercial Code. The consolidated companies Kontron Beteiligungs GmbH, Ismaning, Kontron Europe GmbH, Ismaning, Kontron Electronics GmbH, Frickenhausen, Kontron Transportation Deutschland GmbH, Immenstaad am Bodensee, Kontron AIS GmbH, Dresden, all registered in Germany, make use of the exemption provisions pursuant to § 264 paragraph 3 German Commercial Code; pursuant to § 264 paragraph 3, no. 4 German Commercial Code, this is stated accordingly.

42 Events after the balance sheet date

The following significant events occurred after the reporting date:

- › In accordance with the new growth strategy in the technology sector which centres on the Internet of Things (IoT), management undertook a reorganisation of the business segments. From the beginning of 2023, the Kontron Group will report in the three segments “Europe”, consisting of the cash-generating units “Industrial”, “Telecom” and “Services”, the segment “Global”, consisting of the cash-generating units “North America” and “Asia”, and the segment “Software and Solutions”, consisting of the cash-generating units “Transport” and “Software”.
- › As part of the continued restructuring of its holdings, Kontron AG sold the Czech company S&T Plus s.r.o., which sells embedded products in the medical sector and provides IT services, to its local management for TEUR 3,500 as part of a management buy-out with effect from January 10, 2023.
- › By resolution of the Supervisory Board dated January 30, 2023, the term of the Stock Option Programs 2018 (Tranche 2018 and Tranche 2019) was extended by one year until December 21, 2024 for beneficiaries still employed by the Group as of February 2023. This concerns a total of up to 726,500 stock options.
- › On February 3, 2023, the Executive Board of Kontron AG decided to carry out a share buyback program (“Share Buyback Program I 2023”). “Share buyback program I 2023” provides for purchases totalling up to EUR 10,000,000 with a maximum price of EUR 20 per share or up to 636,305 shares (1% of the share capital) and runs until August 6, 2023. By March 24, 2023, 281,289 treasury shares had been purchased at the total purchase price excluding incidental expenses of TEUR 5,255.

43 Proposal for the appropriation of profit

The basis for the proposal for the appropriation of profits is the individual financial statement of the company prepared in accordance with the provisions of the Austrian Commercial Code.

In the separate financial statements of Kontron AG, a preliminary net profit of TEUR 303,577 (PY: TEUR 63,811) is reported. The Executive Board proposes a dividend of EUR 1.00 per share.

44 Release for publication

The consolidated financial statements of Kontron AG were approved for publication by the Executive Board on March 27, 2023.

45 Organs of the company

The following persons served as Supervisory Board members in the financial year 2022:

- › Mag. Claudia Badstöber, Chairwoman
- › Mag. Bernhard Chwatal
- › You-Mei Wu
- › Fu Chuan Chu
- › Hui-Feng Wu (until 06.05.2022)
- › Joseph John Fijak (from 06.05.2022)

In the financial year 2022, the following persons served as members of the Executive Board:

- › Dipl.-Ing. Hannes Niederhauser, CEO
- › MMag. Richard Neuwirth, CFO (until 30.09.2022)
- › Dr. Clemens Billek, CFO (since 02.05.2022)
- › Michael Jeske, COO (until 30.09.2022)
- › Dr. Peter Sturz, COO
- › Dipl.-Ing. Michael Riegert, COO

Linz, March 27, 2023



Dipl.-Ing. Hannes Niederhauser



Dr. Clemens Billek



Dr. Peter Sturz



Dipl.-Ing. Michael Riegert

A large industrial oven in a bakery. The oven has a glass door with a metal handle and a control panel on the side. The interior is visible through the glass, showing several trays of baked goods. The oven is set against a wall with a grid of lights above it.

A recipe for IIoT success

IoT Solutions America

It is typical for small-to-mid-sized bakeries to manually monitor specialty ovens. But this can negatively impact operational efficiency and product quality. Digitization and real-time process compliance monitoring in professional baking is commonplace at large baking facilities but tech vendors have largely ignored small and mid-sized operations. To entice this underserved market, Kontron customer Ectron from the US sets out to create an effective solution to convince small and mid-sized bakeries.

Ectron's SmartEYE™ Platform-as-a-Service solution uses Kontron's COM Express® industry standard Computer-on-Module (COM) form factor (standardized size and design) for powerful CPU and graphics performance and low-power consumption. This allows SmartEYE™ to monitor every step of the baking process for efficiencies and consistency and send real-time alerts of any anomalies or deviations to the customer, at very little cost. Kontron's off-the-shelf, fully pre-tested and ruggedized COMs offer Ectron a faster, more flexible, and highly-scalable solution that simplifies future processor upgrades.

Kontron COM Express® modules help Ectron reap the rewards from its new range of Industrial IoT Edge Computers and expand into new, lucrative markets. Digitization is more efficient and exponentially more reliable than human oversight alone ensuring maximum efficiency and minimum waste.

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of

Kontron AG, Linz,

and its subsidiaries („the Group“), which comprise the consolidated Balance Sheet as at December 31, 2022, and the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements comply with the legal requirements and present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code).

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 („AP Regulation“) and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the „Auditor's Responsibilities“ section of our report. We are independent of the audited Group in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained up to the date of the auditor's report is sufficient and appropriate to provide a basis for our audit opinion on this date.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

Impairment test in accordance with IAS 36

Refer to notes section D, note (13)

Risk for the Consolidated Financial Statements

IAS 36 requires the Company to allocate its goodwill to cash-generating units and to test these units as well as intangible assets with indefinite useful lives or intangible assets not yet ready for use for impairment at least annually and whenever there is an indication these intangible assets may be impaired („impairment test“). At December 31, 2022, the carrying amount of goodwill amounted to EUR 189 million.

The recoverable amount is determined for value in use on the basis of discounted future cash flows using a risk-adequate discount rate (DCF method).

Impairment testing in accordance with IAS 36 requires an appropriate valuation method and the determination of significant assumptions and measurement bases. This results in particular in the risk that

- › the cash-generating units have not been determined correctly and their changes have not been made in accordance with the provisions of IAS 36,
- › the methods used do not comply with the requirements of IAS 36 or,
- › assumptions and other measurement bases are not appropriate

and, therefore, a required impairment loss is not or not correctly recognized in the financial statements.

Our Response

We have assessed the impairment tests according to IAS 36 as follows:

- › We gained an understanding of the approach and valuation methods.
- › We evaluated the determination of the cash-generating units and assessed their appropriateness.
- › We assessed whether the valuation methods applied comply with the requirements of IAS 36. We compared the consistency of the parameters and input factors used in the valuations with external market estimates and existing reference values and assessed their appropriateness. We also verified the mathematical accuracy of the valuations. Furthermore, we assessed the methodologically appropriate derivation and the appropriateness of the amount of the weighted average cost of capital. For this purpose, we compared the assumptions and parameters underlying the cost of capital with our own assumptions and publicly available data. These assessments were made with the involvement of valuation specialists.
- › We have reconciled the planning data used to determine future cashflows with the budgets approved by the Supervisory Board.
- › In addition, we have assessed whether the disclosures on impairment testing in the consolidated financial statements are appropriate and relevant.

Presentation of discontinued operations in accordance with IFRS 5

See Notes to the Consolidated Financial Statements, in particular sections A, B and C Note (10)

As part of a strategic realignment, Kontron sold significant parts of its IT Services business. The sale of this business was completed in 2022.

Risk for the Consolidated Financial Statements

This event is significant to our audit because the assessment of classification as assets-held-for-sale and as a discontinued operation is complex, the transaction and its accounting are not routine, and involve a degree of management judgment. This includes, among other things, determining when to classify the IT Service business as held for sale and presenting its results separately as discontinued operations. This also includes determining whether the expenses of other Kontron Group companies for the IT Service business should be reported as part of continuing or discontinued operations.

Our Response

We have assessed the presentation of the transaction as follows:

- › We reviewed the contractual agreements and other relevant documents underlying the announced divestiture to understand the material terms and assess the accounting implications.
- › Our audit procedures included, among other things, evaluating the appropriateness of classifying the IT Services business as held for sale and presenting its results as discontinued operations. This included assessing management's judgments in identifying the disposal group, assessing the timing of the classification of the IT Services business as held for sale, assessing the allocation of goodwill to be derecognized as part of the disposal of the IT Services business, and assessing the presentation of the IT Services business in the financial statements.
- › We assessed the reporting and presentation of the results of the IT Services business as a discontinued operation in the consolidated financial statements by testing the allocation of expenses and income to continuing or discontinued operations and evaluating management's assumptions in allocating charges from other Group companies to the IT Services business.
- › Finally, we assessed the appropriateness of the presentation as assets held for sale and discontinued operations and the disclosure of the disposal in the financial statements.

Other matters

The consolidated financial statements of Kontron AG for the financial year ending December 31, 2021 were audited by another auditor, who issued an unqualified opinion on these financial statements on March 17, 2022.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report and the auditor's report. We expect the annual report to be provided to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any kind of assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the AP Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- › We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.

- › We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- › We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- › We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- › We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- › We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- › We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- › We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- › From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Group Management Report

In accordance with Austrian company law, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with Austrian company law.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on May 6, 2022 and were appointed by the supervisory board on May 16, 2022 to audit the financial statements of Company for the financial year ending on December 31, 2022.

We have been auditors of the Company, without interruption, since the consolidated financial statements at December 31, 2022.

We declare that our opinion expressed in the „Report on the Consolidated Financial Statements“ section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

In addition to audit services, we have provided the below services to the audited Company and the entities under its control. These services have not been disclosed in the consolidated financial statements or in the group management report:

- › Audit related services

Engagement Partner

The engagement partner is Mr Yann Georg Hansa.

Linz, March 28, 2023

KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Yann Georg Hansa
Wirtschaftsprüfer

This report is a translation of the original report in German, which is solely valid.

The consolidated financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the group management report are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

STATEMENT OF LEGAL REPRESENTATIVES

We confirm to the best of our knowledge and in accordance with the applicable reporting principles that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and that the Group management report, including the profit or loss of the Group, represents a fair view of the assets, liabilities, financial position and the 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.

Linz, March 27, 2023



Dipl.-Ing. Hannes Niederhauser



Dr. Clemens Billek



Dr. Peter Sturz



Dipl.-Ing. Michael Riegert



kontron

Sustainability Report
2022

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SUSTAINABILITY REPORT

Introduction

Foreword

Sustainable corporate governance is important to the Kontron Group. As we realise our short and long-term growth targets, we make decisions that are both future-oriented and sustainable. Here we pay particular attention to respectful interaction in our day-to-day operations, maintaining an ongoing dialogue with our stakeholders, and carefully considering the impact of our business activities on society and the environment in order to identify ESG opportunities early on and counter ESG risks in good time.

We manage the Kontron Group with the aim of creating sustainable value. Corporate governance, corporate social responsibility and compliance issues are an intrinsic part of all corporate considerations and decisions. We have underlined this commitment since January 2022 as a signatory to the UN Global Compact, with which we have undertaken to comply with the ten UN Global Compact principles in the areas of Human Rights, Labour, Environment and Anti-Corruption in our strategy and our actions. Our ambition is to integrate the principles as an integral part of Kontron's value system. Accordingly, Kontron has set itself concrete targets based on the key issues identified in a materiality analysis:

E – Environment: As an overarching environmental goal, we aim to halve the Kontron Group's CO₂ consumption by 2030; additional environmental goals are defined on a site-specific basis.

S – Social: In the social area, Kontron AG has set itself the target of increasing the proportion of female employees throughout the Group (currently 28.7%) by at least 20% by 2030 as part of "Vision 2030"; the proportion of women in management positions should rise to the same level by 2030. To attract, retain and train key staff for leadership positions, Kontron plans to enhance annual training and increase training hours by at least 20% (FY 2022: 18.4 hours/FTE).

G – Governance: All employees must complete annual training on compliance, security and data protection (security training currently takes place every two years), with a zero-tolerance policy.

As an introduction to this report, here are some of the ESG measures implemented in the financial year 2022:

- › The financial year 2022 was characterised by the strategic realignment of the Kontron Group. The structures were streamlined with the closing of the sale of the IT service companies.
- › Kontron has committed itself to comprehensive transparency. To this end, Dr. Clemens Billek, a proven expert in compliance and financial markets, was appointed to the Executive Board. In addition, the Group-internal Code of Conduct and the Code of Conduct for Suppliers were revised and expanded in the past financial year.
- › Kontron's long-held philosophy – "hire for attitude, train for skills" – remains in place unchanged and is promoted through programmes for the personal and professional development of our colleagues. In 2022, we congratulated the graduates of the first edition of the "Kontron Leadership Academy" on successfully completing their one-year training programme. Here junior managers, mostly women, get ready for their next career steps in a wide range of areas under the guidance of external trainers and Kontron managers.
- › To promote the use of renewable energy, we are increasingly purchasing green electricity. In 2022, we managed to put several more photovoltaic plants into operation.
- › Kontron is committed to the seven Women's Empowerment Principles (WEPs), which aim to promote gender equality without discrimination in the workplace, thereby supporting the achievement of SDG10. Kontron became a signatory in January 2023.

The Executive Board of Kontron AG



Dipl.-Ing. Hannes Niederhauser



Dr. Clemens Billek



Dr. Peter Sturz



Dipl.-Ing. Michael Riegert

Key figures

IoT + Industry 4.0



Internationally-leading supplier of Industry 4.0 and Internet of Things technologies

1,096 million €

Annual revenue 2022 in continuing companies

Green solutions



Supplier of products and solutions forming part of energy-efficient, sustainable and secure applications

176 million



2022: EUR 176.4 million for engineering as well as research & development

4,475



More than 4,400 employees in 24 countries

80,000 hours of training



More than 80,000 hours of training held successfully throughout the Group

The Kontron Group

Short profile

Kontron AG (until June 1, 2022 S&T AG) is a leading IoT technology company. Kontron is listed on Deutsche Börse's SDAX® and employs more than 4,400 people in 24 countries worldwide as of December 31, 2022. For more than 20 years, Kontron has been helping companies from a wide variety of industries to achieve economic goals using intelligent solutions. From more efficient industrial processes, smarter and safer transportation to advanced communication, medical and energy solutions, the company offers its customers value-added technologies. With a comprehensive solutions portfolio in its "IT services" segment Kontron AG was also one of the leading providers of IT services and solutions in Central and Eastern Europe until the end of 2022. Following the sale of its "conventional" IT service business on December 29, 2022, the Kontron Group is following its growth strategy in the Internet of Things (IoT) technology sector.

Kontron AG is a public limited company under Austrian law and its headquarters are in 4020 Linz, Industriezeile 35, Austria. It is registered at the commercial register court in Linz under FN 190.272 m. The company's shares are listed in the Prime Standard of the Frankfurt Stock Exchange (FWB) in Frankfurt am Main, Germany. For more information on the Kontron Group and the portfolio, please refer to the chapters "Management Report" and "Performance Portfolio" in the annual report.

Values and guidelines

Our corporate values inform our daily work, and guide and drive our company.



Business success



Respect and appreciation in dealing with each other



Our strength stems from common purpose



Partnership

The management of the Kontron Group places a high priority on living up to its responsibilities towards the company, its employees, the environment and society. The reputation of the Kontron Group and the trust placed in it by our customers, investors, employees and the general public are determined by the actions undertaken by each and every person working for the Kontron Group. We view our employees as being the drivers of the success achieved by our company.

We offer our more than 4,400 employees a progressive work environment which facilitates new ways of working with each other. We promote our employees' senses of responsibility, respectful dealings with each other, and paths of personal development. To do so, we place a high priority upon such key values as dialogue, participation and fairness. Our objective is to secure the company's success on a long-term basis. Achieving this requires high levels of performance and integrity by our employees. The latter plays an important role in our company and towards, especially, our external stakeholders – our partners, clients and suppliers as well as local organisations. Regular contacts with our stakeholders is important to us and we are convinced that our participation in networks and initiatives that transcend the borders imposed by organisations strengthen our company. To enable this participation, we operate in a culture marked by open and constructive feedback. We give and receive input, as this is the way to improve ourselves and others.

The Kontron Group always keeps an eye on ecological sustainability issues. As a supplier of IoT technologies, the Kontron Group develops solutions that are deployed by clients for many years. These extremely long service lives mean that these systems have far less of an impact on the environment than consumer electronics where product turnover is high. Moreover, our solutions help increase efficiency and therefore use energy and resources more effectively. Consequently, the long service life and resource efficiency of our hardware and solutions are very important to both our clients and our engineers.

Stakeholders

Kontron defines as stakeholders those individuals or groups of people who are influenced by the business activities of the Kontron Group or, conversely, have an influence on the Group. An ongoing transparent dialogue with stakeholders is important to us, as it ensures timely identification of risks and addresses stakeholders' interests and demands.

Customers

Kontron is an internationally renowned company that maintains long-term and trust-driven relationships with a large number of customers. Developing these relationships requires our constant efforts to provide our customers with sustainable, innovative and secure products and services. We have a thorough understanding of our customers' industries and needs and constantly work to expand it still further in order to sustain our ability to satisfy complex demands. Our expertise stems not only from excellently trained employees, but also from outstanding partnerships with international technology suppliers cooperating with Kontron.

Measures such as customer surveys, external audits within the framework of certification for norms, but also the use or provision of advanced communication and collaboration platforms foster mutual exchange and the transformation of business relationships into long-term partnerships. These activities enable us to successfully operate in an increasingly complex business world, to satisfy our customers' demands, and to set standards of quality.

The Kontron Group has a highly diversified customer structure comprising several thousand customers in a variety of vertical markets. In financial year 2022, no single customer accounted for a share of Kontron's revenue of more than 3%. In 2022, the share of revenue from customers working in the betting sector was once again below 0.5% (PY: below 0.5%) of the Group's total revenue.

Management of returns

The management of returns forms a key part of our relationships with customers. At our sites with product manufacturing, we have integrated returns management into our supply chain as part of returns logistics with structured processes. The system plans and manages the flows of goods, information and funds passing among the client returning items, the supplier and the respective facility. The objectives are the quickest possible settlement and delivery to our customers with efficient further use of products. This corresponds to the focus of our sustainability-oriented environmental management, which strives to conserve resources by effectively repairing items.

Measures ensuring the prevention of defects form a key part of achieving customer satisfaction and preventing, or at least minimising returns. The deployment of the lean approach greatly facilitates continuous improvement, for example through a well-formulated quality planning. The key measures undertaken to prevent returns comprise the regular evaluation of the reasons for returns, and the careful selection of our manufacturers and suppliers

Suppliers

A constant goal at Kontron is to ensure that our relationships with our suppliers have the form of partnerships. These efforts are based on engaging in fair operating and business practices and maintaining close working relationships with our suppliers over many years. This maintenance includes ongoing and intensive dialogues on the increasingly demanding requirements placed by markets on quality, performance of supply, innovation and costs. We place high quality demands on our proprietary processes and technological solutions. These standards also have to be met as a matter of course by our suppliers. When selecting our suppliers and developing relationships with them, their adherence to our requirements with regard to the environment and sustainability, human rights, occupational safety and compliance is extremely important.

Principles of procurement

Our principles of procurement are summarised in our "Supplier Code of Conduct", and express the expectations placed by the Kontron Group on the suppliers with which it does business. They are based on the internationally recognised directives set out in the UN Global Compact and on the principles codified in our internal Code of Conduct, and encompass all of the topics covered in the chart below.

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SUSTAINABILITY REPORT

Below are our non-financial principles of procurement:

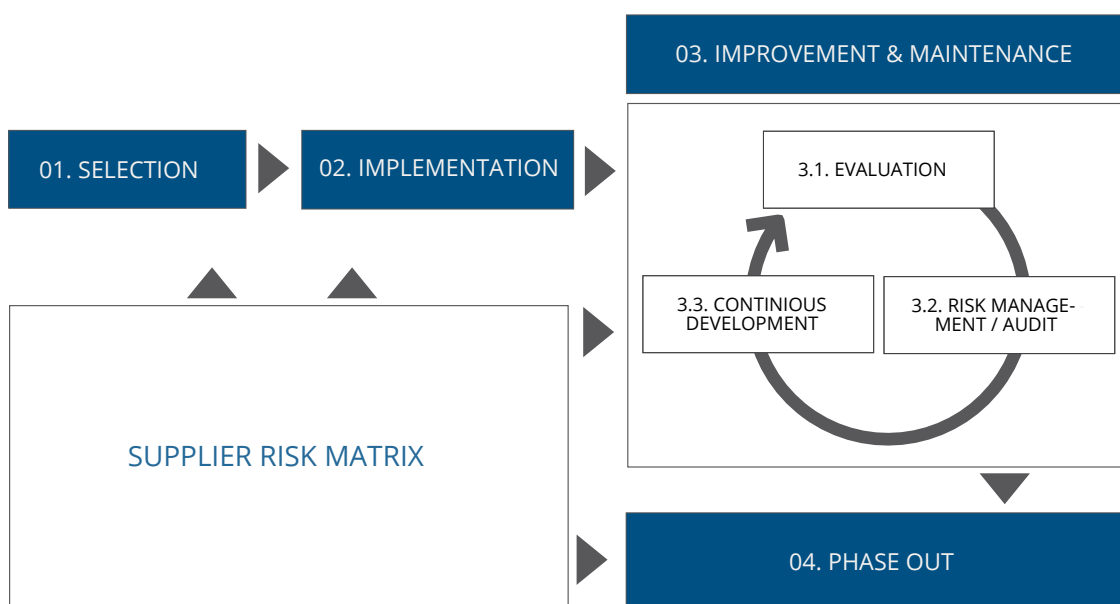


A central criterion when orders are placed by public authorities and industrial customers is that fundamental labour and social standards are observed in the production of goods. These are laid down by the International Labour Organisation (ILO), the United Nations' Global Compact, and by the respective national laws applicable in the country of production.

The Kontron Group has committed itself to the protection of human rights. It should be noted, however, that the end-to-end – i.e. in every link of the IT and IoT supply chain – adherence to and corresponding documentation of standards of labour and social issues constitutes a challenge. Consequently, this adherence and documentation cannot always be guaranteed. The Kontron Group therefore assumes responsibility for the protection of human rights within its sphere of influence.

The Kontron Group has many years of experience as the partner of the public sector. Therefore, the company has extensive experience regarding the requirements and expectations of public clients as well as the management and monitoring of suppliers.

More than ten years ago, as a central preventive measure, the Kontron Group introduced a differentiated supplier management system as part of its certified quality management system and has continuously developed it since that time. Supplier management comprises four main activities which form a matrix of responsibility covering the entire supplier management process: selection, implementation, ongoing improvement & maintenance, and phase out.



Before suppliers are commissioned, they must submit a self-evaluation or self-declaration, and comply with the Kontron Group's selection and qualification process. This forms the criterion determining whether the supplier will be commissioned. It is designed to ensure adherence to laws, principles of human rights, and labour and social standards. The Kontron Group does not award commissions to suppliers that have received a disqualifying ranking within the process of evaluation. This means that suppliers whose performance or business practices do not meet Kontron's high expectations and are thus disqualified will not be commissioned. This disqualification can also lead to the supplier losing all those orders that are subject to the initiatives of procurement.

Reasons for such a disqualification are, for instance, the failure to adhere to relevant environmental, health and security standards and laws, or to the conventions promulgated by the International Labour Organisation and the United Nations. Further causes of disqualification are lack of compatibility with the principles, values and rules of conduct that guide the decision, processes and systems of an organisation in ways leading to its actions benefiting its employees and other important stakeholders. The observation of human rights includes suppliers' enacting processes designed to preclude their use of conflict minerals. Consequently, suppliers' production processes must also preclude the incorporation of raw materials that originate from high-risk areas, or from regions that are experiencing conflicts. Any procurement is excluded that could lead to a contravention of human rights, to corruption, or to the financing of armed groups, terrorism or similar activities. Adherence is continually monitored by submitting database queries to specialised external partners. In cases of non-compliance, suppliers are required to adapt their supply chains. Suppliers are also required to ensure the observation of other product-related requirements such as those imposed by REACH and RoHS. On request, suppliers are obliged to disclose the contents and origins of the products supplied. Suppliers who promote corruption or engage in other practices contravening laws and principles of fair competition are also disqualified.

To monitor suppliers' compliance with the above standards, the Kontron Group also employs the project-related inspection of the test results provided by suppliers. These tests include audit evidence, inspection logs and sustainability reports. In addition to making use of generally available information, Kontron's activities in this area include inspections of facilities and audits of suppliers in order to examine production conditions in situ. Further measures include regular exchanges of information with representatives of the supply chain. These measures facilitate and optimise the Kontron Group's compliance with the aforementioned standards when manufacturing IT and IoT products.

Other stakeholders

Ongoing dialogue with the stakeholders cited, as well as with investors, employees, legislators and local organisations, proxy advisors, rating agencies, and other stakeholders is of great importance to us and help us to identify ESG opportunities and recognise ESG risks in good time. An excerpt from the discussions held in 2022 is presented in the "The Kontron Share" chapter of the annual report. We are happy to answer our stakeholders' questions and look forward to receiving feedback and suggestions at esg@kontron.com.

Sustainability management at Kontron

Group-wide coordination of sustainability

As a responsibility of Chief Financial Officer Dr. Clemens Billek, ESG topics and the achievement of defined goals are promoted and implemented by the entire Executive Board, the country managers and the heads of divisions.

Traditionally, many of our sustainability initiatives are carried out by our subsidiaries in their local contexts. In recent years, numerous projects have already been successfully completed. We now recognise that concentrating all our efforts to reach ESG targets at Group level is both advantageous and appropriate under present circumstances. The position of “Group Sustainability Professional” was therefore created in 2021. The person in this position coordinates current and long-term ESG topics, sustainability reporting, sustainability initiatives and long-term projects across the Group and networks with the individual sustainability officers at the subsidiaries. In addition, personnel resources have been created in controlling and accounting to expand ESG reporting within the Group.

Key sustainability issues

In the second quarter of 2021, the external and internal stakeholders of the Kontron Group were invited to participate in a stakeholder survey. Invitations were emailed direct to close stakeholders, and a link to the survey was also placed on the Group website (www.kontron.com) for eight weeks. Social media channels (e.g. LinkedIn) were also used to draw attention to the survey and motivate stakeholders to participate. At the end of the survey the answers were evaluated with the help of an external consultant. Based on the survey results and the ESG risks cited, twelve key topics were identified that affect the Kontron Group in its various business areas. Group-wide, cross-divisional sustainability management will be implemented as a way of ensuring that the key sustainability issues are adequately addressed.

In financial year 2022, the key topics were reevaluated in collaboration with an external consultant and adjusted slightly as a result.



Commitment to the ten principles of responsible action

The UN Global Compact contains principles on human rights, labour standards, environmental protection and combating corruption. Companies that join the UN Global Compact voluntarily commit themselves to adhering to these principles and their core precepts. In a letter to the UN Secretary General, Kontron AG committed itself to compliance with the global ethical, ecological, and economic principles and applied for admission. Consequently, Kontron AG has been a UN Global Compact member since January 2022. Membership of UN Global Compact offers Kontron AG a platform to demonstrate its own corporate responsibility as well as a network that supports the development and implementation of sustainability strategies and the achievement of goals. Events such as workshops, seminars, peer learning groups or an online teaching platform provide the opportunity for continuing education on topics such as environmental protection, human rights and gender equality.

The 10 principles according to the UN Global Compact

Human rights

Principle 1

Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2

make sure that they are not complicit in human rights abuses.

Labour

Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4

the elimination of all forms of forced and compulsory labour;

Principle 5

the effective abolition of child labour; and

Principle 6

the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7

Businesses should support a precautionary approach to environmental challenges;

Principle 8

undertake initiatives to promote greater environmental responsibility; and

Principle 9

encourage the development and diffusion of environmentally friendly technologies.

Combating corruption

Principle 10

Businesses should work against corruption in all its forms, including extortion and bribery.

Contribution to global development goals (SDGS)

The 17 SDGs of the United Nations (Sustainable Development Goals, <https://www.un.org/sustainabledevelopment>) provide guidelines for sustainable development on an economic, ecological and social level. In the course of updating the key sustainability issues, Kontron also analysed the 17 development goals of the United Nations with regard to the company's business activities. The goals relevant for the Kontron Group and which the company can particularly influence are shown below. Kontron has identified nine goals that we help to achieve in various ways through our actions, products and solutions, and initiatives.



Step-by-step ESG plan

The Kontron Group's step-by-step ESG plan was drawn up at the beginning of 2021 and aims to achieve gradual improvements in various areas over the next few years. For Kontron, it is important to have an overall ESG concept embedded in the corporate strategy. The plan, developed on the basis of an external ESG analysis, takes this into account. The ongoing dialogue with our stakeholders was also used in 2022 to strengthen our ESG efforts.

ESG reporting was also expanded further in 2022. Groupwide, a new ESG reporting tool was implemented, which enables more comprehensive data collection and evaluation in accordance with recognised sustainability standards. In addition to collecting a greater number of key figures (based on the GRI standards), the tool has been used for reporting in accordance with the EU Taxonomy Regulation (see "EU Taxonomy" section of this report). Over the coming years, we expect an expansion of the EU taxonomy reporting requirements and have also decided to increase the level of detail when reporting Scope 1, 2 and 3.

Following the completion of the "Focus" project, the number of companies and therefore the key indicator base has changed significantly. The Sustainability Report 2022 evaluates activities in continuing operations accordingly. The data collected was subsequently used by the Executive Board in March 2023 to set (quantitative) goals.



Sustainability projects implemented

In the Kontron Group, we implement ideas and initiatives from our employees under the motto "Small actions, big effects", to create a more sustainable working environment. We are pleased that other companies in the Kontron Group are pursuing many of the projects initiated. As part of the ESG Group strategy, we are increasingly moving towards also defining overarching goals, which are gradually being implemented locally by the subsidiaries, as well as launching Group-wide programs. In 2022, the focus continued to be on the topics of "training" and on converting our power supply to increased use of renewable energies.

Further education & training

The new Security Awareness Program ensures that everyone in our organisation is sufficiently informed of security issues and has the requisite measure of responsibility for dealing with threats to data security and data protection.

With a new online compliance training system, courses and tests for Kontron staff at all levels can be conducted and documented.

The Kontron Leadership Academy is a one-year training course which focuses particularly on female junior executives in a wide variety of fields who are prepared for their next career steps within the Kontron Group by external trainers and Kontron managers. The first round was successfully completed in autumn 2022.

Group-wide training programs are constantly being expanded!



Kontron opts for green electricity

The electricity used at the Kontron AG sites in Innsbruck, Linz, Graz, and Vienna comes exclusively from renewable energy sources. Electricity from renewable energy sources is also increasingly being used at other sites – the share of renewable energy sources in the Kontron Group is to be significantly increased in the coming years.

Our contribution to sustainable use of resources – keep it up!



Photovoltaics

Quite a lot is happening with regard to generating our own power, too. Kontron has installed photovoltaic systems at several of its sites. For example, three photovoltaic systems are in operation on the roofs of IskraTel in Slovenia. At 1.3% of total electricity consumption, the proportion of self-generated electricity within the Kontron Group is still relatively low – Kontron is therefore planning to commission more photovoltaic systems in the future and increase this share.

In this way we as a company do our bit to generate clean electricity – sustainability in action!



Green Transportation

Apart from the aims of promoting more frequent use of public transport and, at several sites, company bicycles, and reducing the number of fuel-powered cars in use, the fleet of vehicles that are still necessary are to be successively converted to electric vehicles. Of the approximately 900 vehicles, around 7.9% were EVs in 2022 (2021: 6.0%). This figure should be significantly increased in the coming years.

More EVs have already been ordered and will help make journeys less carbon-intensive in future!



EU Taxonomy

As part of the EU action plan to finance sustainable growth (“EU Action Plan on Sustainable Finance”), redirecting capital flows into sustainable investments is a key objective. With this in mind, Regulation (EU) 2020/852 of the European Parliament and of the Council of June 18, 2020 about establishing a framework to facilitate sustainable investments and amending Regulation (EU) 2019/2088 (referred to below as the Taxonomy Regulation) came into force in mid-2020, which, as a uniform and legally binding classification system, defines which economic activities in the EU are considered “environmentally sustainable”. Company-specific reports on the results of this classification are to be presented annually.

Article 9 of the Taxonomy Regulation lists the following six environmental objectives:

- › Climate change mitigation
- › Climate change adaptation
- › The sustainable use and protection of water and marine resources
- › The transition to a circular economy
- › Pollution prevention and control
- › The protection and restoration of biodiversity and ecosystems

The Commission has adopted delegated acts to supplement the requirements for sustainable economic activities under the Taxonomy Regulation. The Delegated Regulation (EU) 2021/2139 of June 4, 2021 (Delegated Regulation TB) determines the technical evaluation criteria for the two environmental goals “climate change mitigation” and “climate change adaptation”, which are used to determine under which conditions it can be assumed that an economic activity makes a significant contribution to climate change mitigation or climate change adaptation, and on the basis of which it is determined whether this economic activity avoids significant adverse effects on one of the other environmental goals. The Delegated Regulation (EU) 2021/2178 on content and presentation of July 6, 2021 (Delegated Regulation I&D), on the other hand, determines the content and presentation of information to be disclosed in relation to environmentally sustainable economic activities and the method used to ensure compliance with the disclosure obligation.

Regarding the classification of an economic activity as “environmentally sustainable” as defined by the Taxonomy Regulation, a distinction must be made between taxonomy eligibility and taxonomy alignment. Only business activities described in the delegated acts relating to the technical evaluation criteria are considered taxonomy-eligible. Any of Kontron AG's business activities that are included in the EU catalogue are considered taxonomy-eligible. If an economic activity is classified as taxonomy-eligible in the first step, the next step is to check whether the economic activity makes a significant contribution to an environmental goal, does not significantly impact any other environmental goal (DNSH criteria – “Do No Significant Harm”) and is carried out in compliance with minimum protection in accordance with the OECD guidelines for multinational enterprises, the UN Guiding Principles on Business and Human Rights, the ILO Core Labour Standards and the International Charter of Human Rights.

Providing these criteria are met in full, the economic activity can be classified as taxonomy-aligned.

Under Art 8 (1) of the Regulation in conjunction with Section 243b or Section 267a of the Austrian Civil Code, Kontron AG is obliged to apply the regulations of the Taxonomy Regulation. In accordance with Section 245a (1) of the Austrian Civil Code, the consolidated financial statements of Kontron AG were prepared in accordance with IFRS as of the closing date. The amounts used to calculate the revenue, CapEx and OpEx indicators are based on the figures reported in the consolidated financial statements. In principle, all fully consolidated group companies are included in this calculation. Please note that these figures relate to the Kontron Group's continuing operations and, as a consequence, the discontinued operations (DCO – “Discontinued Operations”) in financial year 2022 are not part of the taxonomy figures.

In the reporting year 2021, mandatory reporting was limited to the taxonomy-eligible share of revenue, capital expenditure (CapEx) and operating expenditure (OpEx) in accordance with the two environmental goals of “climate change mitigation” and “climate change adaptation”. Based on this, Kontron AG is required to provide additional taxonomy alignment information for the reporting year 2022. Because the extension of the EU taxonomy to include delegated acts for the remaining four environmental goals planned for 2022 has been postponed, mandatory reporting continues to cover only the first two environmental goals.

Various steps have been taken to achieve a uniform understanding among the Group companies regarding the allocation of the Kontron Group's activities to the respective business activities and, in particular, with regard to the specific technical criteria for evaluating

taxonomy alignment. A general taxonomy guide explained the objectives and legal basis of the EU taxonomy as well as the process for determining conclusive taxonomy alignment. A further detailed taxonomy manual translated the general explanations into a “Kontron-specific” description with more practical relevance, including specific information on the technical evaluation criteria, which were obtained during numerous coordination meetings with external taxonomy experts. In addition, as part of the introduction of a group-wide ESG reporting tool, a taxonomy module for reporting at company level has also been implemented. Using this reporting tool, the respective figures on turnover, investment and operating expenditure were obtained, these values were assigned to the corresponding economic activities, and the significant contribution of these activities was assessed in relation to environmental goals and the DNSH criteria/minimum protection. The cross-departmental team at headquarters level was in continuous intensive contact with the various responsible colleagues within the individual Group companies, as well as with external taxonomy experts.

With regard to taxonomy alignment, the evaluation was carried out on the technical criteria of the identified economic activities. Due to the DNSH requirement of the environmental goal “Climate change adaptation,” which provides for a “Climate Risk Assessment” in accordance with certain requirements, information can only be provided on taxonomy eligibility for financial year 2022, as there is no such “Climate Risk Assessment” available for publication of the report and therefore this technical criterion is considered not fulfilled. In financial year 2023, comprehensive climate risk assessments are to be carried out at relevant locations in order to enable taxonomy-aligned revenues, CapEx and OpEx to be reported.

Based on a complete analysis of the company's activities, the share of taxonomy-eligible and taxonomy-aligned revenues/CapEx/OpEx is presented in the respective Group totals for financial year 2022.

Indicators in accordance with EU taxonomy

IN %	TAXONOMY-ALIGNED	TAXONOMY-ELIGIBLE	NOT TAXONOMY-ELIGIBLE
Revenue	0.0%	61.7%	38.3%
CapEx	0.0%	56.8%	43.2%
OpEx	0.0%	67.5%	32.5%

The tables showing the respective taxonomy figures with details of the allocation of revenue, CapEx and OpEx to the corresponding economic activities are presented at the end of this section of the sustainability report.

Revenue indicator

The revenue indicator results from the ratio of revenues from taxonomy-eligible and taxonomy-aligned economic activities in a financial year to the total revenues in that financial year. Revenue is based on net revenue resulting from goods or services, including intangible goods in accordance with IAS 1.82(a).

The total revenue for financial year 2022 of EUR 1,096.1 million (from continuing operations) is the denominator of the revenue indicator and is found in the Group's income statement (see Consolidated Financial Statements 2022, Consolidated Income Statement).

The Kontron Group's revenues of EUR 1,096.1 million as reported in the consolidated income statement (see Notes to the Consolidated Financial Statements Section C, note (1)) are examined across all Group companies to determine whether they were attained by taxonomy-eligible and taxonomy-aligned economic activities in accordance with Annex I (contributing substantially to climate change mitigation) and Annex II (contributing substantially to climate change adaptation) of the Delegated Regulation 2021/2139 of the taxonomy regulation.

The following relevant economic activities were identified for the Kontron Group, to which revenues can be attributed:

- › 3.1 Manufacture of renewable energy technologies
- › 3.5 Manufacture of energy-efficient building equipment
- › 6.14 Infrastructure for rail transport
- › 8.1 Data processing, hosting and related activities
- › 8.2 (1) Data-driven solutions for GHG emissions reductions

Smart charging of electric vehicles

IoT Solutions Europe

The combination of electromobility and electricity from renewable energy sources helps to reduce the use of fossil fuels and thus CO₂ emissions. The availability of charging points is an important prerequisite for switching from the combustion engine to the electric vehicle.

The dezony IQ charging station offers electric vehicle owners the possibility to charge with the surplus power from their own rooftop. The focus is a charging solution as a sound investment for single-family and two-family homes. Other available solutions are based on closed systems whereas an open solution approach is paramount for Dezony. The startup company from Gunzenhausen, Germany relied in particular on synergies from the partnership with Kontron. Kontron is a formidable partner with its industrial standards, competence and experience in the development department as well as with its modular development approach. Dezony has contributed its expertise for the specific challenges as well as the baseboard as a powerful platform.

With the help of Kontron's system-on-module (SoM) Linux support, the startup dezony is able to connect directly to power inverters to access the relevant data. Information is retrieved and processed quickly, securely and in real-time. The selected SoM SL STM32 MP157 is a complete computer with a pre-installed embedded Linux operating system and all drivers for communication and LCD/touch interfaces. The Dual Arm® Cortex® A7 computing core contains the Linux operating system as well as the drivers. It handles the CPU-intensive tasks and internet communications applications. Its main task is to implement „connectivity“. The integrated Arm® Cortex® M4 microcontroller ensures that control and regulation processes, such as the charging electronics, run in a structured manner in real-time. The use of the SoM module helps to simplify the dezony-specific complex board architecture.



As key economic activities of the Kontron Group and in view of the current state of regulation, economic activities 8.1 “Data processing, hosting and related activities” and 6.14 “Infrastructure for rail transport” have been classified taxonomy-eligible in relation to delegated acts (Annex I/Annex II):

› 8.1 “Data processing, hosting and related activities”

Economic activity 8.1, as defined by the Taxonomy Regulation, includes the storage, manipulation, administration, movement, control, display, communication, exchange, transmission or processing of data by data centres, including edge computing. This activity was primarily attributed to revenues from various vertical end markets within the two segments “IoT Solutions Europe” and “IoT Solutions America” – in particular in the area of “industrial automation”. Kontron is one of the world’s leading providers of edge computers. Our systems equip production machines with intelligence to perform their tasks more efficiently. The edge computers are connected to edge servers using various communication systems. As a result, entire factories can be connected and as a result become safer and more efficient. Our systems include edge computers, edge servers, communication gateways, and the software to run these grids.

› 6.14 “Infrastructure for rail transport”

Economic activity 6.14, as defined by the Taxonomy Regulation, includes the construction, modernisation, operation and maintenance of rail and underground railway lines, bridges and tunnels, stations, terminals, service facilities and safety and traffic management systems, including architectural services, engineering services, technical drawing services, building inspection, surveying and mapping services, etc. as well as carrying out physical, chemical and other analytical tests of all types of materials and products. Revenues in the “Transportation” sector were primarily attributed to this activity. In this respect, Kontron Transportation (KTR) implements projects in the rail infrastructure sector and carries out deliveries, commissioning and services along routes (access networks) and in communication centres (core network and software), although rolling stock (including trains, wagons) is not the focus. Kontron Transportation delivers in various constellations: Consortia are often formed with construction companies (infrastructure) or signalling companies (other communication technology along the route), or KTR delivers directly when the focus is on the technology part.

Revenues were also attributed to the other economic activities listed above 3.1 “Manufacture of renewable energy technologies”, 3.5 “Manufacture of energy-efficient building equipment”, 8.2 “Data-based solutions to reduce greenhouse gas emissions” (as part of the “climate change mitigation” environmental goal) – these represent only a small proportion of Group revenue in relation to the two activities listed above. Compared to the previous year, there have been reclassifications in some places within economic activities due to a detailed analysis in accordance with the current Group structure. However, this analysis has once again shown that most of the taxonomy-eligible revenue can be attributed to economic activity 8.1.

Through a detailed analysis of the items included in the revenues, each revenue is assigned to taxonomy-eligible and taxonomy-aligned economic activities. The numerator for taxonomy-eligible revenue is therefore EUR 676.5 million, resulting in a taxonomy-eligible revenue of 61.7% in financial year 2022. The taxonomy-aligned revenue figure is 0% due to the “Climate Risk Assessment” not being available at the time of publication of the report. Details are provided in the revenue figure table at the end of this section.

CapEx Indicator

The CapEx indicators (Capital Expenditures) provide in accordance with subsection 1.1.2.2 of Annex I of the delegated regulation I&D the share of capital expenditure that

- › refers either to assets or processes associated with taxonomy-eligible and taxonomy-aligned economic activity, or
- › refers to the purchase of products and services resulting from a taxonomy-eligible and taxonomy-aligned economic activity.

Capital expenditure (CapEx) is based on additions to property, plant and equipment and intangible assets during the financial year in question before depreciation and amortisation and any revaluations for the relevant financial year. They also include additions to property, plant and equipment and intangible assets resulting from business combinations (application of IFRS [IAS 16, 38, 40, 41, IFRS 16]; as well as national accounting methods). Acquired goodwill is not included.

The company identified total capital expenditure in accordance with the EU Taxonomy Regulation for the reporting year at EUR 56.9 million (see Notes to the Consolidated Financial Statements Section D, note (12) and note (13)). These form the denominator of the CapEx indicators.

Based on the description of the additions, an analysis of taxonomy eligibility and taxonomy alignment is carried out as well as a comparison with Annex I (Significant contribution to climate change mitigation) and Annex II (Significant contribution to climate change adaptation) of the Taxonomy Regulation.

The following relevant economic activities were identified for the Kontron Group, to which capital expenditure can be attributed:

- › 3.1 Manufacture of renewable energy technologies
- › 3.5 Manufacture of energy-efficient building equipment
- › 6.5 Transport by motorbikes, passenger cars and light commercial vehicles
- › 6.6 Freight transport services by road
- › 6.14 Infrastructure for rail transport
- › 7.2 Renovation of existing buildings
- › 7.6 Installation, maintenance and repair of renewable energy technologies
- › 7.7 Acquisition and ownership of buildings
- › 8.1 Data processing, hosting and related activities
- › 8.2 (2) Computer programming, consultancy and related activities

Capital expenditure that has been allocated to economic activities 3.1 “Manufacture of renewable energy technologies”, 3.5 “Manufacture of energy-efficient building equipment”, 6.14 “Infrastructure for rail transport”, 8.1 “Data processing, hosting and related activities” and 8.2 “Computer programming, consultancy and related activities” (as part of the environmental goal “Climate Adaptation”), relates to assets or processes associated with the respective taxonomy-eligible economic activities as part of revenue generation. With regard to economic activity 8.2 “Computer programming, consultancy and related activities”, please note that, according to the EU taxonomy, this economic activity is not one of the so-called “enabling” activities and is therefore not included in the calculation of the revenue indicator, but only in the CapEx or OpEx indicator.

Capital expenditure that has been allocated to the other listed economic activities, relates to the purchase of products or services from the respective taxonomy-eligible economic activities. These include in particular investments in the vehicle fleet (economic activities 6.5 “Transport with motorcycles, passenger cars and light commercial vehicles”, 6.6 “Freight transport by road”) and investments related to buildings and production facilities (economic activities 7.2 “Renovation of existing buildings”, 7.6 “Installation, maintenance and repair of renewable energy technologies”, 7.7 “Acquisition and ownership of buildings”).

The sum of additions, which reflect a taxonomy-eligible investment with regard to the listed economic activities in accordance with the Taxonomy Regulation, is the numerator of the taxonomy-eligible CapEx figure in the amount of EUR 32.3 million. This results in a taxonomy-eligible CapEx figure of 56.8%, while the taxonomy-aligned CapEx figure is 0%. Details are provided in the CapEx figure table at the end of this section.

OpEx indicator

The OpEx indicators (Operating Expenditures) provide in accordance with subsection 1.1.3.2 of Annex I of the delegated regulation I&D the share of operating expenditure that

- › refers either to assets or processes associated with taxonomy-eligible and taxonomy-aligned economic activity, or
- › refers to the purchase of products and services resulting from a taxonomy-eligible and taxonomy-aligned economic activity.

The basis for operating expenses (OpEx) is the direct, non-capitalised costs for research and development, building renovation measures, short-term leasing or low-value asset leases, maintenance and repair as well as for all other direct expenses for the ongoing maintenance of tangible assets by the company or by third parties that are necessary to ensure the continued and effective functioning of these systems.

To determine the denominator, the sum of the above costs was calculated based on a detailed analysis of accounts and cost centres. The total operating expenses in accordance with Taxonomy Regulation Art. 8 Annex I Subsection 1.1.3.1 of Annex I of the delegated regulation I&D amount to EUR 30.1 million. These form the denominator of the OpEx indicator.

The numerator of the OpEx indicator in accordance with subsection 1.1.3.2 of Annex I of the delegated regulation I&D corresponds to the part of the operating expenses included in the denominator that relates to assets or processes that, according to Annex I (Significant contribution to climate change mitigation) and Annex II (Significant contribution to climate change adaptation) of the Taxonomy Regulation, are connected to taxonomy-eligible economic activities.

The following relevant economic activities were identified for the Kontron Group, to which operating expenses can be attributed:

- › 3.1 Manufacture of renewable energy technologies
- › 3.5 Manufacture of energy-efficient building equipment
- › 6.5 Transport by motorbikes, passenger cars and light commercial vehicles
- › 6.6 Freight transport services by road
- › 6.14 Infrastructure for rail transport
- › 7.2 Renovation of existing buildings
- › 8.1 Data processing, hosting and related activities
- › 8.2 (2) Computer programming, consultancy and related activities

The taxonomy-eligible operating expenditure of EUR 20.3 million consists primarily of non-capitalised research and development expenses. In this respect, analysing the taxonomy eligibility or taxonomy alignment of research and development expenditure is essential when determining OpEx indicators. To the extent that these expenses for research and development are related to an economic activity that was already identified as taxonomy-relevant in the revenue analysis, the associated R&D expenses have also been allocated to this economic activity. Together with taxonomy-eligible expenses in the areas of maintenance and repair, leasing, buildings and building renovation, the share of taxonomy-eligible OpEx is 67.5%. The taxonomy-aligned OpEx indicator is 0%. Details are provided in the OpEx indicators table at the end of this section.

When determining the above indicators, various audit steps, including documenting data generation and ensuring consistency with other financial information, prevented any double counting of economic activities.

SUBSTANTIAL CONTRIBUTION CRITERIA

ECONOMIC ACTIVITIES	CODE	ABSOLUTE TURNOVER	PROPOR- TION OF TURNO- VER	SUBSTANTIAL CONTRIBUTION CRITERIA					
				CLIMATE CHANGE MITIGA- TION	CLIMATE CHANGE AD- APTATION	WATER AND MARINE RE- SOURCES	CIRCULAR ECONOMY	POLLUTION	BIO- DIVERSITY AND ECOSYS- TEMS
		IN TEUR	%	%	%	%	%	%	%
A. Taxonomy-aligned activities									
A.1. ENVIRONMENTALLY SUSTAINABLE ACTIVITIES (TAXONOMY-ALIGNED)									
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0.0%	0.0%	0.0%	n.a	n.a	n.a	n.a
A.2 TAXONOMY-ELIGIBLE BUT NOT ENVIRONMENTALLY SUSTAINABLE ACTIVITIES (NOT TAXONOMY-ALIGNED ACTIVITIES)									
Data processing, hosting and related activities	8.1.	563,893	51.4%						
Infrastructure for rail transport	6.14.	104,130	9.5%						
Manufacture of energy efficiency equipment for buildings	3.5.	3,481	0.3%						
Data-driven solutions for GHG emissions reductions	8.2.	3,300	0.3%						
Manufacture of renewable energy technologies	3.1.	1,680	0.2%						
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		676,484	61.7%						
Total (A.1 + A.2)		676,484	61.7%						
B. Taxonomy-non-eligible activities									
Turnover of Taxonomy-non-eligible activities (B)		419,611	38.3%						
Total (A + B)		1,096,095	100.0%						

DNSH CRITERIA

CLIMATE CHANGE MITIGATION	CLIMATE CHANGE ADAPTATION	WATER AND MARINE RESOURCES	CIRCULAR ECONOMY	POLLUTION	BIO-DIVERSITY AND ECOSYSTEMS	MINIMUM SAFE-GUARDS	TAXONOMY-ALIGNED PRO-PORTION OF TURNOVER, YEAR 2022	TAXONOMY-ALIGNED PRO-PORTION OF TURNOVER, YEAR 2021	CATEGORY (ENABLING ACTIVITY)	CATEGORY (TRANSITION-AL ACTIVITY)
Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
							0.0%	-	-	-
							0.0%	-	-	-

SUBSTANTIAL CONTRIBUTION CRITERIA

ECONOMIC ACTIVITIES	CODE	ABSOLUTE CAPEX	PROPORTION OF CAPEX	CLIMATE CHANGE MITIGATION	CLIMATE CHANGE ADAPTATION	WATER AND MARINE RESOURCES	CIRCULAR ECONOMY	POLLUTION	BIO-DIVERSITY AND ECOSYSTEMS
A. Taxonomy-aligned activities									
A.1. ENVIRONMENTALLY SUSTAINABLE ACTIVITIES (TAXONOMY-ALIGNED)									
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		-	0.0%	0.0%	0.0%	n/a	n/a	n/a	n/a
A.2 TAXONOMY-ELIGIBLE BUT NOT ENVIRONMENTALLY SUSTAINABLE ACTIVITIES (NOT TAXONOMY-ALIGNED ACTIVITIES)									
Data processing, hosting and related activities	8.1.	17,513	30.8%						
Infrastructure for rail transport	6.14.	7,018	12.3%						
Computer programming, consultancy and related activities	8.2.	3,094	5.4%						
Transport by motorbikes, passenger cars and light commercial vehicles	6.5.	2,551	4.5%						
Acquisition and ownership of buildings	7.7.	1,742	3.1%						
Installation, maintenance and repair of renewable energy technologies	7.6.	339	0.6%						
Freight transport services by road	6.6.	34	0.1%						
Manufacture of energy efficiency equipment for buildings	3.5.	19	0.0%						
Renovation of existing buildings	7.2.	12	0.0%						
Manufacture of renewable energy technologies	3.1.	9	0.0%						
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		32,332	56.8%						
Total (A.1 + A.2)		32,332	56.8%						
B. Taxonomy-non-eligible activities									
CapEx of Taxonomy-non-eligible activities (B)		24,549	43.2%						
Total (A + B)		56,881	100.0%						

CapEx key figure includes capital expenditures of continued operations (CO) from Jan. 1, 2022 – Dec. 31, 2022 and capital expenditures of discontinued operations (DCO) from Jan. 1, 2022 – July 31, 2022 (until reclassification to DCO)

SUBSTANTIAL CONTRIBUTION CRITERIA

ECONOMIC ACTIVITIES	CODE	ABSOLUTE OPEX	PROPORTION OF OPEX	SUBSTANTIAL CONTRIBUTION CRITERIA					
				CLIMATE CHANGE MITIGATION	CLIMATE CHANGE ADAPTATION	WATER AND MARINE RESOURCES	CIRCULAR ECONOMY	POLLUTION	BIO-DIVERSITY AND ECOSYSTEMS
		IN TEUR	%	%	%	%	%	%	%
A. Taxonomy-aligned activities									
A.1. ENVIRONMENTALLY SUSTAINABLE ACTIVITIES (TAXONOMY-ALIGNED)									
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		-	0.0%	0.0%	0.0%	n/a	n/a	n/a	n/a
A.2 TAXONOMY-ELIGIBLE BUT NOT ENVIRONMENTALLY SUSTAINABLE ACTIVITIES (NOT TAXONOMY-ALIGNED ACTIVITIES)									
Data processing, hosting and related activities	8.1.	13,540	45.0%						
Infrastructure for rail transport	6.14.	4,626	15.4%						
Computer programming, consultancy and related activities	8.2.	981	3.3%						
Transport by motorbikes, passenger cars and light commercial vehicles	6.5.	636	2.1%						
Renovation of existing buildings	7.2.	378	1.3%						
Freight transport services by road	6.6.	98	0.3%						
Manufacture of energy efficiency equipment for buildings	3.5.	32	0.1%						
Manufacture of renewable energy technologies	3.1.	15	0.1%						
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		20,306	67.5%						
Total (A.1 + A.2)		20,306	67.5%						
B. Taxonomy-non-eligible activities									
OpEx of Taxonomy-non-eligible activities (B)		9,788	32.5%						
Total (A + B)		30,094	100.0%						

DNSH CRITERIA

CLIMATE CHANGE MITIGATION	CLIMATE CHANGE ADAPTATION	WATER AND MARINE RESOURCES	CIRCULAR ECONOMY	POLLUTION	BIO-DIVERSITY AND ECOSYSTEMS	MINIMUM SAFE-GUARDS	TAXONOMY-ALIGNED PROPORTION OF OPEX, YEAR 2022	TAXONOMY-ALIGNED PROPORTION OF OPEX, YEAR 2021	CATEGORY (ENABLING ACTIVITY)	CATEGORY (TRANSITIONAL ACTIVITY)
Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T

0.0%

- - -

0.0%

- - -

Environment & climate



Environmental protection and environmental management

Our management and employees are always aware of their responsibility to the environment. A responsible approach to the environment and climate change mitigation are two of our important corporate objectives – and thus key components of our corporate strategy. Our company's management has established a detailed set of environmental policies and promotes employees' awareness of environmental issues in their daily work. A further focus of these policies is the creation of solutions effectively protecting natural resources, the environment, our staff members, and the people working with our products. One way in which this is achieved is by using materials that do not damage people or the environment.

We developed an environment management system for deployment in our production-related premises in Europe and North America. This system assesses the sites' environmental performance and thus delivers indications on how to improve it on an ongoing basis. The system is based on our environmental policy, from which overarching and specific environmental goals are derived and which ensures that our environmental protection obligations are met within the framework of the environmental management system.

Within the Kontron Group, several companies in Belgium, China, Germany, Great Britain, France, Malaysia, Austria, Romania, Spain, and Hungary are certified in accordance with the international environmental management standard ISO 14001. The Kontron Group also plans further certification of other locations within the Group according to ISO 14001: The ISO 14001 certification measures are continuously reviewed and taken further. An important part of our environmental management system is the identification and analysis at each facility of relevant and significant environmental issues. Each of these issues is then evaluated and subsequently classified. This enables the effective implementation improvement measures. As stipulated by the standard, we have extended our assessment to include evaluation of the opportunities and risks arising from our respective environment-impacting activities. This enables their effective management. The assessment is appraised and updated at least once a year.

We are pursuing the achievement of our environmental goals and the continuous development and improvement of our environmental management system in several areas:



Our environmental management system has been structured in such a way that it helps us to identify and monitor all requirements imposed by the needs of the environment and by the laws of the respective country or location. This in turn guarantees that the require-

ments comply with applicable legislation. To achieve this, we use an online register of laws that automatically notifies us of changes to laws and directives relating to recycling, the treatment of chemicals, climate protection and conservation of bodies of water. This also encompasses rules on product-related environmental protection. We use internal audits to determine the strengths and weaknesses of the environmental management system in place at each facility.

We also expect our suppliers to adhere to ecological and social standards. This adherence is checked by means of the audits of our suppliers that we conduct. We systematically acknowledge and analyse the expectations of all those parties that are interested in our environmental performance. This enables us to proactively fulfil the requirements placed by our respective sets of stakeholders on our actions to protect the environment – and to forge ties with them depending on their particular areas of interest.

Our goal is to improve our environmental performance continually. We take our corporate environmental policies as the basis for setting annual environmental targets at each facility. By doing so, we ensure the efficacy of the program. If necessary, we implement improvement measures and establish appropriate new objectives. We work to identify indicators that can be used to quantify all environmental objectives and make them more transparent and even more measurable. Examples of such indicators are electricity consumed per employee, heating requirement per unit of surface area, and CO₂ emissions resulting from business trips per employee.

Environmental objectives of the Kontron Group



Reduction of consumption of electricity and the utilisation of renewable energy

- › Installation of photovoltaic facilities at a variety of locations
- › Electricity-conserving IT equipment at places of work and at our data centres
- › Systematic upgrading of the lighting at our facilities by switching to LED-based illumination
- › Enhancing employee awareness of the need to preclude unnecessary consumption of electricity

Reduction of heating and cooling requirements per square metre

- › Sensible use of office heating and air conditioning – only when needed
- › Turn off heating in empty individual offices
- › Close windows and doors when heating or air conditioning are on (ventilating in bursts)

Reduction of paper consumption

- › Focus on paperless processes within the Kontron Group
- › Print only what is necessary, preferably archive PDF printouts, and implement Follow-Me Printing solutions to reduce uncollected printouts
- › Reduction through deployment of electronic, integrated HR systems (for example: on-site systems of managing working hours and absences from work), and utilisation of e-invoices

Reduction of CO₂

- › Cutting the number of business trips to the absolute minimum through the use of advanced communication technologies such as telephone-based and video conferencing
- › Conversion of the vehicle fleet to e-vehicles
- › Promote the use of public transport

Product-related environmental protection

We provide our customers with reliable, integrated and holistic products that constitute unique solutions. Our key objective is to develop innovative products and solutions that are characterised by low energy consumption and enable efficient and resource-conserving manufacture.

Energy-conserving IoT and embedded solutions are already well represented in our portfolio, and their share will continue to grow due to steadily increasing customer demand. In addition, the ecological aspect is of ever-greater importance in our innovative developments and our business-related considerations and decisions. That is why we always take care to conserve natural resources by avoiding waste and using efficient recycling solutions, for example.

We supervise our waste disposal facilities on the basis of the comprehensive catalogue of types of waste contained in the decree on the list of waste and the industrial waste regulation and require documented evidence of sorting and recycling quotas as well as the final shipment of our waste.

Environmental protection regulations

Our objectives are the avoidance of the use of hazardous materials in our components and the attainment of environmentally aware product design. To achieve these goals, we always ask our suppliers for information on the composition of the components that we obtain from them and incorporate in our proprietary products. This enables us to inform our customers at any time about the components installed in their products. At the same time, we pursue our goal of accomplishing an environmentally conscious product design. We meet customers' specific requirements in accordance with legal requirements. The Kontron Group's adherence to environmental requirements imposed by applicable laws and regulations starts in product development phase. These regulations, and their implementation in each national context, include:

- › EU Directive 2012/19/EU on waste electrical and electronic equipment (WEEE Directive)
- › EU Directive 2011/65/EU on the restriction on the use of certain hazardous materials in electrical and electronic devices (RoHS Directive)
- › EU Regulation 1907/2006/EG on the registration, evaluation, authorisation and restriction of chemicals (REACH Regulation)
- › EU Regulation (EU) 2017/821 laying down supply chain due diligence obligations for Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas in conjunction with the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (conflict minerals regulation)
- › Battery directive pertaining to placement of batteries on the market, collection and environmentally compatible disposal of batteries and accumulators

WEEE directive: avoidance of electrical and electronic waste

On January 27, 2003, the EU passed an environment protection directive entitled "WEEE Directive 2002/96/EC" (the abbreviation stands for "waste electrical and electronic equipment"). Its objective was to bring about the reduction of the increasing quantity of electronic waste that stems from electrical and electronic devices that are no longer used. The Directive was replaced by the WEEE Directive 2012/19/EU of July 4, 2012. This directive's objective is to remind the parties concerned of their responsibilities towards electrical and electronic devices that are no longer being used, and to promote the prevention, reduction, and environmentally compatible disposal of the increasing quantities of electronic waste through extended producer responsibility. All EU member states are required to implement the WEEE Directive in national laws.

The Kontron Group has committed itself to undertaking actions to promote a safe and healthy environment. The Group is thus working conscientiously to adhere to all requirements imposed by the WEEE Directive. The products sold by Kontron and its subsidiaries that are affected by the WEEE Directive meet its requirements by

- › bearing in mind their future disassembly and recovery as well as recycling requirements when developing the devices,
- › marking the device with the symbol stipulated by the WEEE Directive (a cross-out wheelee bin), and
- › providing our customers with the relevant information.

Most of our products are classified as "embedded computers" (integrated computers). As such, they do not belong to any of the cate-

gories of products defined in the WEEE Directive. Our “embedded computers” are not standalone electrical and electronic systems, and are not sold under our corporate name to end-users. Instead, they are incorporated into customer systems. The WEEE Directive assigns the main responsibility for handling the obligatory registration and reporting and management of the recycling process required by the Directive to the final manufacturer of the product, and thus to our customers, who sell their products under their own company names to end-users.

To help our customers to comply with all the stipulations of the WEEE Directive, we provide them with all the data that has to be reported (product weight, instructions on disassembly, etc.). This data is found in the product’s technical specifications, product overview and/or installation and maintenance manuals. Customers affected by the WEEE Directive can conclude an agreement for the obligatory return of the components concerned.

In addition to embedded computers, we also produce complete systems such as rackmount servers, which are considered to be standalone systems. We satisfy the obligations imposed by the WEEE to register such systems in the EU member countries bound by it.

RoHS compliance: restriction of hazardous substances

On July 1, 2006 EU Directive 2002/95/EU on the restriction on the use of certain hazardous materials in electrical and electronic devices (RoHS Directive) The directive is abbreviated as RoHS (“Restriction of Hazardous Substances”).

Since this promulgation of the Directive, the member states of the European Union have been required to ensure that electric and electronic devices introduced onto markets do not contain – in accordance with the RoHS Directive – lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls (PBB), or polybrominated diphenyl ethers (PBDE). The Directive provides for exceptions to this prohibition only under certain conditions.

The updated RoHS Directive (2011/65/EU, RoHS 2), categorised as a CE directive of designation, was issued by the EU on June 8, 2011. The exemptions defined at that time ceased to be effective from January 2, 2013. From January 2, 2013, the EU member states had to implement and publish the requisite legal and administrative regulations to meet the stipulations of the RoHS-2 Directive.

The Kontron companies, as manufacturing subsidiaries of Kontron AG, fulfil the stipulations of the RoHS-2 Directive and ensure the availability of RoHS-compliant products for their customers.

The few exceptions still found in Kontron’s RoHS-compliant products are regularly evaluated by the European Commission regarding renewal of their approval. Kontron and the Kontron Group take the expiry of the active RoHS-2 exceptions very seriously.

In its cooperation with our partners, Kontron AG also sees it as its duty and a matter of course to provide the latest information on the disposal of hazardous materials that stem from the components used. The Kontron Group offers a broad range of electronic and mechanical components, modules and processes. This broad range enables Kontron to recognise trends at an early stage and thus to implement unique solutions. These in turn enable manufacturers of components to avoid using hazardous materials.

EU directive on chemicals: REACH

The REACH Directive (“Registration, Evaluation, Authorisation and Restriction of Chemicals”) was adopted by the European Union to lessen the risks arising from chemicals to human and environmental health.

Since June 1, 2008, manufacturers and importers of chemicals in and into the European Economic Area (EEA) have been required to register with the European Chemicals Agency those materials subject to mandatory registration if such chemicals are being produced or imported in quantities of at least one ton a year. An exception to this rule are so-called “phase-in materials” and those listed in EINECS (European Inventory of Existing Commercial chemical Substances).

The companies of the Kontron Group issue the reports required of them by REACH. This is because our products form part of the scope of application of this EU directive on chemicals. However, Kontron’s products are manufactured products (not chemicals), that do not release substances under normal and foreseeable conditions. Our electronic components, small-sized parts, and small-sized computers are manufactured products as defined by Article 3 Number 3 of the Regulation (EC) No. 1907/2006 (REACH). This is because the products’ specific forms – and the design in general – play a much more important role in determining how they work than their chemical compositions do. These products are not subject to mandatory registration under REACH.

The Kontron Group commits to managing its products and processes in ways that minimise the risks they pose to the health and safety of humans and the environment. The Candidates List of the European Chemicals Agency lists “Substances of Very High Concern” (SVHCs). Kontron regularly monitors this list for new additions. Our authorised manufacturers are obliged to disclose the existence of SVHCs on request. In accordance with Article 33 of the REACH Directive, Kontron informs its customers promptly about any amend-

ments to the Candidates List and about these changes' relevance to our products. In addition, such queries may be submitted to our company at any time.

Conflict materials

The USA's "Dodd-Frank Wall Street Reform and Consumer Protection Act" contains disclosure and reporting requirements relating to so-called "conflict minerals" originating from the Democratic Republic of the Congo (DRC) and its neighbouring countries. This legislation has been binding for companies listed on the US stock exchanges since July 2010. Term "conflict minerals" applies to such raw materials as tantalum, tin, gold and tungsten in cases where their mining and trading form part of the financing or other kinds of support for armed groups in the DRC and its neighbouring countries. Respecting human rights and thus adhering to the Dodd-Frank Wall Street Reform and Consumer Protection Act is of the highest priority for us. We have instituted measures to preclude our use of conflict minerals in our chain of supply. This represents one way in which we help to avoid or minimise human rights violations (see "Kontron Supplier Code of Conduct").

We assist our customers with their comprehensive declaration on the use of conflict minerals in accordance with the stipulations imposed by USA's Securities and Exchange Commission (SEC). Our customers are required to furnish the corresponding information on their chains of supply. This in turn requires that they adhere to disclosure obligations and the conduct diligence-based verification. Kontron AG's subsidiaries are in a position to assess and track the components and suppliers covered by the reporting and by the declaration on the utilisation of conflict minerals. To determine the origins of the metals used, we call upon and work closely with external providers of services and with the manufacturers. This is because we do not directly procure these metals from mines or smelters.

In June, 2016, the European Commission, the European Parliament and its member states agreed for the first time on guidelines for a directive to govern the trading in so-called conflict minerals. The EU's new CMRT Directive came into force on January 1, 2021. It aims to reduce trading in tin, tantalum, tungsten, and gold from conflict regions. This new EU regulation is therefore relevant to the corporate obligation to render diligence in the raw materials sector. This, in turn, will cause the company to assume greater responsibility for the supply chain of raw materials and to take measures to prevent the financing of conflicts and human rights violations. The new EU regulation affects the Kontron Group only indirectly. Despite this, we meet our obligations towards our suppliers and customers with great diligence. We are already preparing measures to satisfy the stipulations of the new regulation.

Battery law

Since 2009, the battery law (BattG) has regulated placement of batteries on the market, collection and environmentally compatible disposal of batteries and accumulators in Germany. The objective of the law is to call companies in Germany that place batteries and accumulators on the market to account for their products. The battery law also applies to batteries installed in other products or added to other products.

The companies that place batteries on the market therefore have to fulfil certain obligations: Records must be kept of the quantities of batteries placed on the market in Germany every year. A collection system of the appropriate dimensions must be organised and funded. To this end, the companies concerned are obliged to classify their batteries as one of three types (for devices, for industry or for vehicles) and enter them in the so-called battery register under the respective trade name indicating the collection system used.

Exceptions are made only for batteries used for the following areas: security, military equipment and equipment for use in space.

On January 1, 2021, BattG2 came into effect. This new law increases the minimum share of collection via the collection systems of batteries placed on the market from 45% to 50%. Further, the battery register is now administered by the German registry "Stiftung Elektro-Altgeräte Register (Stiftung ear)". Registration and all changes are therefore subject to the corresponding fees regulation.

The transition period for implementing BattG2 expired on December 31, 2021. The battery types and battery trade names placed on the market by Kontron Europe GmbH could therefore be ascertained by consulting the battery register held at the German Environment Agency (Umweltbundesamt). This information will also be available from Stiftung ear from 2022.

Kontron Europe GmbH, as a manufacturing subsidiary of Kontron AG, meets the requirements of BattG2 and also assumes responsibility as the first market placement agent for selected suppliers.

Disposal and recycling

We take measures to ensure proper disposal of the waste generated at our production facilities and offices. This disposal is subject to clearly formulated and binding regulations. Waste materials generated from production operations are assigned to the following categories and then disposed of in the corresponding marked and labelled containers: paper and cardboard, recyclable materials (styrofoam, plastics, films, etc.), metal scrap, electronic waste (e.g. cables, boards, keyboards, monitors, etc.), and rechargeable and other batteries. Special rules have been established for ESD (electrostatic discharge) areas. Such items are disposed of in dedicated containers. Waste generated in offices is also separated. The offices have special bins for paper and cardboard and for the other kinds of waste, whose separation is handled by providers of disposal services. Additionally, locked bins are used for the disposal of confidential documents. Hazardous waste generated at production sites is handed over to certified waste disposal companies.

The Kontron Group also makes an effort to avoid waste by manufacturing our proprietary products and those procured from others with a minimum of packaging. This also applies to items ordered. Working with our suppliers, we increasingly use environmentally friendly packaging, including biodegradable and compostable materials such as plastics made from cornmeal, algae and hemp, and recyclable items such as paper and cardboard.

PRODUCTION OF OWN RENEWABLE ELECTRICITY



Kontron Group is in the process of equipping all of its company buildings gradually with plants for the production of renewable electricity such as own solar power. Role models are the sites of Kontron AIS, Iskratel, and Kontron's headquarter in Linz, where photovoltaic systems have already been installed.

Environment indicators

INDICATOR ¹⁾	GRI	UNIT	2022	2021
Consumption of electricity from non-renewable energies	302-1	MWh	14,876	23,834 ²⁾
Consumption of electricity from renewable energies	302-1	MWh	5,299	n/a
Heating energy consumption	302-1	MWh	9,540	12,174
Total energy consumption	302-1	MWh	29,715	36,008
Self-generated electricity	302-1	MWh	256	n/a
Self-generated electricity % ³⁾		%	1.3%	n/a
Electricity sold (solar)	302-1	MWh	16	n/a

1) n/a – data was not collected until financial year 2022

2) In the previous year, total electricity consumption was recorded independently of renewable or non-renewable energy sources

3) Self-generated electricity in relation to total electricity consumption (from renewable and non-renewable energies)

INDICATOR ^{1) 2)}	GRI	UNIT	2022	2021
Water withdrawal	303-3	m ³	137,875	n/a
Water discharge	303-4	m ³	137,233	n/a
Water consumption	303-5	m ³	642	n/a
Hazardous waste	306-3	t	32,747	n/a
Non-hazardous waste	306-3	t	145,428	n/a
Total waste			178,175	n/a

1) n/a – data was not collected until financial year 2022

2) The data was collected for Kontron Group companies with their own production facilities (six companies in financial year 2022)

INDICATOR ¹⁾	GRI	UNIT	2022	2021
Total number of company vehicles	305-1	Vehicles	887	1,622
Number of EVs (including hybrid)	305-1	Vehicles	70	97
Number of EVs (including hybrid) in %		%	7.9%	6.0%
Number of kilometres driven	305-1	km	16,521,360	29,473,524
Total fuel consumption within the organisation from non-renewable sources	302-1	MJ	38,866,815	n/a
Total diesel consumption	302-1	MJ	28,121,875	n/a
Total petrol consumption	302-1	MJ	10,601,020	n/a
Total natural gas consumption	302-1	MJ	22,978	n/a
Non-renewable electricity	302-1	MJ	120,942	n/a
Total fuel consumption within the organisation from renewable sources	302-1	MJ	237,213	n/a
Total biodiesel consumption	302-1	MJ	106,767	n/a
Total bioethanol consumption	302-1	MJ	0	n/a
Renewable electricity	302-1	MJ	130,446	n/a
Business travel by aeroplane	305-3	pkm	3,531,880	n/a

1) n/a – data was not collected until financial year 2022

INDICATOR ¹⁾²⁾	DESCRIPTION	GRI	UNIT	2022	2021
Scope 1	Direct emissions in accordance with Scope 1 of the GHG protocol standard: fuels in passenger transport of company-owned and controlled vehicles, energy production from own photovoltaic systems and heating energy	305-1	t CO2e	3,126	n/a
Scope 2	Indirect emissions in accordance with Scope 2 of the GHG protocol standard: Purchase of electricity and district heating	305-2	t CO2e	9,702	n/a
Scope 3	Indirect emissions in accordance with Scope 3 of the GHG protocol standard: Business travel by aeroplane	305-3	t CO2e	1,505	n/a

1) Extrapolation of the specified values based on the available information on the energy sources used

2) n/a – data was not collected until financial year 2022

Green products

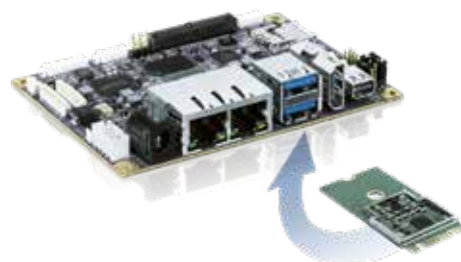
The various software solutions and products of the Kontron Group can contribute in many different ways to conserving resources, using energy sustainably and achieving environmental goals in general. Kontron Transportation solutions, for example, support environmentally friendly rail transport, our Smart Energy business sector contributes to efficient energy use and promotes the use of renewable energies. Furthermore, Kontron is researching and working towards resource-saving smart factory solutions. For more information, see the chapter “Portfolio of products and services” of the annual report.

Harnessing the power of artificial intelligence

Machine vision, machine learning and deep learning based on neural networks are becoming increasingly widespread in manufacturing facilities. They can help to scale manufacturing solutions and to rapidly analyse unused data, enabling fast and extremely precise decision-making. Kontron has developed a robust AI platform that facilitates entry into Google’s TensorFlow world in the factory.

Suitability for industry and robustness were key considerations during the development stage. The result: the NXP-based AI platform can be used in operating conditions within a wide temperature range from -40 °C to +85 °C. In addition, it has been designed to withstand high mechanical loads and, as a low-performance-loss solution, contributes to sustainability.

The platform is highly suitable for AI machine vision applications such as predictive maintenance. With it, tool wear and the machinery output trends can be monitored over a long period of time. Additionally, efficiency can be increased by means of quality inspection including detection of missing components and flaws as well as through an improved system management and detection of obstacles in the production line. With the platform, manufacturing and production use fewer resources since times needed to respond to faults are reduced by the visual inspection and real-time analysis of the manufacturing data. Less waste is generated, fewer parts have to be scrapped, and environmental stress is reduced.



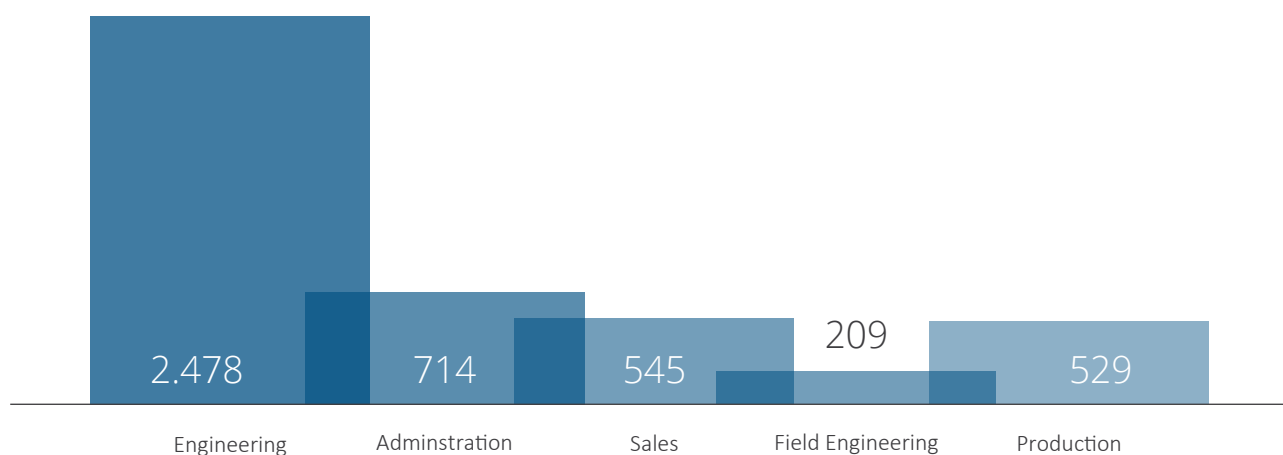


Social topics

Employee indicators

As of December 31, 2022, the Kontron Group employed 4,475 people worldwide (PY: 6,206), although employees on training contracts or maternity leave are not included. The decline is primarily due to the completion of the “Focus” project and the associated transfer of 1,787 employees to the Vinci Group as of December 29, 2022. Unless otherwise stated, the following employee figures express full-time equivalents as of the balance sheet date.

Broken down by business areas and as of December 31, 2022, 545 people worked in sales and marketing, 209 were engaged in the field of engineering (hardware-related IT services); 529 worked in production and logistics; and 714 in management and administration (excl. DCO). The number of people working in the area of development (research & development and engineering) has now reached 2,478.



Distributed across the business segments, based on the yearly average (including Discontinued Operations), 42.2% (PY: 38.9%) of employees were in the “IT Services” segment, 53.5% (PY: 56.6%) of employees in the “IoT Solutions Europe” segment and 4.3% (PY: 4.5%) of employees in the “IoT Solutions America” segment. Broken down by region, approximately 89.4% of all employees are based in Europe, some 5.9% are in North America, and around 4.7% in Asia. The number of employees in Austria, the Group’s home territory, was 625 as of December 31, 2022.

EMPLOYEES BY REGION*:

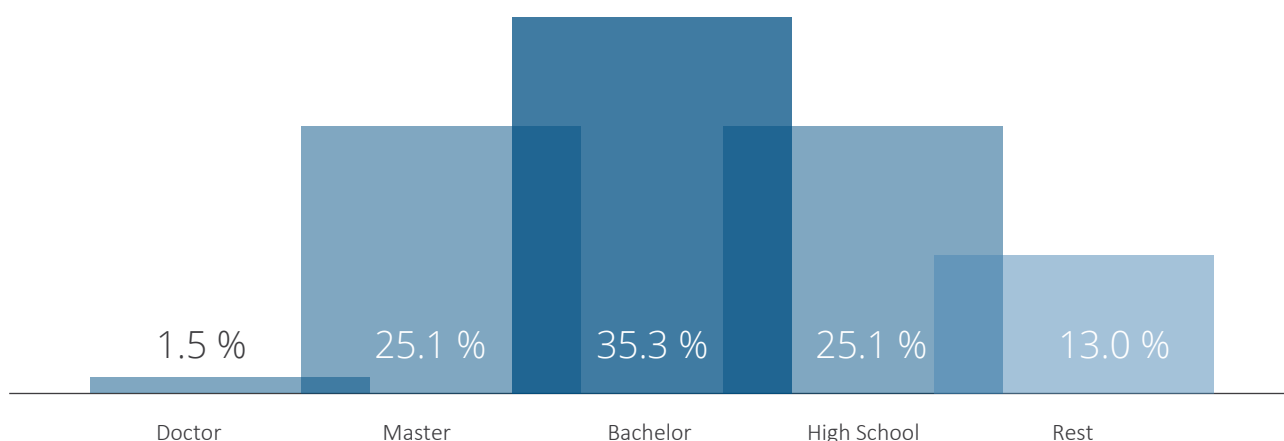
	2022	2021
Europe	4,003	5,729
of which Eastern Europe	2,163	3,477
of which Austria	625	617
of which Germany	732	1,253
of which rest of Europe	483	382
Asia	210	212
North America	262	265
Total	4,475	6,206

* Employee numbers on full time equivalent basis without employees on parental leave, interns, apprentices and contingent workers

As of December 31, 2022, the number of our employees fell by around 27.9% compared to the previous year, primarily due to the sale of businesses, to a total of 4,475 employees. Many of the Kontron Group locations serve as centres of vocational education where young persons are trained for technical and business professions. These educational activities are evidence of the Kontron Group's years of commitment to training young people, a commitment enabling it to cover part of its need for highly qualified young employees. The Kontron Group also maintains working relationships with many of universities of applied sciences and other institutions of higher education and provides support to students undertaking dual majors in a variety of technical and scientific disciplines. Kontron also offers internships and the chance for students to work on Group projects. Overall, the Kontron Group employed 76 trainees and students in the reporting year (PY: 115) on combined work-study programs. A survey was carried out again to ascertain the number of Kontron employees with technical qualifications. In 2022, this was 52.7% (PY: 52.8%) of employees.

In the past financial year, a survey was carried out again to find out the highest academic qualifications of our employees. Currently 1.5% of them have a Ph.D (PY: 0.9%), 25.1% a master's degree (PY: 29.6%), 35.3% a bachelor's degree (PY: 30.2%), and 25.1% (PY: 27.5%) have graduated from high school (with entitlement to pursue higher education).

Distribution of highest academic qualifications of employees of the Kontron Group as of December 31, 2022:



Diversity and variety

Our Group's international orientation fosters diversity among our staff. This is important to us because the individuality of our employees, in conjunction with equal opportunities and respect for origin, age, religion, gender and other characteristics, forms our corporate culture. In 2021, the principles for diversity and equal opportunities were laid down in the "Kontron Diversity" policy which, along with the Code of Conduct, is binding for all employees.

When filling any position in the Group, Kontron follows the principle of promoting women and non-discrimination. Promoting women's interests forms part of Kontron's process of adapting its operations to account for changes in the worlds of work and in daily life. This process extends to Kontron AG's management for which the Group is striving to increase the share of women in order to achieve equal levels of participation in responsibility and decision-making. Kontron has therefore set itself the goal of increasing the proportion of women in senior and middle management positions from 22.6% (PY: 22.1%) to at least 28.7% (PY: 26.3%), which corresponds to the current gender distribution in the Group, by conclusion of the third stage of the step-by-step ESG plan.

Women are still less strongly represented in technical professions than men. To change this, we have launched programs intended to get young women interested in technical professions as early as possible. For example, Kontron AG always participates in the annual "daughters' days" in Austria which gives girls aged 11 to 16 the opportunity to discover the technical professions at local companies.

Bernd Eder

CEO, Kontron Transportation

Bernd Eder has been working in the Railway and supplying industry for more than 15 years, from 2019 to 2022 as Chief Operating Officer of Kontron Transportation GmbH and from 2023 as Chief Executive Officer of the same. He is a member of the Extended Management Board of Kontron AG as well as a lecturer for Business Development and Management at Carinthia University of Applied Sciences.

Kontron Transportation is a growing technology group, offering customised end-to-end communication solutions for mission critical networks, such as railways and other verticals. As supplier to a low emission industry, the group aims to lower the carbon footprint of its products and solutions.

In his role as COO Bernd Eder is engaging his team to work on different projects to promote the use of renewable energy, for example the building of photovoltaic panels to supply GSM-R radio stations. Further-more the principles of green IT, namely to reduce energy demand gradually while meeting the high demands on availability of its services, are applied in many elements of the Kontron Transportation Group solutions portfolio with even more to come.

Bernd Eder personally follows an environmentally-friendly lifestyle. Using bike and public transport for short distances and carefully evaluating his travel plans also against environmental aspects is as normal to him as motivating colleagues to follow this model. A corporate benefit program built on environmental principles including elements such as company bikes, joined sport activities, subsidies to public transport tickets and free fair trade beverages for all employees have been implemented.

Supporting young people in their career paths is also prior in Kontron Transportation. Young talents are recruited in person, via social media channels or from colleagues through recommendation with job offers focusing on the involvement in innovative and forward looking projects. New employees get very well onboarded, trained directly in the job, get soon integrated in teams and involved in projects. For example they get invited to a welcome breakfast, where they get insights directly from the board.

Practice-oriented education and getting students excited about management topics is also what motivates Bernd Eder to teach at the Applied University Carinthia. Kontron Transportation will further grow its team by hiring school and university graduates as well as IT experts. Job related training and further education is supported and offered to all employees.

When asked for future plans, Kontron Transportation strives for carbon neutrality through establishing a framework for the Corporate Carbon Footprint for all the entities and defining reasonable goals and emission reduction actions.

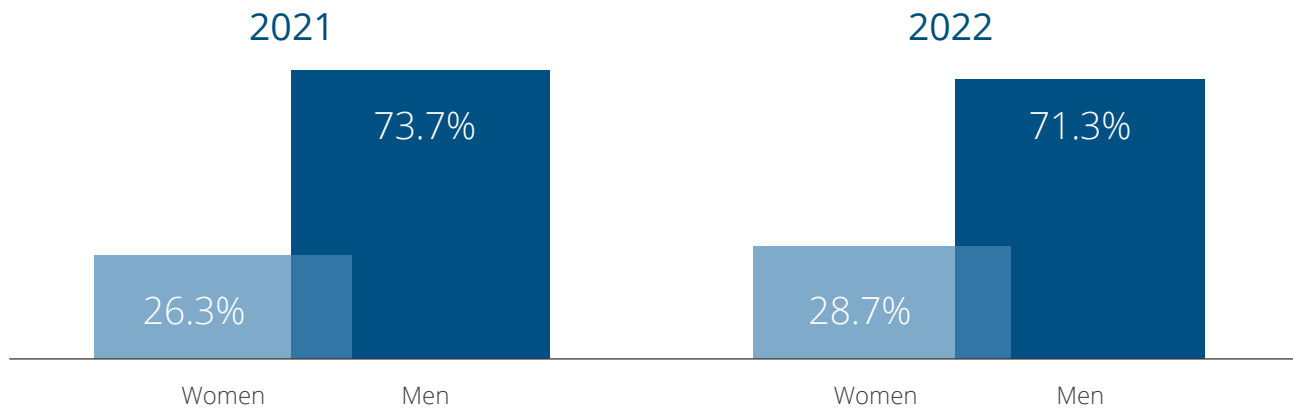


"I much appreciate to lead a business where we have the possibility to contribute to the European Green Deal with meaningful and sustainable solutions. It makes me proud to see how highly involved and motivated our employees are on our common mission, to support our customers making their business successful, while always also having environmental aspects in mind."

Bernd Eder

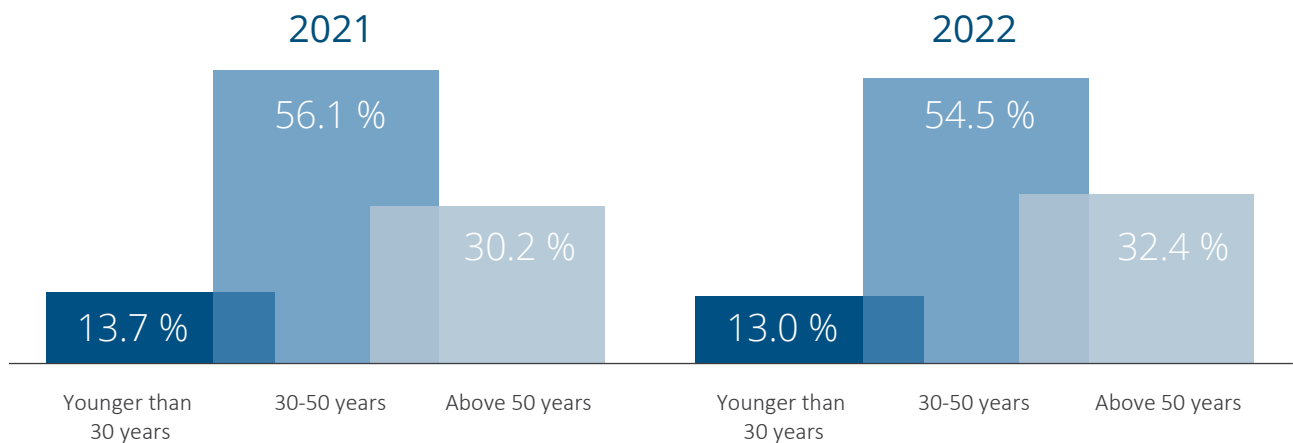
”

As of December 31, 2022, the workforce had the following gender distribution:



Of our 4,475 employees as of December 31, 2022, the following age distribution was observed: some 13.0% (PY: 13.7%) were less than 30 years old; 54.5% (PY: 56.1%) were in the middle group (between 30 and 50 years), and 32.4% (PY: 30.2%) were older than 50 years. Our objective is to make use of the diversity of age shown by our employees to optimally support and deploy each employee in the Kontron Group. To achieve this, we promote the securing and transferring of knowledge through the exchange of information and ideas among all employees in the Group.

The age structure in the Kontron Group as of December 31, 2022:



The distribution of employees at the levels of “managers”, “professionals” and “trainees” as of December 31, 2022:

INDICATOR	GRI	WOMEN	MEN
Trainees	405-1	23.3%	76.7%
Professionals	405-1	30.1%	69.9%
Management level	405-1	22.6%	77.4%
Total	405-1	28.7%	71.3%

The average length of service in financial year 2022 was 11.4 years (PY: 10.2), the fluctuation rate was 13.0% (PY: 14.8%), although changes due to the sale of companies were not taken into account when calculating the fluctuation rate.

At our facilities, we strive to enable and encourage the employment of people with health restrictions. According to the annual ESG survey, 1.6% of Group employees count as disabled.

Other employee, health and social indicators

INDICATOR ¹⁾	GRI	UNIT	2022	2021
Total number of employees		FTE	4,475	6,206
Hours of training for trainees	404-1	Hours/FTE	129.79	n/a
Hours of training for professionals	404-1	Hours/FTE	16.04	n/a
Hours of training for management	404-1	Hours/FTE	16.25	n/a
Hours of training for women	404-1	Hours/FTE	17.11	n/a
Hours of training for men	404-1	Hours/FTE	18.88	n/a
Average hours of training whole Group	404-1	Hours/FTE	18.37	n/a
Fluctuation		%	13.0	14.8
Average length of service		years	11.4	10.2
Work-related injuries	403-9	Accidents	19	23
Serious work-related injuries	403-9	Accidents	2	n/a
Fatal work-related injuries	403-9	Accidents	0	0
Female employees with disabilities	405-1	FTE	52	n/a
Male employees with disabilities	405-1	FTE	21	n/a
Total	405-1	FTE	73	89
Employees with collective agreements	2-30	FTE	2,674	n/a

1) n/a – data was not collected until financial year 2022

INDICATOR	GRI	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL
Female trainees	405-1	0.4%	0.0%	0.0%	0.5%
Female specialists	405-1	3.1%	14.0%	7.2%	24.3%
Female managers	405-1	0.2%	2.5%	1.2%	3.9%
Women total	405-1	3.8%	16.5%	8.4%	28.7%
Male trainees	405-1	1.5%	0.1%	0.0%	1.5%
Male specialists	405-1	7.5%	30.9%	18.1%	56.5%
Male managers	405-1	0.3%	7.1%	5.9%	13.3%
Men total	405-1	9.2%	38.0%	24.1%	71.3%
Trainees total	405-1	1.9%	0.1%	0.0%	2.0%
Specialists total	405-1	10.6%	44.9%	25.3%	80.8%
Managers total	405-1	0.5%	9.6%	7.1%	17.2%
Employees total	405-1	13.0%	54.5%	32.4%	100.0%

INDICATOR	YES/NO
Is the company located in a country where there is no right to collective bargaining, works councils and freedom of association?	no
Are there strict prohibitions regarding collective bargaining and freedom of association?	no
Are there any operating sites with a significant risk of incidents of child labour?	no
Are there any operating sites with a significant risk of incidents of forced or compulsory labour?	no



Kontron Group Leadership Academy

The first round of the new Kontron leadership training, the Kontron Group Leadership Academy, started in November 2021. The one-year program focuses particularly on female junior executives in a wide variety of fields who will be prepared for their next career steps within the Kontron Group by external trainers and Kontron managers. The aim of the academy is to enable participants to develop comprehensive leadership skills for their continuing professional development within the Group. Participants will receive professional, well-founded and practical management training in, among other things, all the important areas of Group business, from finance to legal to our solutions. In addition to professional qualifications, the course also includes modules on soft skills. 21 Kontron Group employees, approximately 70 percent of whom are women and 30 percent men, successfully completed the first round of the Academy in November 2022.



The Kontron Leadership Academy gave me many advantages in terms of experience exchange with colleagues from different entities. I appreciated the sessions with heads of Kontron entities and divisions like U.S., Asia, IoT and M&A sharing information on their business and responsibility. The sessions with the coach Ulrich Schubert were extremely agile and left lots of aspects for daily personal and professional life in mind to remember subsequently.

Doris Winter, Project Manager, Kontron Europe GmbH



The Kontron Leadership Academy was a transformative experience for me. It helped me to develop critical leadership skills, build confidence, and network with like-minded professionals. The participation in the leadership academy was therefore a valuable investment into my personal and professional growth.

Denisa Kelly, Procurement Specialist NPI EMEA, Kontron Europe GmbH



Thanks to the Kontron Management Team for letting me take part in the first edition of the Leadership Academy. It was a great opportunity to learn more about the company and get to know high-ranking managers and colleagues from the different entities. Hoping to keep in touch and meet some of the presenters and participants in person in the future again!

Julia Hecht, Senior Training Coordinator, SharePoint Prime/Manager (HR Admin), Kontron Transportation Deutschland GmbH



Bridging the knowledge of our leaders with the people in the organisation with the Leadership Academy at Kontron has been extremely valuable. Kontron's Leadership Academy has given me an understanding of the important areas of our business, such as M&A, financial, legal, operative, and strategy. As Head of Corporate Marketing, I can now better understand the business of Kontron and can help better support it "within and beyond" marketing communications. The value the employer gets from such programs is therefore a better understanding and a stronger engagement of the employees, as well as more qualified employees for future leadership positions within the organisation.

Nika Mohar, Head of Corporate Marketing, Kontron AG



Training and education

Our employees are the drivers of the successes achieved by the Kontron Group. That is why Kontron makes sure it has employees who are dedicated and qualified. To this end we invest in a large number of specialist courses and training programs. We also offer our staff ways of continuing their development within our company.

Kontron's long-held philosophy

— “HIRE FOR ATTITUDE, TRAIN FOR SKILLS” —

remains unchanged and is driven forward by internal programs for the personal and professional development of our colleagues. In financial year 2022, the Kontron Group invested around EUR 1.1 million (2021: EUR 1.5 million) in training and education for their employees, although investment in training has fallen compared to the previous year due to the sale of several companies. Training and further education took place in a wide variety of subjects and fields. Above all, many technical training courses were held to maintain or expand certifications with individual manufacturers such as AWS, SAP, Microsoft, HP, VMware, Cisco, etc. Leadership training and coaching, occupational safety training, project management seminars, and languages were also strongly represented.

Apart from the various training schemes, training on the job is also a key component of the Kontron Group's staff development strategy. Employees from the various divisions are given the opportunity for job rotation; contacts with colleagues at other locations facilitate the transfer of specialist knowledge within the Group and bring new ideas into the departments. Alongside “job enlargement”, in which employees can take on additional tasks in the area of work they are familiar with, they are also being increasingly encouraged to embrace “job enrichment” and take on new duties that carry more responsibility. This helps them to gain the skills necessary to take on management positions in future. On the established management trainee program, for instance, they can gain experience of interim management with the aid of an experienced executive manager as a mentor and so obtain the qualifications needed for a higher level of management. When filling vacant management positions, priority is given to candidates from within the Group. If the responsibilities require it, candidates from outside the Group are also considered.

Employee satisfaction

Fair remuneration

Within the Kontron Group, the same remuneration principles apply to all employees. We always strive for fair remuneration of all employees regardless of gender, origin, religion, age, disability, or sexual orientation. The total remuneration packages are based on the average of the relevant labour market in each case to ensure that each employee receives a remuneration appropriate to the labour market that is applicable to her or him. These packages are comprised of a monthly fixed salary. Depending on the position held and the area of responsibility, a performance-based variable component and of a variety of supplemental benefits may also make up the package. Our objective is to provide our employees with the remuneration that they deserve and which motivates them to continuing performing well.

Stock option programs have been in place for several years which allow allocation of stock options to managers and members of the Executive Board of Kontron AG or of a company connected to it as variable remuneration. In 2020, warrants were made available for purchase on reasonable terms to a large section of the workforce for the first time, giving them the chance to participate in the company's future success. The warrants for 2020 are listed on the regulated market of the Vienna Stock Exchange. Further information (including the stock exchange prospectus) is available at https://ir.kontron.com/Warrants_2020.en.html. The stock options issued in the past, and the warrants purchased in 2020, can only be redeemed after a vesting period and once defined barriers have been reached. This contributes to a strong commitment on the part of management and the employees as well as to sustainable corporate management.

Flexible work

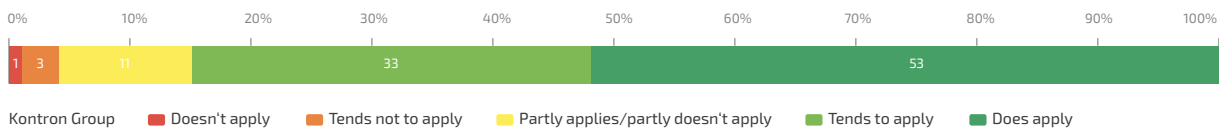
As a basic rule, our employees have a say in the organisation of their working hours. This opportunity is even open to them where legal provisions for working hours such as part-time work or parental or care time are in place, as they are in some countries. Flexitime and a wide variety of part-time models, as well as shift swaps or time reductions, are established practice and are possible by individual arrangement. It is important to us that we meet and further develop the need for flexible working time models in order to create the best possible working conditions for our employees, especially for those with childcare obligations. This also includes the realisation of partial and/or full-time mobile work. A high proportion of working from home continued to be maintained in 2022.

Employee surveys

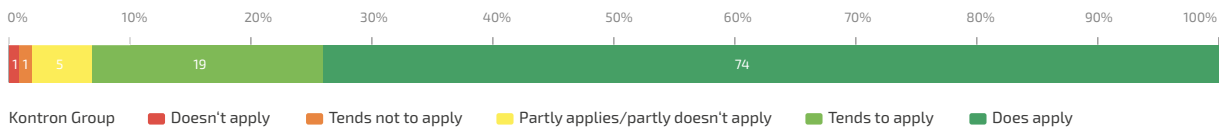
Regular employee surveys are conducted to find out the prevailing mood in the individual Group companies and identify areas where improvements can be made. The surveys have so far been carried out locally in the companies by an external service provider who ensures that the replies are anonymised. In the fourth quarter of 2021, a first Group-wide employee survey was carried out and an external service partner was appointed in accordance with the aforementioned requirements. Over 80% of Kontron employees were invited to participate in the survey voluntarily. In approximately 50 questions they were asked about their daily work, how they found their work with colleagues and managers, sustainability, diversity, and employer attractiveness.

The anonymised results of the employee survey were made available to management at the beginning of 2022. After analysing the results, measures were defined together with local management in the subsidiaries which should be suitable for exploiting the identified potential for improvement. The aim is to further or continuously improve employee satisfaction and the attractiveness of the Kontron Group as an employer.

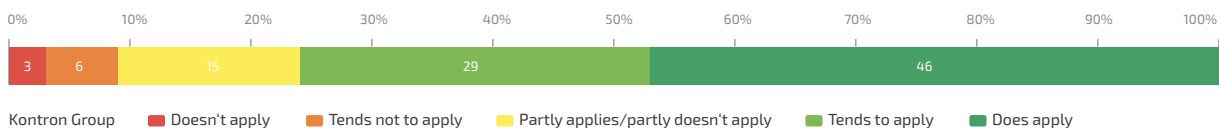
Overall, I really enjoy working in the company



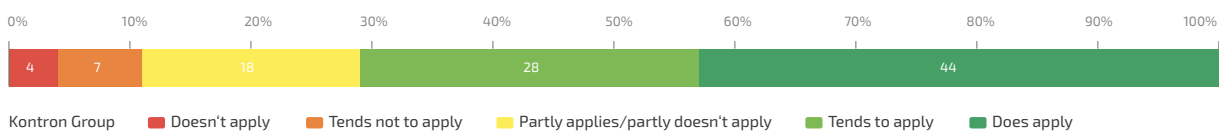
We treat each other with respect and appreciation - regardless of age, gender or cultural background.



My direct manager provides sufficient support for employees training and development.



I personally can recommend the company as an employer to friends and acquaintances



Source: vieconsult GmbH, Kontron employee survey results report

The background image shows the interior of a modern train. Two passengers, a woman and a man, are standing and looking at a digital display screen mounted on the wall. The woman is on the left, pointing at the screen, and the man is on the right, looking at it. The train has blue seats, overhead luggage racks, and large windows. The lighting is bright and modern.

Computing power for smart trains

IoT Solutions Europe

The demands on communication systems in rail transport have increased considerably in recent years. Today, passengers expect to be able to use their smartphones, tablets or laptops online throughout their rail journey. In addition, there are now a variety of other communication tasks related to IoT (Internet of Things) on the train. These include, for example, travel information systems or passenger counting systems. Furthermore, tracking, real-time diagnostics for train systems and video security are part of it.

With Colibri, Deutsche Bahn AG offers a modular solution for transport companies that covers all communication tasks, including support. At the heart of Colibri is an intelligent high-performance PC from Kontron, acting as the central computer in the vehicle and controlling all diagnostic, communication and monitoring functions in all areas of public transport.

The safety requirements for hardware in rail vehicles are particularly high, especially with regard to fire protection and robustness. This is why all Kontron central computers comply with the EN 50155 standard. These intelligent high-performance PCs offer communication options such as WiFi, Gigabit Ethernet, 4G/5G LTE or GPS and up to four 5G modems for external communication, as well as an eSIM option for a quick and easy provider change. The central computer manages the entire network and ensures that the connection remains permanently stable.

The Colibri system can also be used in other transport systems such as buses as well as in ticket vending machines and electric charging stations – the goal is in supporting continuous mobility beyond the train.

Management principles

In addition to capital and know-how, professional leadership is our most important driver of corporate success.

Our management principles form the foundation for dealing with our employees and are compulsory for all those in management positions. These principles are guidelines designed to provide managers with consistent points of orientation. To ensure that these principles are vital and productive components of our Group's corporate culture, all of Kontron's managers are called upon to make them part of their daily actions and thoughts, and to deploy them in their personal styles of leadership, for which they serve as examples of positive behaviour.

The formulation of our six principles of management is an expression of our conviction that our company's most important capital is our satisfied, professionally led, well-educated and effectively assigned personnel. Our objective is to maintain this capital on both the professional and personal levels.



Our six principles of management are also the yardstick used in the assessment of manager quality. The wording of the principles is deliberately open-ended. This is because each manager's style is individual and personal. To instill and embody this approach in an authentic and credible way, we have to take personal and frequent looks at what constitutes management. To do this, we encourage our managers to participate in leadership training programs held locally and on external premises.

Occupational safety and health protection

The safety and health of Kontron Group employees is important to us. The planning and implementation of occupational health and safety measures, ensuring suitable organisation and providing the necessary resources is part of our occupational health and safety management. Equally, employee surveys are carried out at regular intervals with a view to providing management with indications for potential improvements. These surveys are conducted locally and are often related to a particular set of circumstances, e.g. in the context of larger acquisitions or in exceptional situations such as the coronavirus pandemic in 2020.

Our experts – occupational safety specialists and company doctors – advise us on all aspects of occupational safety, including the ergonomic design of workstations and psychological aspects of work. This enables us to prevent physical impairment through, for instance, monotonous work at computers; and of psychological stress that may result from increased work demands. These objectives are achieved by fitting offices with ergonomic equipment, for example. In addition to the configuration of workplaces, other activities include assessment of sources of danger. These assessments are performed to effectively minimise hazards and risks. This is complemented by the establishment of rules governing emergency medical care at work, precautionary medical examinations, the establishment of rules on the handling of hazardous materials, and other safety-relevant procedures. Our occupational safety officers are responsible for facilitating the protection of health, for implementing occupational protection and accident-prevention measures, and for ensuring the safety-conscious behaviour of all employees. We also inform our employees through training and professional instruction about how to ensure their own safety and health at work.

In the 2022 financial year, 19 accidents at work were recorded at the Kontron Group (PY: 23). In order to create a working environment that is as accident-free as possible, employees – especially employees working in production environments – take part in internal and external training courses held on an ongoing basis to raise awareness of safety issues and ensure occupational safety. Our objective is to create an accident-free working environment together with our employees.

Societal and social commitment

The Kontron Group strives to foster improvements in societal conditions. Therefore, Kontron provides support in a variety of countries to a wide range of initiatives and projects in the areas of education, sciences, arts, sport and public welfare. That is why Kontron promotes regional projects in various countries and invests in local working relationships with schools, universities, non-profit organisations and foundations. No donations or contributions of any kind are made to political parties or political organisations.

As in previous years, the support provided by the Kontron Group in financial year 2022 included donations of money and physical items; the forging of partnerships with sports associations, schools and universities; and the support of numerous charitable projects. Donations were made in 2020 to organisations that help children, to institutions sheltering women who are victims of domestic violence, and to medical facilities (such as the Red Cross in Germany and the Dr. Clown Foundation in Canada). Kontron also raised money for cancer research and cancer patient assistance. A large number of local sports clubs also received support from Kontron. We are an IT company. As such, we sponsor the equipping of schools and children's homes with IT. We also provide support to IT projects undertaken by educational institutions.

Cooperation with schools and universities

In order to secure the services of young employees around the world – especially IoT engineers – the Kontron Group maintains partnerships and cooperation with schools and universities in many different locations. We also support students by supervising undergraduate, postgraduate and research projects and offer internships as well as trainee and training programs. In 2022, for example, Kontron supported TU Hamburg on the “Formula Student” design competition.

We are stepping up our participation in local initiatives to acquaint high school students with the job opportunities available in technical fields at our company. At our facility in Augsburg, Germany, we organise internships for high school students in cooperation with institutions of vocational training such as Germany's DAA (Deutsche Angestellten-Akademie) and BIB Augsburg GmbH. We also present the company to students at trade fairs, such as the “HTL Career Days” in Vienna.

The longstanding close cooperation with HTL Spenglergasse, a polytechnic based in Vienna, was successfully continued in 2022. As an Austrian company, Kontron cooperates closely with the University of Applied Sciences in Salzburg and the University of Applied Sciences in Hagenberg, and is also heavily involved in a great variety of research projects in collaboration with the Fraunhofer Institute in Austria. Outside Austria, the Kontron Group cooperates with the following universities and institutions of higher education: in Swit-

zerland – the University of Applied Sciences in Northwest Switzerland and the University of Lucerne; in Germany – the Universities of Technical Application in Kirchheim/Teck and in Reutlingen, the Promotion of Professions Agency (Berufsförderungswerk) Schömberg and the Academy of Professions, with the University for Technologies and Business in Dresden; in the UK – the University of Chichester; in France – Versailles-Saint Quentin University, and École d'Ingénieur généraliste en informatique et technologies du numérique, Paris; in Portugal – ISEL (Instituto Superior Engenharia Lisboa); in Serbia – School of Electrical Engineering and University of Belgrade; in the Czech Republic – West Bohemia University and CVUT (Czech Technical University Prague); in Moldova – Universitatea Tehnica; and in Romania – Polytechnical University in Bucharest.

Governance

Cooperation with AfB – Providing work for people with disabilities



As part of a cooperation with AfB – “Providing Work for People with Disabilities” (<https://www.afb-group.at>) – Kontron AG offers its customers the opportunity to combine professional IT services with social and environmental added value. Specialising in IT recycling and remarketing, AfB acquires used hardware from customers, which is then refurbished for remarketing and reuse in Austria after certified data deletion. Equipment that is no longer marketable is professionally recycled by approved refiners in Europe. As a recognised inclusion company, AfB also creates jobs for people with disabilities.

Through this partnership, Kontron is making a valuable contribution to social and sustainable development: Reuse and recycling extends the product life cycle of devices, protects the environment and natural resources, and reduces emissions. The collaboration also enables Kontron to support people with disabilities and give them career prospects.

Corporate ethics

Corporate Governance

“Corporate governance” denotes the legal and factual parameters created to govern the management and supervision of a company. Corporate governance has the aim of enhancing the transparency and capability of control of management and its actions, enabling management to reach decisions responsibly and base them on sustainable value creation.

As a company listed on a stock exchange in Germany, Kontron AG, which is headquartered in Austria, has committed itself to observing Germany’s Corporate Governance Code (DCGK). Kontron AG deviates from some Principles of the German Corporate Governance Code of April 28, 2022. In accordance with the “comply or explain” principle, the reasons for these deviations from recommendations are explained in the annual financial report and the annual report in the chapter, “Corporate Governance Report”. The report is also published on the Kontron AG website at https://ir.kontron.com/Corporate_Governance.en.html.

At Kontron AG, the term “corporate governance” stands for a way of managing and controlling a company that is responsible, value-based geared towards sustainable value creation. Key components of good corporate governance are efficient working relationships between the Executive Board and the Supervisory Board; channels of communication within the company that are based on openness; respect for shareholder interests; the achievement of transparency and accountability when making decisions for the company; dealing with risks appropriately; and promoting equal opportunities and diversity. Kontron’s Executive Board and Supervisory Board are convinced that good corporate governance – one that takes into account the specifics of the company’s business and of its sector – forms an important basis for the achievement of success. A central responsibility of management is observance of national and international laws including tax laws and refraining from tax evasion, of rules and directives; and of the principles codified in Germany’s Corporate Governance Code. This compliance is a matter of course for Kontron and a component of its culture of management.

Compliance in the Kontron Group

Kontron operates according to a simple and very clear approach to business: We expect integrity-driven performance. Kontron AG’s Code of Conduct contains the requirements to be observed by all our employees and our partners. The Group Compliance Office supports the implementation of group-wide and local compliance measures and performs a group-wide monitoring function.

Code of conduct & Compliance training

The Code of Conduct of Kontron has been implemented in the whole Group. Its directives were revised in financial year 2022 and the updated version rolled out throughout the Group. The Code’s contents are regularly assessed, updated and staff trained in them. The Code of Conduct obliges our employees to behave in accordance with the law, to fulfil their personal commitments and to refrain from any activities likely to damage the reputation of the Kontron Group. The Code of Conduct describes and governs such issues as the observance of currently applicable laws, combating corruption, adherence to fair-trade and anti-trust laws, behaviour towards third parties, handling of financial and business records, combating money laundering, compliance with export control and duty laws, principles of non-discrimination, data protection and security, conflicts of interest, dealing with gifts and invitations to events, and how to handle donations, sponsorship and advertising. The Code of Conduct has been updated to include the newly promulgated stipulations of the Second Shareholders’ Rights Directive and those of Austria’s Stock Corporation Act which is applicable to Kontron AG as an Austrian company. Our current code of conduct is available on the Kontron AG compliance website: <https://ir.kontron.com/Compliance.en.html>.

New employees receive compliance training as part of the onboarding process and commit to compliance with the Kontron Code of Conduct. Regular “refresh” sessions are subsequently held throughout the Group. In 2022, a new Group-wide online training scheme was introduced that makes it easier to coordinate and maintain training cycles throughout the Group and quickly roll out new content across the Group if necessary. In addition, the new tool enables better tracking of test results which are then used for continuous adjustment of the training scheme.

Combating corruption

The Kontron Group competes for contracts placed by government bodies and public sector corporations from around the world. For this reason, it is of key importance to the company that it observes all laws and stipulations pertaining to public-sector procurement including legislation designed to preclude the exertion of undue influence on civil servants. Many countries have passed anti-corruption legislation forbidding bribery by commercial enterprises in accordance with internationally applicable standards. Several of these laws – such as the UK's Bribery Act and the USA's Foreign Corrupt Practices Act – are recognised around the world, and are robustly applied in the Kontron Group. Our Code of Conduct obliges us to comply with applicable laws and measures for combating corruption. It should be stressed in this connection that we make no donations to political parties or political organisations.

Adherence to laws

Adherence to and observance of all applicable laws are compulsory in the entire Kontron Group. Every staff member is required to adhere to national and international codes of law. In order enable employees and third parties to alert the Compliance department to possible breaches of law committed in the company, the Kontron Group set up an electronic whistleblower system that also makes anonymous reports possible. This is available on the Kontron website at <https://compliance.kontron.com>.

Potential contraventions can also be reported directly and at any time to the Compliance Officer, the Legal Affairs department, Human Resources or a member of the works council.

Human rights

Adherence to internationally valid standards of human rights and working standards is a matter of course for the Kontron Group. Our standards correspond to those of the International Bill of Human Rights, the European Convention on Human Rights and the principles in the United Nations Global Compact. We do not tolerate forced labour in any form, including involuntary work performed in a prison or in servitude.

Every person working for the Kontron Group does so of her or his own free will. Any employee can terminate her or his employment contract after having given reasonable notice. Child labour is not tolerated. We require our suppliers to adhere to all currently applicable laws including laws relating to human rights and fair business practices as well as the section "Supplier Code of Conduct" on the Kontron AG compliance website: <https://ir.kontron.com/Compliance.en.html>.

Data protection and security

As a technology company, responsible handling of data, especially personal data, is essential for Kontron. Ensuring data security is part of our product portfolio and it has top priority when implementing and maintaining customer or own systems. Here, data protection and data security go hand in hand. We always treat data as confidential and always collect and process data in compliance with all relevant legal requirements.

In addition to national requirements, we have also met the requirements of the General Data Protection Regulation (GDPR), which has been in force throughout Europe since May 2018, and the local laws enacted in its implementation. Implementation activities included, for example, the adaptation of Group policies and processes relating to the handling of personal data, the further development of process documentation, the creation and revision of document templates, and the regular review and ongoing development of the technical and organisational measures we use in the company. This enables us to guarantee a very high level of data protection and data security.

As a fast-moving multinational technology leader, we are constantly challenged by cyber criminals. The Group's IT department has implemented several security checks and technologies to prevent or respond to this. The data security plans and measures in place are continually adapted to meet the latest requirements. Kontron has the power to rapidly answer to the new challenges and implement new controls and procedures to answer threats. Several of our companies are certified to ISO 27001 (information security) and all our applications run on ISO 27001-certified systems. The Group is in the process of achieving global ISO 27001 and ISO 27018 (cloud privacy) with ISO 22301 (business continuity management) compliance: more and more automated systems and processes are being deployed with the requisite external services, such as regular penetration tests and independent architecture analysis. Penetration tests were carried out on all internal systems in 2021, for example. In addition, the EMOTET threat was addressed with mandatory multi-factor authentication and we are continuing the transition to the passwordless era with tokens. We can protect ourselves well against attacks on Microsoft Exchange vulnerabilities, for example, by switching off the local infrastructure in an emergency. This is possible thanks to the advanced status of cloud adaptation and advanced security tools available to us for the Cloud infrastructure which cover all services and terminals.

However, implementing security technologies alone is not enough; our employees are also an important part of the line of defence. To ensure that our employees are aware of IT security, potential attack methods, etc., the Kontron Group's IT department has started implementing a security awareness program for all users. As a Group initiative, the employee Security Awareness Program – covering simulations – can strengthen the overall security level in the Group. The Security Awareness Program ensures that everyone in our organisation is sufficiently informed of security issues and has the requisite measure of responsibility for dealing with threats to data security and data protection.

Our Group data protection officer and the data protection officers appointed locally by our subsidiaries are working to ensure that personal data is handled in accordance with the law throughout the Kontron Group and in the long term. Their responsibilities include the further development of company-specific data protection measures, and regular consultation with their respective senior managements and with the specialist departments of the Kontron Group. In particular we have ensured that the rights of affected persons to information, correction, deletion, and data transfer are fulfilled properly and promptly. All queries from persons and supervisory authorities relating to data protection are duly documented, checked and processed. Treating data in a responsible way is of the greatest importance for us. In financial year 2022, there were only a few queries on data maintenance or deletion. No complaints or procedures involving data protection laws have been lodged against Kontron AG or its subsidiaries.

Risk and opportunity management

Risk and opportunity management constitutes an important component of Kontron's handling of its business. The management's goal is to identify, evaluate and actively influence the risks and opportunities of the market and entrepreneurial activities within the framework of the Group's internal risk and opportunity management. This applies to both internal and external opportunities and risks.

Kontron generally avoids risks that endanger its corporate existence. Nevertheless, Kontron's business activities do expose it to risks that directly result from corporate actions. In order to identify risks at an early stage, to assess them appropriately and to limit them through taking suitable measures, we have set up a Group-wide risk management system which also supports us with achieving our corporate goals. The risk management system fosters an awareness of risk and increases the trust that our stakeholders place in our company. It also improves the bases of our planning and decision-making.

The close connections with financial processes and the ongoing development of methods of assessing and managing risks and of reporting them ensures that the Executive Board and Supervisory Board are informed promptly and fully about the risks to which the company is exposed.

A further component of good entrepreneurship is recognising and exploiting opportunities. This ensures the company's viability by strengthening its ability to compete and is represents a key component of our strategy. Our systematic management of risks and opportunities enables us to identify and exploit both.

Risk management system

Our internal system of risk management complies with the guidelines agreed upon with our Supervisory Board and Executive Board and covers the handling of risks facing the company. Our organisational chart makes the system part of our internal audit team, which reports to the Executive Board as a collegial body. The Group's risk manager regularly briefs the Executive Board and the Supervisory Board and monitors adherence to the risk management process and the reporting routines that have been established.

The Group-wide risk management process is presented and explained in a Group manual which describes in detail the individual steps in the risk management process, from risk identification to risk reporting:



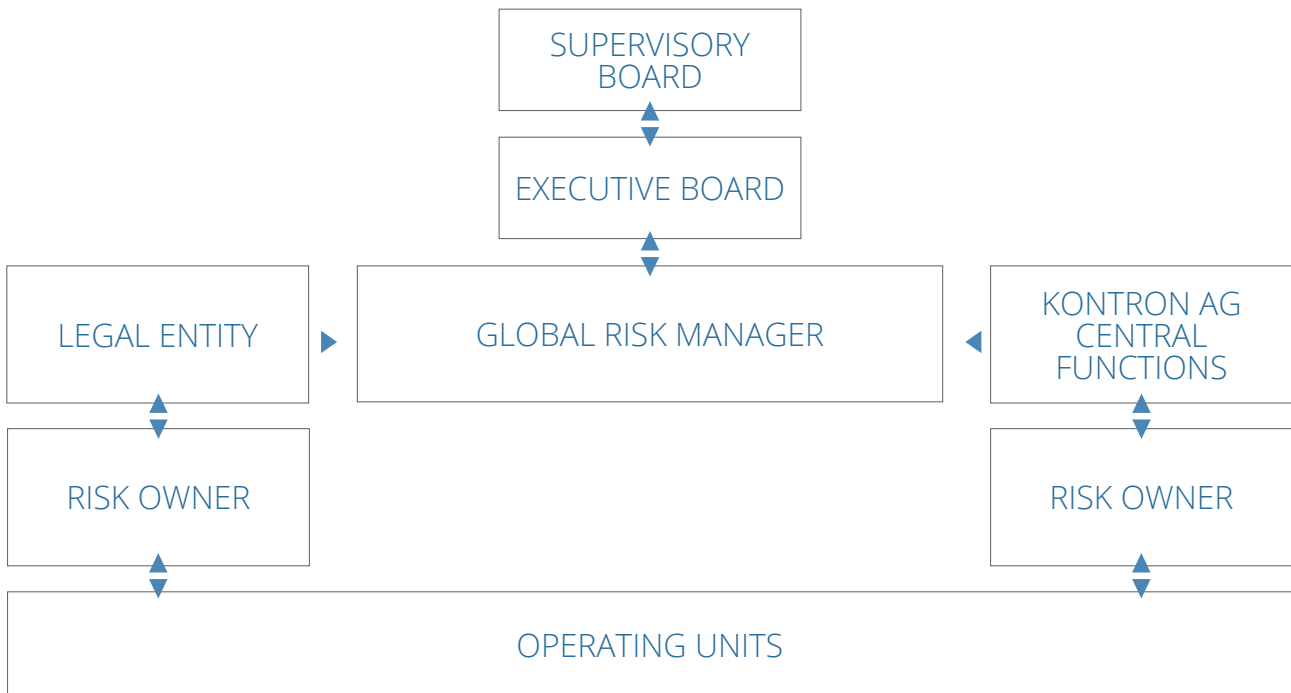
The Group Risk Manual determines the responsibilities and procedures comprised in the risk management system. It lays down clearly defined directives, such as the definition of the principles of risk management, which are binding for all parties.

The risk management manual has been sent to all Group companies for use and can be viewed by all companies at any time in Kontron AG's central filing system. Newly acquired companies are introduced to risk methodology by the Group Risk Manager, including training in the risk management process.

Every six months, all key operating areas and companies in the Kontron Group report on their risks and name a “risk owner” who is responsible for each of these risks. This results in the compilation of a risk report covering the entire Kontron Group which is then supplied to the Executive Board. The previous procedure of very small companies reporting their risks to the group risk manager once a year has been amended to the twice a year approach starting with the second risk report for the calendar year 2022.

In addition to regular standard reporting, the companies are required to report risks ad-hoc if they exceed predefined limits.

Risk management organisation



The probability of occurrence and the possible financial impact are assessed according to predefined criteria. A rating system has been introduced which enables the comprehensive depiction of the relevance of the risks.

Each risk is assigned to a “risk owner”, whose responsibility it is to monitor the risk and the measures taken to manage it. Risk assessment updates and risk tracking takes place in the regular reports to the Group’s risk manager, who aggregates these reports and forwards them to the Executive Board. The Executive Board regularly briefs the Supervisory Board on the main risks.

This system ensures the Group-wide transparency and the effective handling of the risks facing the company. Further information is provided in the “Report on Opportunities and Risks” section of the management report in the annual financial report and the annual report.

Quality management and certifications

We know about the great importance and priority placed by our customers on receiving highest quality products. We therefore strive on a 24/7/365 basis to achieve flawless, lasting and robust quality for all of the items in our portfolio. To attain this, we test and improve the quality of our products, solutions and services at every stage of the value chain. This quality assurance mission has several key components:

- › Activating and assigning heads of process responsibility to specific products, and enlisting the participation of employees
- › Entering into and maintaining business relationships that are characterised by reliability and predictable behaviour with customers, suppliers and other stakeholders
- › Establishing and sustaining a high level of service provision ensuring product quality, which includes communication, strong customer orientation and customer satisfaction

Across the Kontron Group, we have established a quality management system that encompasses our major facilities. The system is comprised of a single set of standards and processes that cover the topics of quality, security and environmental protection. This quality management system governs our operative processes, and ensures that we consistently deliver the highest possible quality to our customers.

Worldwide operating and accredited certification companies assess and certify our quality management system according to the standards such as ISO 9001 (quality), ISO 14001 (environmental management) and ISO 27001 (information security).

All our products satisfy legal regulations and applicable standards and specifications such as UL, CSA, CQC, VDE and TÜV-verified safety. Internal audits and evaluations by external certification companies ensure the efficacy and efficiency of our quality management system.

	NUMBER OF CERTIFICATES 2022*	NUMBER OF CERTIFICATES 2021*
ISO 9001 (Quality Management Systems)	35	48
ISO 14001 (Environmental Management Standard)	15	19
ISO 27001 (Information Security)	10	24
ISO 13485 (Medical devices – Quality Management Systems)	5	5
ISO 45001 (Occupational health and safety, before “OHSAS 18001”)	8	14
ISO 20000 (IT Service Management (ITSM))	4	11
FAA REPAIR STATION (Air Agency Certificate)	1	1
EASA 145 (European Aviation Safety Agency Certificate)	2	1
ITAR (International Traffic in Arms Regulations)	1	1
IRIS (Railway Industry Standard)	1	1
RISQS (Railway Industry Supplier Qualification Scheme)	1	2
AS 9100 (Quality Management System – Requirements for Aviation, Space and Defence Organisations)	4	2

*Changes in number are due to new certifications, acquisitions or reduction of certifications after company mergers and the sale of companies

Appendix

Information on the report

Since financial year 2017, Kontron AG has published a separate Sustainability Report at the same time as the annual report. With this sixth Sustainability Report for the financial year 2022, we inform our customers, investors, business partners, employees and the interested general public about how the Kontron Group handles sustainability-related issues.

This report follows well-established guidelines such as those laid down by the Global Reporting Initiative (GRI) whose standards are used selectively here, and – as a listed company on the German stock exchange – those formulated by BDI (Bundesverband der Deutschen Industrie e.V.), which is the Association of Germany's Manufacturers.

The principle of significance to the Kontron Group guided the selection of contents for this report. To make this selection, a base was formed in which topics were arrayed in a matrix of significance. This displayed their importance to the Kontron Group. The topics were classified as having great, medium and low importance to the Kontron Group. These classifications express the Group's view of its operations. Topics of great and medium importance were then examined and included in this report.

This report covers the period from January 1 to December 31, 2022. Kontron's Sustainability Report 2022 will be published on March 29, 2023. To obtain in-depth information on the company's financial objectives and on the development of its business, please consult Kontron's 2022 annual financial report and the 2022 annual report.

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With Top Processes to Top Service: Service Solutions for the Healthcare Sector

IT Services

As an innovative technology company, "IT-Services der Sozialversicherung GmbH" (ITSV) manages and coordinates the IT activities of the Austrian social insurance system. As the central point of contact for end users from the various organizations of the Austrian social insurance system, ITSV operates a service desk with a ticket volume of approximately 100,000 tickets per year.

In order to continue providing high-quality services, ITSV needed a flexible Enterprise Service Management (ESM) solution that would integrate existing systems, link interfaces, digitize manual business processes and optimize existing IT service operations. With Kontron, „USU Service Management“ was introduced as the new platform; an established tool that can be used to manage complex automation tasks and digitize all enterprise service processes.

The USU solution provides ITSV with information on the current equipment landscape on a daily basis. The service desk thus receives the best possible support in assigning an IT ticket to a workstation and can analyze tickets much faster and process them more efficiently. This ensures satisfied users through a significant increase in the quality of service as well as a reduction in costs. The „USU Analytics“ reporting solution used by Kontron, which is based on BI cubes, also enables ITSV to respond more flexibly and quickly to reporting requirements and to provide the relevant information in a targeted manner for specific people or areas as a report or integrated dashboard in the USU interface.

The product is now used as a comprehensive enterprise service management solution and is used for a growing number of business processes in a wide range of specialist areas. Kontron supports this not only with accompanying consulting, but also with proprietary developments designed for the solution, such as „Ticket Flow“ as a simple „no code“ extension to model any number of complex incident, problem, change, request processes, and much more.

Please visit <https://ir.kontron.com/reports/Reports.en.html> for access to our annual and quarterly reports, and to our press releases, each of which is placed online on the day of its publication. Any changes to schedules and dates are also announced on our website in good time. This annual report was published on March 29, 2023, in German and in English. The English version is provided for convenience only. The German version is definitive. No liability is assumed for any typographical or printing errors.

This annual report contains statements that refer to future developments. These are based on assumptions and assessments made by the Executive Board. Although we are of the opinion that the assumptions and estimates are realistic and correct, they are subject to certain risks and uncertainties that may cause actual future results to diverge materially from the assumptions and estimates. Factors that may result in a discrepancy include changes in the overall economic, business, financial and competitive situation, exchange and interest rate fluctuations as well as changes to the business strategy. In particular, the current situation due to the spread of the SARS-CoV-2 virus and the war in Ukraine increase this uncertainty. We accept no warranty for the developments and events actually taking place in the future according to the assumptions and assessments articulated in this annual report. The assumptions and estimates made in this report are not updated.

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Kontron AG Industriezeile 35 A-4020 Linz T: +43 732 7664 0 F: +43 732 7664 501 ir@kontron.com www.kontron.com	Ines Stöger Müller Werbe- und Grafikdesign woelke.design design, marketing + projekt manufaktur	Kontext Druckerei GmbH

FINANCIAL CALENDAR

2023

29.03.2023	Annual report 2022
29.03.2023	Earnings-Call FY 2022 (Register under: ir@kontron.com)
30.03.2023	Jefferies Pan-European Mid-Cap Virtual Conference (29.03. - 31.03.2023)
04.05.2023	Q1-quarterly statement 2023 (Earnings-Call Q1 2023)
12.05.2023	Stifel German Corporate Conference
22.05.2023	Annual General Meeting
31.05.2023	Dividend payment day
03.08.2023	Half-year report 2023 (Earnings-Call Q2 2023)
03.11.2023	Q3-quarterly statement (Earnings-Call Q3 2023)
27.11.2023	Equity forum (27.11. - 29.11.2023)

Further details available under
https://ir.kontron.com/Financial_calendar.en.html

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