

Q2|2015



KONTRON GROUP | QUARTERLY REPORT

POSSIBILITIES START HERE

KONTRON IN FIGURES

		Q2/2015	Q2/2014	01-06/2015	01-06/2014
RESULTS OF OPERATIONS AND PROFITABILITY					
Revenues	€ million	108.5	116.1	207.0	218.9
EBITDA ¹	€ million	0.6	7.5	1.4	13.0
EBITDA margin ²	%	0.6	6.5	0.7	5.9
EBIT ³	€ million	-4.4	2.0	-8.7	2.1
EBIT ⁴ (adjusted for restructuring costs)	€ million	-1.8	3.7	-4.0	4.9
EBIT margin ² (adjusted for restructuring costs)	%	-1.7	3.2	-1.9	2.2
EBT	€ million	-5.0	1.0	-9.8	0.8
Income/loss from continuing operations	€ million	-6.4	1.0	-10.4	0.6
Earnings per share (continuing operations)	€	-0.11	0.02	-0.19	0.01
CASH FLOW⁵					
		Q2/2015	Q2/2014	01-06/2015	01-06/2014
Cash flow from operating activities	€ million	-9.3	-7.5	4.3	-3.0
STATEMENT OF FINANCIAL POSITION					
				06/30/2015	12/31/2014
Total assets	€ million			415.2	421.8
Equity	€ million			252.1	252.7
Equity ratio	%			60.7	59.9
Financial debt	€ million			44.6	36.1
EMPLOYEES					
				06/30/2015	06/30/2014
Employees				1,280	1,418
Revenues per employee	€k			161.7	154.3

¹ EBITDA is defined as EBIT before depreciation and amortization.

² Margins refer to revenues.

³ EBIT is defined as earnings before interest, other finance costs and tax.

⁴ EBIT is adjusted for cost of restructuring and reorganizing the company.

⁵ No breakdown of continuing and discontinued operations is made in the statement of cash flows.

KONTRON – A PROFILE OF THE COMPANY

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

Embedded computer technology (ECT) is used in technical applications to realize monitoring, management and controlling functions as well as special forms of data processing or data transmission. The requirements placed on ECT are as numerous as the fields of application: The products from Kontron not only have to possess the mandatory certifications but also meet the detailed specifications of the customer and remain available without any technical change over the entire life cycle of the application. Qualities such as reliability, security and longevity are what make our high-quality products so successful on the market. The development of solutions that, on the one hand, occupy ever less space and, on the other, are increasingly networked, opens up a growing field of technological applications for ECT. The relevant market segments for Kontron display a particular need for ECT products, promising growth rates and great prospects for the future. In addition, the latest trends and market needs for the Internet of Things (IoT) and machine to machine communication (M2M) will have a positive impact on the ECT business in future.

GLOBAL ORGANIZATION AND BUSINESS UNITS

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

- “Industrial” focuses on the markets for industrial automation, medical technology and infotainment
- “Communications” covers the telecommunications market
- “Avionics/Transportation/Defense” bundles the activities on the markets for civil aviation, transport, security and defense.

GLOBAL PRESENCE

Together with its subsidiaries and sales offices, Kontron AG maintains a global presence. The company is based in Augsburg and has subsidiaries in 13 countries, including Germany, France, the USA, Canada, China, India and Malaysia. These subsidiaries and the international sales offices ensure that the company is in close proximity to its customers and regional markets. As of June 30, 2015, Kontron employed 1,280 staff worldwide.

For further information please visit: www.kontron.com.

LETTER TO THE SHAREHOLDERS

First six months below expectations – but sticking to guidance for the year

*Ladies and gentlemen,
dear shareholders,*

Our performance during the second quarter, and therefore the first six months of 2015, again fell short of expectations. We are nevertheless optimistic that we will meet our operating and financial objectives for fiscal year 2015. We expect to see a strong performance in the second half of the year.

The figures reported by Communications, having been significantly below expectations during the first quarter of 2015, recovered during the second quarter, with revenues of € 26.2 million reported. They were, however, still below the same period of the previous year (Q2/2014: € 28.4 million) and order intake was disappointing. This is primarily due to the current strategic shift away from functionalities previously represented by hardware towards software defined networks. Although we started to respond to this change early in 2013, adjusting our product portfolio accordingly, the first tangible effects are not expected to be reflected in revenues until the end of 2015.

In Avionics /Transportation /Defense we are also shifting our focus, mainly in the North American region, from the established standard product business to solutions. Here too, we were not able to realize the results we were hoping for in the second quarter of 2015 on the back of the initiated measures, recording revenues of € 28.9 million compared to € 35.8 million during the same period last year. More specifically, revenues generated from project business in Poland last year were not compensated by other income sources as planned. However, there is also good news: Many of these planned revenues have merely been delayed and will be realized during the second half of the year. The weaker order intake in the business unit was primarily caused by fluctuating demand in the Defense segment. Here too, we have firm expectations of a significant rise in revenues during the second half of the fiscal year.

The Industrial business unit, by contrast, developed positively during the second quarter. We were able to raise revenues by 2.9% in comparison to the same period last year, to € 53.4 million on account of stronger demand in Medical and Industrial Automation. As with revenues, we were able to record a very pleasing rise in order intake of 11.5% to € 51.5 million. This very positive trend gives us cause for optimism that we will meet the guidance for the year 2015 that we issued in May. In addition to the continuing high level of orders on the books and the encouraging trend in Industrial, we expect incremental revenues to be generated from calls on standing orders and some promising new projects, which we will be able to implement and bill this year. This also bolsters our optimism about reaching our existing guidance for 2015.

At this point, I would like to discuss the financials for the second quarter in more detail. Due to the situation in North America already described above, our group order intake came in at € 100.1 million, 20% below the comparative figures for the same quarter of last year. Revenues came in at € 108.6 million, 6.5% below the same quarter last year. As a result, our profitability was again down during the second quarter: Our gross profit margin came to 24.9%, which is only slightly below the target of 25%, but EBIT adjusted for restructuring costs fell sharply by € 5.5 million to a loss of € 1.8 million. This corresponds to an EBIT margin of -1.7% compared to 3.2% during the same period last year. By contrast, our order backlog developed positively: At the end of the second quarter it stood at € 322.5 million, which represents an increase of 10.9% on the same quarter last year. The rise is due to the high order intake during the second half of 2014 and foreign exchange gains arising from changes in the EUR/USD exchange rate.

In Asia, our business continued to develop well during the second quarter of 2015: Revenues in the APAC region rose by a total of 12%. In addition to our build-out in China and Japan, which has already been completed, we are now better positioned for the strategically critical market of India: In July 2015 we acquired another 45% of the shares in Kontron Technology India Pvt. Ltd., Mumbai/India, which now makes the entity a wholly-owned subsidiary of Kontron AG. This measure is part of our comprehensive growth strategy in the APAC region. The new positioning will enable us to respond more rapidly to our customers in the region and provide higher quality services.

On May 19 we held a Capital Markets Day in Augsburg, at which we presented our new strategy to analysts. We intend to develop Kontron into a hardware/software provider in order to fully exploit the growth potential of the Internet of Things. The global trend of connecting devices, which currently operate autonomously, to the internet, offers enormous growth and profit potential, which we wish to exploit thanks to our excellent positioning in the ECT market. In this way we are catering to our customers, who are increasingly asking for combined solutions that address hardware and software challenges in order to master the crucial issues of data transfer and security.

We have also made good progress with our New Kontron program, further reducing the number of contract manufacturers with whom we cooperate, from a peak of 23 to just five strategic partners today. In this way, we can concentrate a higher volume of business on a smaller number of contract manufacturers, thus easing complexity of operations, cutting costs and realizing significant improvements in delivery times.

For the first time since the beginning of 2013, we have been experiencing a period in which we are not meeting our ambitious targets. This spurs us on to close the gap by the end of the year and we will work relentlessly to reach the targets we have set for this year and the more distant future.

Yours sincerely,



Rolf Schwirz

THE KONTRON SHARE

CAPITAL MARKET ENVIRONMENT AND PRICE DEVELOPMENT

While the capital markets were booming worldwide, particularly towards the end of the first quarter of 2015, growth was dampened again in the second quarter of 2015 by geopolitical and macroeconomic factors. The price of oil, the weaker-than-expected US economy and finally the deterioration of the financial crisis in Greece, on top of the persistently low growth forecast for China, raised the level of uncertainty in the markets. The global economy thus remained subdued over the course of the second quarter of 2015. This is also evident in the Sentix economic index for the European economy, which dropped by 2.5 points to 17.1 points from April to June 2015.

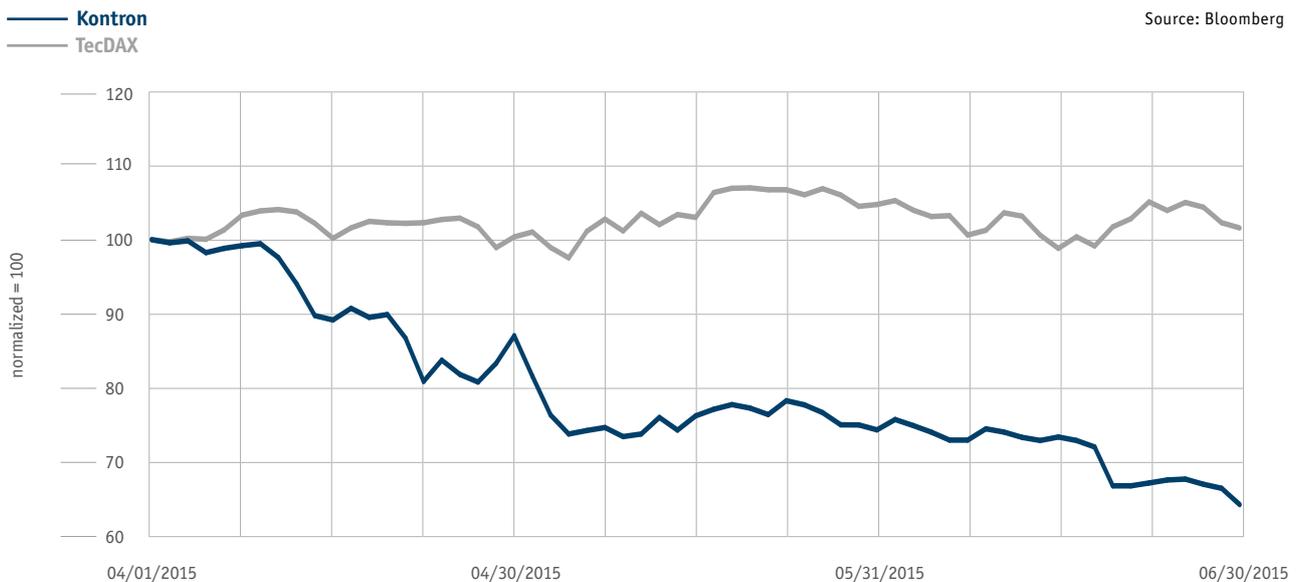
The German economy nevertheless remained stable in the second quarter of 2015. The economic barometer issued by the German Institute for Economic Research indicates that the gross domestic product at the end of the second quarter had risen by 0.5% in comparison to the first three months of the year. In June 2015 the

IFO institute raised its growth forecast for Germany to 2% from its initial forecast of 1.5%.

The leading stock market index, the DAX, was down significantly from its record high of 12,167.7 points seen in March 2015. In April and May 2015, the DAX closed just over 11,000 points. On June 30, 2015, the DAX was listed at 10,945 points and had therefore fallen by a total of 9.6% in the second quarter. The TecDAX was also highly volatile in the second quarter, but rose by 1.7% over the full course of the quarter. It peaked for the quarter at 1,729.92 points on May 21, 2015. At the end of the quarter on June 30, 2015 the TecDAX was once again significantly below the high of May, closing at 1,646.34 points.

The Kontron share rose to a high of € 5.99 on April 07, 2015 and closed the quarter on June 30, 2015 at its lowest price of € 3.95. In comparison to the closing price of the first quarter of 2015 of € 5.95, the price had therefore fallen 33.61%.

DEVELOPMENT OF THE KONTRON SHARE COMPARED TO THE TECDAX



KEY FIGURES OF THE KONTRON SHARE AT A GLANCE

		01-06/2015	01-06/2014
Share capital	€	55,683,024	55,683,024
Number of shares as of the reporting date	shares	55,683,024	55,683,024
Market capitalization as of June 30	€ million	219.9	277.6
Closing price (XETRA as of June 30)	€	3.95	4.99
Closing price high (XETRA)	€	5.99	5.68
Closing price low (XETRA)	€	3.95	4.84
Earnings per share	€	-0.19	-0.01
Equity per share	€	4.53	4.43
Operating cash flow per share	€	0.08	-0.05
Trading volume (XETRA)	million shares	16.1	12.0

STOCK EXCHANGE TRADING AND MARKET CAPITALIZATION

8.6 million Kontron shares were traded on XETRA in the second quarter of 2015 (Q2/2014: 4.1 million shares) compared to a total trading volume of 7.5 million in the first quarter of 2015. Thus, a total of 16.1 million shares were traded in the first six months of 2015. The average daily trading volume in the second quarter of 2015 came to 140,984 shares, up on the volume in the comparative quarter of the prior year (Q2/2014: 65,973 shares) and the prior quarter. The month of May saw the heaviest trading with 3.4 million shares. The month of June saw the weakest trading with 2.4 million shares.

The company's market capitalization stood at €219.9 million on June 30, 2015.

For further information on the Kontron share visit Kontron's website at www.kontron.com/investor.

ANNUAL GENERAL MEETING OF SHAREHOLDERS

On June 11, 2015, Kontron AG's Annual General Meeting of Shareholders approved with a large majority the proposals of the Supervisory Board and Management Board on the exoneration of the Supervisory Board and Management Board as well as the motions by management relating among other things to creating new capital. A total of around 55% of share capital was represented at the Annual General Meeting of Shareholders at Augsburg's SGL Arena.

CORPORATE GOVERNANCE:**CHANGES ON THE SUPERVISORY BOARD**

Mr. Harald Joachim Joos was appointed to the Supervisory Board of Kontron AG at the Annual General Meeting of Shareholders on June 11, 2015.

INTERIM MANAGEMENT REPORT

RESULTS OF OPERATIONS

The consolidated revenues of Kontron continued to decline in the second quarter of 2015 in spite of exchange rate gains of € 11.7 million, falling by 6.5% to € 108.5 million in comparison to € 116.1 million generated in the comparative period of the prior year. At € -1.8 million (Q2/2014: € 3.7 million), EBIT adjusted for restructuring cost, like revenues, fell short of expectations. The trend over the first half of 2015 is comparable: Revenues fell from € 218.9 million in the comparative period of the prior year to € 207.0 million in the first six months of 2015. After eliminating restructuring cost, EBIT decreased from € 4.9 million in the first six months of 2014 to € -4.0 million in the first half of 2015.

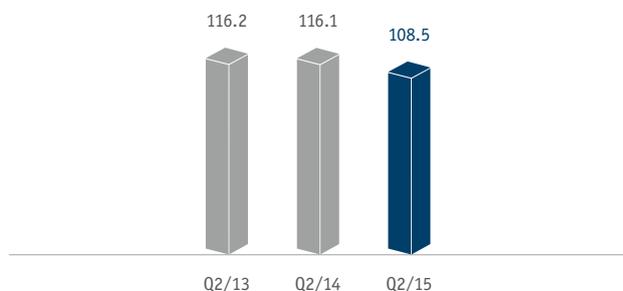
The fall in revenues is mainly attributable to the Avionics/Transportation/Defense business unit. The revenues of this business unit came to € 28.9 million in the second quarter, compared to € 35.8 million in the same period of the prior year, representing a decline of 19.3%. The expected decrease in revenues from the project business in Poland has not yet been compensated by income from other projects as their delivery has been postponed until the second half of the year. As a result of this development, Avionics/Transportation/Defense only accounted for 26.6% of group revenues in the second quarter (Q2/2014: 30.8%). The Communications business unit closed the quarter with revenues of € 26.2 million, also below the level of the comparable quarter of the prior year

(Q2/2014: € 28.4 million) and accounts for 24.5% (Q2/2014: 24.5%) of total revenues. The Industrial business unit developed positively. Here revenues grew by 2.9% to € 53.4 million (Q2/2014: € 51.9 million). Demand rose especially in Medical and Industrial Automation. Consequently, the Industrial business unit continues to be the largest business unit by far of the Kontron Group with a share of 49.2% (Q2/2014: 44.7%) in group revenues.

Cost of goods sold came to € 81.4 million in the second quarter of 2015 compared to € 86.0 million in the comparative period of the prior year. Cost of materials rose in the second quarter of 2015 by € 2.0 million or 2.8% in relative terms, to € 72.3 million (Q2/2014: € 70.3 million). This increase was primarily due to the strong US dollar. Other production cost developed favorably, falling from € 7.9 million to € 6.5 million. Among other factors, this pleasing development can be attributed to the cost reduction program (CRP) as part of the New Kontron restructuring program. Amortization of capitalized development projects decreased by € 0.6 million to € 3.0 million. As a result of the focus on the core ECT business and the change in business activities related to the project business in Poland, contract-related development expenses decreased by € 4.5 million in the second quarter of 2015. Gross profit came to € 27.0 million, thus below the level of the prior-year quarter (Q2/2014: € 30.1 million). Gross margin decreased accordingly, sliding by one percentage point to 24.9%.

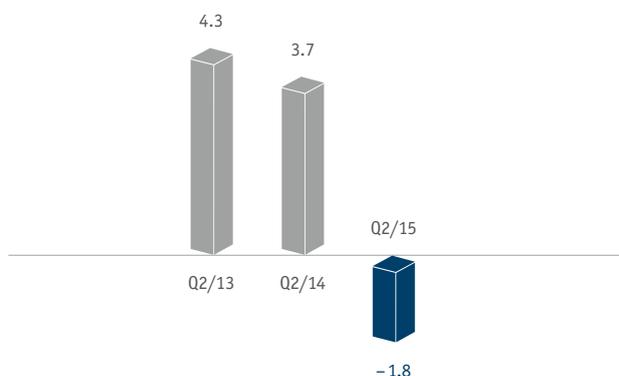
REVENUE 2013 – 2015

IN € MILLION



EBIT 2013 – 2015 (ADJUSTED FOR RESTRUCTURING COST)

IN € MILLION

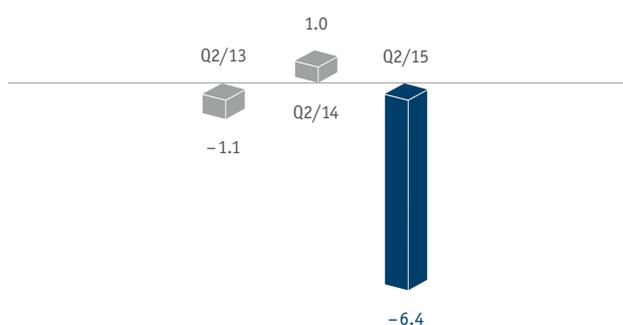


Operating cost rose from € 26.8 million to € 28.1 million in the second quarter of 2015. This also reflects the weak development of the euro with a currency effect of € 3.1 million compared to the prior year. Selling and marketing cost increased by 18.3% to € 12.3 million (Q2/2014: € 10.4 million). The increase due to exchange rates amounted to € 1.3 million. In addition to the currency effect, the increase was also attributable to investments made to bolster the presence in Asia and higher personnel expenses. General and administrative cost increased by € 0.7 million to € 8.1 million. The cost savings achieved through the New Kontron restructuring program were offset by currency effects of € 0.7 million and training costs related to the roll-out of the SAP system throughout the Group. Research and development cost decreased by 12.4% to € 7.8 million (Q2/2014: € 8.9 million). If the currency effects of € 1.1 million are eliminated, research and development cost would have fallen by € 2.2 million in the reporting period. The main reasons for the decline lie in the restructuring of the research and development departments in North America and adjustments made to business activities in Poland. Capitalized development costs of € 2.6 million matched the level of the prior year. Restructuring costs rose by € 0.9 million to € 2.6 million (Q2/2014: € 1.7 million). This amount also contains optimization measures implemented at foreign locations in the second quarter of 2015, among other cost factors.

In sum, EBIT deteriorated from € 2.0 million to € -4.4 million. The financial result improved slightly by € 0.4 million to € -0.6 million (Q2/2014: € -1.0 million). The expense from income taxes came to € 1.3 million in the second quarter of 2015 (Q2/2014: € -0.03 million) and includes amounts deferred for current taxes

RESULT OF CONTINUING OPERATIONS 2013 – 2015

IN € MILLION



as well as provisions for potential risks related to the tax audits currently in progress. There was no income/loss from discontinued operations as the Energy project business was sold before the end of 2014 fiscal year.

Taking account of all of the above, the net loss for the second quarter of 2015 comes to € 6.4 million (Q2/2014: net loss of € 0.5 million). Earnings per share totaled € -0.11, after € -0.01 in the comparative quarter of the prior year. The net loss for the first six months of the year came to € -10.4 million compared to € -0.4 million in the first six months of 2014, while earnings per share were € -0.19 (first six months of 2014: € -0.01).

ORDER INTAKE AND ORDER BACKLOG

The order intake in the second quarter of 2015 came to € 100.1 million and was therefore € 20.3 million below the comparative quarter of the prior year (Q2/2014: € 120.4 million). This decrease is generally due to Communications (Q2/2015: € 20.3 million, Q2/2014: € 33.2 million) and Avionics/Transportation/Defense (Q2/2015: € 28.3 million, Q2/2014: € 41.0 million). A strategic shift is underway in the Communications business unit away from functionalities previously represented by hardware products towards software defined networks. Communications has therefore been working continuously since the beginning of 2013 on adjusting its product portfolio to remain successful on this vertical market. As in prior years, we have once again observed some seasonal fluctuations in demand in the Defense division of the Avionics/Transportation/Defense business unit. Orders received by the unit in the second quarter of 2015 were mainly smaller in volume. By contrast, orders received by the Industrial business unit rose, in line with revenues, by 11.5% to € 51.5 million (Q2/2014: € 46.2 million) in the reporting period.

However, the order backlog as of June 30, 2015 of € 322.5 million is still well above the order backlog at the same time of the prior year of € 290.8 million. Apart from a higher order intake in the second half of 2014, another reason for the rise lies in exchange rate gains from the euro to the US dollar.

FINANCIAL POSITION

The cash outflow from operating activities came to € 9.3 million in the second quarter of 2015, compared to a cash outflow of € 7.5 million in the second quarter of 2014. This change is mainly due to two factors: On the one hand, lower cash inflows due to a decrease of € 5.9 million in the operating result for the period, and, on the other, higher cash outflows of € 5.2 million attributable to a higher decrease in liabilities and provisions in comparison to the second quarter of 2014. By contrast, cash inflows achieved by a decrease in other receivables had a positive impact of € 3.5 million on cash flow in comparison to the second quarter of 2014 as well as a decline of € 2.0 million in tax payments.

The fall of € 3.5 million in cash flows from investing activities in comparison to the second quarter of 2014 can be explained by higher capital expenditures on intangible assets (development projects and investments in the global IT infrastructure) of € 2.3 million.

In addition, Kontron took out new long-term borrowings from banks of € 11.6 million in the second quarter of 2015 on the basis

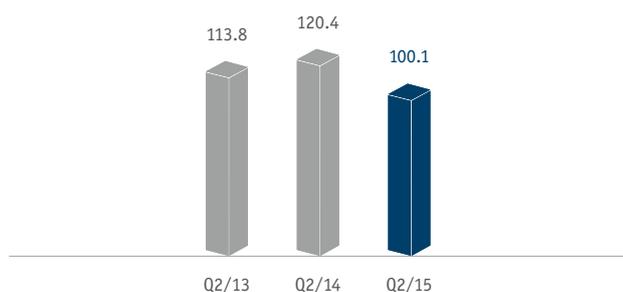
of the credit facility, in contrast to the first quarter of 2015, when loans were redeemed. However, long-term borrowings from banks were € 1.7 million down on the comparative period of the prior year. As a result, the cash flow from financing activities was € 1.6 million below the figure reported for the comparative period of the prior year.

As of June 30, 2015, the Group carried cash and cash equivalents of € 12.8 million, down € 2.8 million on the value reported on December 31, 2014 and down € 6.1 million on the figure reported for the first quarter of 2015. Short-term borrowings from banks on the reporting date amounted to € 1.2 million and long-term borrowings from banks to € 43.3 million. In sum, borrowings from banks rose by € 12.7 million in comparison to the first quarter of 2015 and € 8.5 million in comparison to December 31, 2014.

As a result, as of June 30, 2015 the net cash position of the Group (defined as interest-bearing borrowings from banks less cash and cash equivalents) rose by € 18.8 million to € 31.6 million, compared to the figures reported as of March 31, 2015. The net cash position as of December 31, 2014 came to € 20.3 million.

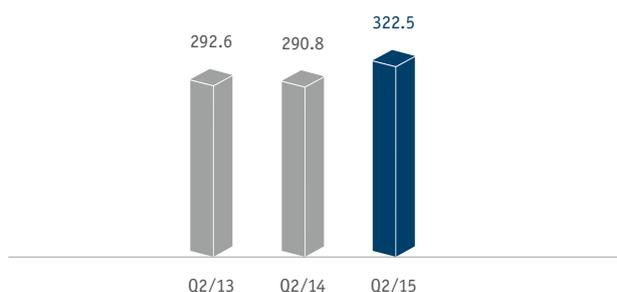
ORDER INTAKE 2013 – 2015

IN € MILLION



ORDER BACKLOG 2013 – 2015

IN € MILLION



The gearing ratio (debt/equity) of the Group stood at 64.7% as of June 30, 2015, 2.2 percentage points below the 66.9% reported on December 31, 2014. The gearing ratio on March 31, 2015 was 63.4%.

CASH FLOW FROM OPERATING ACTIVITIES 2013 – 2015

IN € MILLION



NET ASSETS

As of June 30, 2015, the Group had total assets of € 415.2 million, that is € 6.6 million or 1.6% down on December 31, 2014.

Current assets decreased by 9.3% compared to December 31, 2014, or € 22.6 million. While cash and cash equivalents decreased by € 2.8 million to € 12.8 million, inventories rose by € 11.9 million to € 97.7 million. This increase can be explained by exchange rate effects and the lower stock levels in December arising from the strong sales in the fourth quarter of 2014. At € 87.6 million, trade receivables were € 27.5 million below the level as of December 31, 2014, which was unusually high on account of strong revenues towards the end of the year 2014. Other current receivables and assets decreased by € 2.5 million to € 11.8 million, mainly on account of trade receivables from suppliers, which had an impact on cash in the first quarter of 2015. The decrease in assets held for sale is due to the sale of property that is no longer used on account of the consolidation of facilities in the prior year.

Non-current assets rose by 8.9% in comparison to the close of the prior year, or € 15.9 million in absolute figures. Property, plant and equipment increased by € 1.2 million, largely on account of the

expansion of the production location in Beijing. However, the greatest change in non-current assets resulted from the rise of € 8.8 million in other intangible assets to € 69.9 million, mainly due to the investments in the global IT infrastructure and the acquisition of software licenses. Other intangible assets also include capitalized development costs. Goodwill rose due to exchange rate effects by € 3.1 million to € 94.3 million as of June 30, 2015. The net balance of deferred tax assets and deferred tax liabilities rose from € 7.3 million to € 10.1 million, mainly on account of the recognition of deferred tax assets on unused tax losses. Deferred tax liabilities are reported under non-current liabilities.

As of the reporting date, current liabilities were € 13.4 million or 11.1% below the balance reported on December 31, 2014. Trade payables decreased by € 18.8 million to € 57.6 million, primarily on account of the significant fall in the cost of materials used in comparison to the end of the prior year. By contrast, other current liabilities increased by € 3.5 million to € 28.9 million. The increase is, among other things, due to reaching further subproject milestones and the resulting recognition of liabilities for outstanding invoices in connection with the group-wide roll-out of SAP.

The increase of 14.8% in non-current liabilities from € 48.2 million to € 55.6 million can be almost solely attributed to new borrowings of € 7.4 million.

At the end of the second quarter of 2015, equity came to € 252.1 million, almost identical to the figure reported at the end of the prior year of € 252.7 million. The equity ratio rose slightly by 0.8 percentage points to 60.7%. The net loss of € 10.4 million in the reporting period is countered to some extent by exchange rate gains of € 9.9 million.

NON-FINANCIAL PERFORMANCE INDICATORS

As of June 30, 2015, Kontron had 1,280 employees (June 30, 2014: 1,418 employees). The decrease of 138 employees on the prior year was caused by the consolidation of the German locations as well as the completion of measures introduced as part of the New Kontron restructuring program. The decrease of 62 staff in the first six months of the year (December 31, 2014: 1,342 employees) is largely due to streamlining measures in the first quarter of 2015, primarily at the entities in Canada and Denmark. Employee churn in the second quarter was at the customary level.

SUBSEQUENT EVENTS

As part of its comprehensive strategy to expand into the APAC region, Kontron AG stepped up its holding in the entity previously already consolidated in full, Kontron Technology India Pvt. Ltd., Mumbai, India, by acquiring another 45% of the shares in July 2015 such that it now holds all of the shares in this subsidiary. Having a wholly-owned subsidiary gives Kontron the opportunity to establish faster response times in the APAC region and offer its customers there better quality service.

Other than the above, no other reportable events of significance for a presentation of a true and fair view of the net assets, financial position and results of operations of the Kontron Group occurred between July 01, 2015 and July 21, 2015, the date on which this interim report was released for publication and submission to the Supervisory Board.

OPPORTUNITY AND RISK REPORT

Due to its business activities, its international positioning and the broad product portfolio, Kontron has many opportunities available to it but is also exposed to numerous risks. Constant monitoring of the market and analyses of the competition as well as proactive management of potential budget deviations are a sine qua non of managing risk. In the first six months of the 2015 fiscal year, Kontron did not identify any material developments beyond the opportunities and risks presented in the 2014 Annual Report and the Forecast section of these interim consolidated financial statements.

FORECAST

Even in view of the unsatisfactory first six months of the fiscal year, the Management Board continues to assume that the annual forecast for the 2015 fiscal year can be achieved. The forecast is for revenues ranging between € 490 million and € 510 million, a gross profit of over 25% and a positive operating margin before restructuring costs (EBIT adjusted for restructuring costs) of between 3% and 5%. This assessment is based, among other things, on the improvement seen in the order backlog compared to the prior year and expected additional revenues from current call-off orders. In addition, revenue from a number of promising new projects will be

realized in the course of the fiscal year. Avionics (Avionics/Transportation/Defense business unit) and Medical and Industrial Automation (Industrial business unit) will be the main growth drivers in the second half of 2015. In addition, business development this year will also depend heavily on the successful expansion of the channel business and extended business with selected sales partners as well as driving forward our business activities in Asia. The new sales office in Tokyo and the expansion of the location in Beijing are expected to have a positive impact on business in the APAC region.

From today's perspective, in terms of risk assessment, some Kontron products fall under the EU Directive on restriction of the use of certain hazardous substances (RoHS). This could lead to the products no longer being admitted for trade within the EU in future if they are not adapted. Consequently, these products must either be withdrawn from the market in the EU or updated to meet the requirements of the RoHS Directive. Kontron already announced discontinuation of some of the products at the end of 2014 or has taken steps to redesign them. In spite of the announced discontinuations and redesigns, risks could arise if products that are being phased out cannot be sold at the planned volume or the new products cannot be developed and approved by customers in time. At the same time, we perceive opportunities to use these measures to increase the focus of our product portfolio and to streamline it.

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles, this interim report gives a true and fair view of the assets, liabilities, financial position and results of operations of the Group, and the interim management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Augsburg, July 21, 2015

Kontron AG
The Management Board

CONSOLIDATED STATEMENT OF INCOME (IFRS)

IN €K	Q2/2015	Q2/2014	01-06/2015	01-06/2014
REVENUES	108,454	116,076	206,986	218,864
Cost of materials	-72,280	-70,332	-134,930	-134,871
Other production cost	-6,494	-7,937	-13,691	-15,383
Amortization of capitalized development projects	-3,034	-3,602	-6,143	-6,915
Order-related development cost	401	-4,096	-68	-5,123
Cost of goods sold	-81,406	-85,966	-154,832	-162,292
GROSS MARGIN	27,048	30,110	52,154	56,573
Selling and marketing cost	-12,278	-10,430	-24,550	-20,045
General and administrative cost	-8,071	-7,423	-16,822	-16,039
Research and development cost	-7,753	-8,940	-15,395	-16,011
SUBTOTAL OPERATING COSTS	-28,101	-26,793	-56,766	-52,095
Restructuring cost	-2,628	-1,738	-4,727	-2,831
Other operating income	5,768	2,026	19,286	3,365
Other operating expenses	-6,528	-1,635	-18,646	-2,942
OPERATING INCOME BEFORE FINANCIAL RESULT AND INCOME TAXES	-4,440	1,969	-8,699	2,070
Finance income	59	29	102	38
Finance expense	-640	-989	-1,157	-1,307
Income taxes	-1,334	-26	-689	-241
INCOME / LOSS FROM CONTINUING OPERATIONS	-6,356	983	-10,443	561
Net income/ loss from discontinued operations	0	-1,469	0	-950
NET INCOME / LOSS FOR THE PERIOD	-6,356	-486	-10,443	-390
thereof attributable to non-controlling interests	-40	-374	-161	-469
thereof attributable to equity holders of Kontron AG	-6,316	-112	-10,282	80
Earnings per share (basic) in €	-0.11	-0.01	-0.19	-0.01
Earnings per share (diluted) in €	-0.11	-0.01	-0.19	-0.01
Earnings per share (basic) from continuing operations in €	-0.11	0.02	-0.19	0.01
Earnings per share (diluted) from continuing operations in €	-0.11	0.02	-0.19	0.01

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

IN €K	Q2/2015	Q2/2014	01-06/2015	01-06/2014
NET INCOME / LOSS FOR THE PERIOD	-6,356	-486	-10,443	-390
OTHER COMPREHENSIVE INCOME				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	-3,743	1,714	9,919	445
	-3,743	1,714	9,919	445
Other comprehensive income not to be reclassified to the statement of income in subsequent periods				
	0	0	0	0
OTHER COMPREHENSIVE INCOME AFTER TAXES	-3,743	1,714	9,919	445
TOTAL COMPREHENSIVE INCOME	-10,098	1,228	-524	55
thereof attributable to non-controlling interests	-125	-261	-321	-554
thereof attributable to equity holders of Kontron AG	-9,974	1,489	-203	609

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

IN €K	Q2/2015	Q2/2014*	01-06/2015	01-06/2014*
Income/loss from continuing operations	-6,356	983	-10,443	561
Net income/loss from discontinued operations	0	-1,469	0	-950
NET INCOME / LOSS FOR THE PERIOD	-6,356	-486	-10,443	-390
Depreciation and amortization of fixed assets	5,056	5,463	10,101	10,887
Net gain/loss in connection with investing activities	61	-6	59	44
Change in deferred taxes	-306	-845	-2,651	-1,269
Interest income	-59	-25	-249	-49
Interest expense	349	1,053	627	1,420
Other non-cash items	1,011	-311	1,583	-867
Change in assets/liabilities:				
Trade receivables	-1,777	-8,026	29,646	-272
Inventories	232	3,049	-9,180	349
Other receivables	4,547	1,048	2,990	1,955
Liabilities and provisions	-11,553	-6,378	-16,987	-11,969
Interest paid	-233	-35	-566	-347
Interest received	7	28	22	37
Income taxes paid	-305	-2,269	-1,103	-2,756
Income taxes refunded	46	226	420	226
NET CASH USED IN / PROVIDED BY OPERATING ACTIVITIES	-9,280	-7,514	4,269	-3,001
Purchases of property, plant and equipment	-2,003	-1,099	-2,937	-1,884
Purchases of intangible assets	-7,106	-4,764	-15,222	-10,545
Proceeds from the disposal of property, plant and equipment	86	389	1,734	391
Proceeds from the sale of subsidiaries, net of cash	0	0	0	-562
NET CASH USED IN / PROVIDED BY INVESTING ACTIVITIES	-9,023	-5,474	-16,425	-12,600
Change in current account/overdrafts	1,160	322	1,157	-187
Repayment of short-term borrowings	-23	-1,295	-28	-7,473
Proceeds from short-term borrowings	0	1,960	0	8,103
Repayment of long-term debt	0	0	-4,210	-10,430
Proceeds from long-term debt	11,561	13,270	11,561	13,270
NET CASH USED IN / PROVIDED BY FINANCING ACTIVITIES	12,698	14,257	8,480	3,283
Effect of exchange rate changes on cash	-459	290	884	128
NET CHANGE IN CASH AND CASH EQUIVALENTS	-6,064	1,559	-2,792	-12,190
Cash and cash equivalents at the beginning of the period	18,909	16,993	15,637	30,742
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	12,845	18,552	12,845	18,552

* No breakdown of continuing and discontinued operations is made in the statement of cash flows.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) ASSETS

IN €K	06/30/2015	12/31/2014
ASSETS		
Cash and cash equivalents	12,845	15,637
Inventories	97,653	85,731
thereof prepayments	2,549	1,096
thereof receivables from construction contracts	0	506
Trade receivables	87,637	115,083
Tax receivables	3,247	3,320
Other current receivables and assets	11,767	14,279
Assets held for sale	6,497	8,146
TOTAL CURRENT ASSETS	219,645	242,196
Financial assets	645	637
Property, plant and equipment	12,068	10,902
Intangible assets	69,900	61,085
Goodwill	94,296	91,221
Other non-current receivables and assets	1,577	1,597
Deferred taxes	17,085	14,181
TOTAL NON-CURRENT ASSETS	195,572	179,624
TOTAL ASSETS	415,217	421,820

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) EQUITY AND LIABILITIES

IN €K	06/30/2015	12/31/2014
LIABILITIES AND EQUITY		
Trade payables	57,570	76,334
Liabilities to banks	1,160	5
Current portion of finance lease obligation	35	39
Current provisions	10,454	10,868
Deferred income	3,720	4,796
Obligations from construction contracts	24	135
Taxes payable	5,715	3,467
Other current liabilities	28,853	25,304
TOTAL CURRENT LIABILITIES	107,532	120,950
Long-term borrowings	43,289	35,938
Non-current provisions	1,481	1,662
Pension provisions	1,793	1,742
Non-current portion of finance lease liability	79	100
Other non-current liabilities	1,941	1,840
Deferred taxes	7,010	6,890
TOTAL NON-CURRENT LIABILITIES	55,594	48,172
Issued capital	55,683	55,683
Additional paid-in capital	200,048	200,048
Retained earnings	10,272	20,554
Other equity components	-11,413	-21,492
Treasury shares	-1,813	-1,813
Equity attributable to equity holders of the parent	252,777	252,980
Non-controlling interests	-685	-282
TOTAL EQUITY	252,092	252,698
TOTAL LIABILITIES AND EQUITY	415,217	421,820

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

IN €K	Equity attributable to equity holders of the parent							Non-controlling interests	Total equity
	Issued capital	Additional paid-in capital	Retained earnings	Foreign currency translation reserve	Discontinued operations	Treasury shares			
JANUARY 01, 2014	55,683	200,048	26,990	-32,705	-3,836	-1,813	244,367	2,577	246,944
Net income/loss for the period			80				80	-469	-390
Other comprehensive income				847	-318		529	-84	445
TOTAL COMPREHENSIVE INCOME	0	0	80	847	-318	0	609	-554	55
Sale of subsidiaries							0	-323	-323
JUNE 30, 2014	55,683	200,048	27,070	-31,858	-4,154	-1,813	244,976	1,700	246,676
JANUARY 01, 2015	55,683	200,048	20,554	-21,492	0	-1,813	252,980	-282	252,698
Net income/loss for the period			-10,282				-10,282	-161	-10,443
Other comprehensive income				10,079			10,079	-160	9,919
TOTAL COMPREHENSIVE INCOME	0	0	-10,282	10,079	0	0	-203	-321	-524
Dividend payment							0	-82	-82
JUNE 30, 2015	55,683	200,048	10,272	-11,413	0	-1,813	252,777	-685	252,092

SELECTED NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The financial statements were prepared in euro and in accordance with the IFRSs as adopted by the EU. The accounting policies remained unchanged compared to the consolidated financial statements for the 2014 fiscal year. Standards and interpretations that are issued, but not yet effective, up to the date of publication of the interim financial statements are presented on page 99 et seq. of the 2014 Annual Report of the Kontron Group. The application of these standards and interpretations – with the exception of IFRS 9 and IFRS 15 – is not expected to have any effects on the net assets, financial position and results of operations of the Group. The impact of IFRS 9 (accounting for and measurement of financial instruments) and IFRS 15 (revenue recognition) on the net assets, financial position and results of operations of the Kontron Group is currently being analyzed.

This interim report has not been audited or subjected to external review.

All figures are in thousands of euro (€k), unless otherwise stated. Due to rounding differences, figures in tables and cross-references may differ slightly from the actual figures.

2. DISCONTINUED OPERATIONS

In its drive to focus entirely on its core competencies in the market for embedded computer technology (ECT), Kontron decided to sell its Energy project business at the end of 2013. The sale was completed in the 2014 fiscal year as planned (see 2014 Annual Report/ pages 129 et seq.).

The income/ loss from this business unit for the first half of 2014 was recorded separately in net income/ loss from discontinued operations in the statement of income.

3. EQUITY

Issued capital (share capital) of Kontron AG stood at € 55,683k as of June 30, 2015, unchanged on the prior year, and is divided into 55,683,024 shares with a par value of € 1 each.

4. SHARES AND STOCK OPTIONS OF MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

SHARES	Shares	Stock options
SUPERVISORY BOARD		
Rainer Erlat	0	0
Peter Bauer	0	0
Sten Daugaard	0	0
Martin Bertinchamp	30,500	0
Harald Joachim Joos	0	0
Dr. Harald Schrimpf	2,500	0
MANAGEMENT BOARD		
Rolf Schwirz	25,000	0
Michael Boy	0	0
Andreas Plikat	13,000	0

5. INFORMATION ON FINANCIAL INSTRUMENTS

The carrying amount of all financial assets and financial liabilities as of June 30, 2015 corresponds with their fair value. The derivative financial instruments held by the Group consist of forward exchange contracts, foreign exchange swaps as well as currency call options and qualify for classification in level 2 of the fair value hierarchy. The fair value of forward exchange contracts and foreign exchange swaps is calculated at the forward rates as of the reporting date and the results are then presented at the discounted present value. The fair value of currency call options is measured using common option-pricing models and is provided by the contracting banks.

The nominal volume of outstanding currency hedging transactions rose to € 41.6 million as of the reporting date (December 31, 2014: € 34.5 million) on account of the adjusted hedging strategy to mitigate currency risks from future cash flows in foreign currencies.

In light of the increased gross debt, interest rate hedging instruments of € 15 million were entered into in mid-July to make use of the current low interest level.

6. SEGMENT REPORTING

Kontron completed its conversion of the group-wide business management and financial reporting in the fourth quarter of 2014. While in previous periods the management and reporting structure was based above all on three regions: EMEA, North America and Emerging Markets, operational management was aligned in the fourth quarter of 2014 to the three global business

units: Industrial, Communications and Avionics/Transportation/Defense. In accordance with IFRS 8 (Operating Segments), Kontron's segment reporting reflects the Group's internal business management so that the operating segments now correspond to the three global business units. In the second quarterly report of 2014, the three regions still made up the operating segments. Further explanations can be found on page 99 of the 2014 Annual Report.

SEGMENT INFORMATION 01 – 06/2015

IN €K	Industrial	Communications	Avionics/ Transportation/ Defense	Other	Consolidated financial statements
REVENUES	100,339	48,138	58,509	0	206,986
OPERATING RESULT (EBIT)	2,563	1,518	6,851	-19,631	-8,699
TRADE RECEIVABLES	90,764	10,406	22,441	0	123,611

SEGMENT INFORMATION 01 – 06/2014

IN €K	Industrial	Communications	Avionics/ Transportation/ Defense	Other	Consolidated financial statements
REVENUES	102,241	54,610	62,013	0	218,864
OPERATING RESULT (EBIT)	6,220	4,579	7,472	-16,201	2,070
TRADE RECEIVABLES	80,435	21,523	22,308	0	124,266

Other includes intercompany items such as income or expenses that are eliminated and not directly allocable to the segments. This primarily includes costs for support functions such as human resources, IT and finance as well as restructuring cost.

Trade receivables are presented prior to the recognition of allowances.

7. SUBSEQUENT EVENTS

Kontron AG stepped up its holding in Kontron Technology India Pvt. Ltd., Mumbai/India, which had already been fully consolidated, acquiring another 45 % of the shares in July 2015 to give it control over 100 % of the shares in this entity.

FINANCIAL CALENDAR

October 29, 2015

Publication of the Q3/2015 Quarterly Report

Our annual report and our quarterly reports can be found at www.kontron.com/investor from publication date. We will announce any date changes in good time on our website.

This quarterly report was published on July 30, 2015. It is available in German and in English. The German version is authoritative.

The quarterly report contains statements relating to the future that are based on current assumptions and estimates of the Management Board concerning future development. Although we are of the opinion that the assumptions and estimates are realistic and correct, they are subject to certain risks and uncertainties that may cause actual future results to diverge materially from the assumptions and estimates. Factors that may result in a discrepancy include changes in the overall economic, business, financial and competitive situation, exchange and interest rate fluctuations as well as changes to the business strategy. We cannot guarantee that the future development and actual future results will coincide with the assumptions and estimates expressed in this quarterly report. Assumptions and estimates presented in this report will not be updated.



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