

Q3|2015



KONTRON GROUP | QUARTERLY REPORT

POSSIBILITIES START HERE

KONTRON IN FIGURES

		Q3/2015	Q3/2014	01-09/2015	01-09/2014
RESULTS OF OPERATIONS AND PROFITABILITY					
Revenues	€ million	113.4	108.6	320.4	327.5
EBITDA ¹	€ million	8.9	-0.3	10.3	12.1
EBITDA margin ²	%	7.8	-0.2	3.2	3.7
EBIT ³	€ million	3.5	-5.5	-5.2	-4.0
EBIT ⁴ (adjusted for restructuring costs)	€ million	5.1	-1.8	1.1	2.4
EBIT margin ² (adjusted for restructuring costs)	%	4.5	-1.7	0.3	0.7
EBT	€ million	2.6	-5.7	-7.2	-4.9
Income/loss from continuing operations	€ million	2.1	-3.5	-8.3	-3.0
Earnings per share (continuing operations)	€	0.04	-0.06	-0.15	-0.05
CASH FLOW⁵					
		Q3/2015	Q3/2014	01-09/2015	01-09/2014
Cash flow from operating activities	€ million	-1.2	-2.9	3.0	-5.9
STATEMENT OF FINANCIAL POSITION				09/30/2015	12/31/2014
Total assets	€ million			423.7	421.8
Equity	€ million			251.8	252.7
Equity ratio	%			59.4	59.9
Financial debt	€ million			52.3	36.1
EMPLOYEES				09/30/2015	09/30/2014
Employees				1,269	1,350
Revenues per employee	€k			252.4	242.6

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 of 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 September 30, 2015 Kontron employed 1,269 staff worldwide.

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

LETTER TO OUR SHAREHOLDERS

Solid Q3 performance – annual targets reduced

*Ladies and gentlemen,
dear shareholders,*

We recorded solid earnings in the third quarter of 2015, which shows that as expected our business is picking up again significantly. Nevertheless, after nine months, we are not where we expected to be in terms of earnings at the start of 2015, primarily due to the performance of the defense and transportation business segments. As a result, we have had to adjust our guidance for the 2015 fiscal year as a whole, despite the fact that we continue to expect a strong fourth quarter. The positive development of the other business units will not be sufficient to compensate for the resulting gap by the end of the year.

We now anticipate revenues to be between € 460 million and € 470 million for 2015, compared to the original forecast of between € 490 million and € 510 million. Accordingly, we also expect adjusted EBIT to be slightly below the original forecast of between 3 % and 5 %. We still expect the gross margin to exceed 25 %. The new forecast corresponds to what our analysts also now expect of us. Although we have this year fallen short of our ambitious expectations for the first time, we are working hard to close the year on a high and are focusing all our efforts on the final sprint.

The key figures for the third quarter show that we are generally back on the right track with our performance: At € 111.2 million, our order intake was 17.6 % below the prior-year figure, although it should be added in this context that we concluded larger multi-year framework agreements in the Industrial and Avionics/Transportation/Defense business units in the prior-year quarter. This figure nevertheless represents a 11,1 % improvement on the prior quarter.

At € 113.4 million, our revenues were 4.4 % up on the prior-year quarter and brought us a positive result again following a weaker first half of 2015: The gross margin of 26.7 % significantly exceeded the target figure of 25 %. EBIT adjusted for restructuring cost came to € 5.1 million, an increase of € 6.9 million on the prior year. With these results, our book-to-bill ratio returned to just under 1, which shows that we are headed in the right direction.

The Industrial business unit developed particularly well in the third quarter driven by the successful restructuring of our sales activities. We were able to record a 12.1 % increase in the revenues of this business unit to € 54.3 million on the comparative quarter thanks to higher demand in Medical and

Industrial Automation. In spite of the fact that the economy in China grew to a lesser extent than anticipated, we were able to further expand our business in Asia and win new customers, such as China's Spring Air airline. Revenues in the APAC region recorded an extremely pleasing rise of 22% in the third quarter. Our investments in the infrastructure in China are also paying off: Thanks to our local contacts and improved support we are now able to fulfill the demands of the market directly and promptly.

A look at the Kontron organization reveals that we have now virtually completed the implementation of all measures from the New Kontron program. Not least, the effects can be seen in our cost structure which has developed positively in the past three quarters.

The first half of the year was tough, dear shareholders. The decline in demand in the aforementioned areas was not anticipated to this extent and has put us in a difficult situation, but we know exactly where the problems lie and have addressed them systematically. Significant improvement has already been seen in the third quarter and the fourth quarter has gotten off to a good start. I am confident that the fourth quarter will be a strong one and that despite all of the challenges we continue to face we can bring the year as a whole to a solid close.

Above and beyond our day-to-day operations and the quarterly and annual reports, I believe it is important that we do not lose sight of the big picture. Despite intensive efforts and the concentration on the ongoing operating business, we have kept our strategic focus in the past months firmly on the future. We are working constantly to put Kontron in a position to succeed in the future with a new strategic direction. With our decision to offer integrated hardware and software systems, we will also secure our position as an innovative partner to our customers in the long term for challenges anticipated surrounding the Internet of Things.

I therefore continue to be highly optimistic about the future of Kontron AG. Although this was the first time since the beginning of 2013 that we were unable to meet annual targets, we have achieved an operational and strategic turnaround. The New Kontron measures have been implemented and are taking effect, the strategic alignment is right, our Technology Campus in Augsburg is up and running and has sustainably changed our corporate culture for the better.

I would like to take this opportunity to invite you, dear shareholders, to continue to accompany us on our journey.

Yours sincerely,



Rolf Schwirz

THE KONTRON SHARE

CAPITAL MARKET ENVIRONMENT AND PRICE DEVELOPMENT

The third quarter of 2015 was shaped by concerns surrounding the weak global economy and brought with it three weak and turbulent months for the international capital markets.

This situation was primarily the result of developments on Chinese stock markets and the weak economic expectations for the Asian region as a whole. The recent Greece crisis, deferred plans to raise interest rates in the US and falling oil prices also weighed on the sentiment on the stock exchanges.

Although it emerged in the third quarter that the Greece crisis barely had any impact on the economic development of Europe, this region was also nevertheless subject to a general downward movement. The Sentix economic index for Europe fell from 18.4 points to 13.6 points in the third quarter, thus reaching its lowest level since February 2015. Asia and Latin America recorded the largest downward movements and thus also significantly influenced global developments. The global Sentix index fell by 10.9 points to 3.3 points over the course of the third quarter, thus reaching its lowest level since October 2012.

The German economy was not left completely unscathed by this trend, but nevertheless remained robust. Although the Sentix economic index for Germany fell from 26.8 points to 20.6 points between July and September, thus reaching its lowest level since

2014, the IFO Institute still expects real GDP to grow by 1.5 % both this year and next, despite the stagnation seen in the summer months.

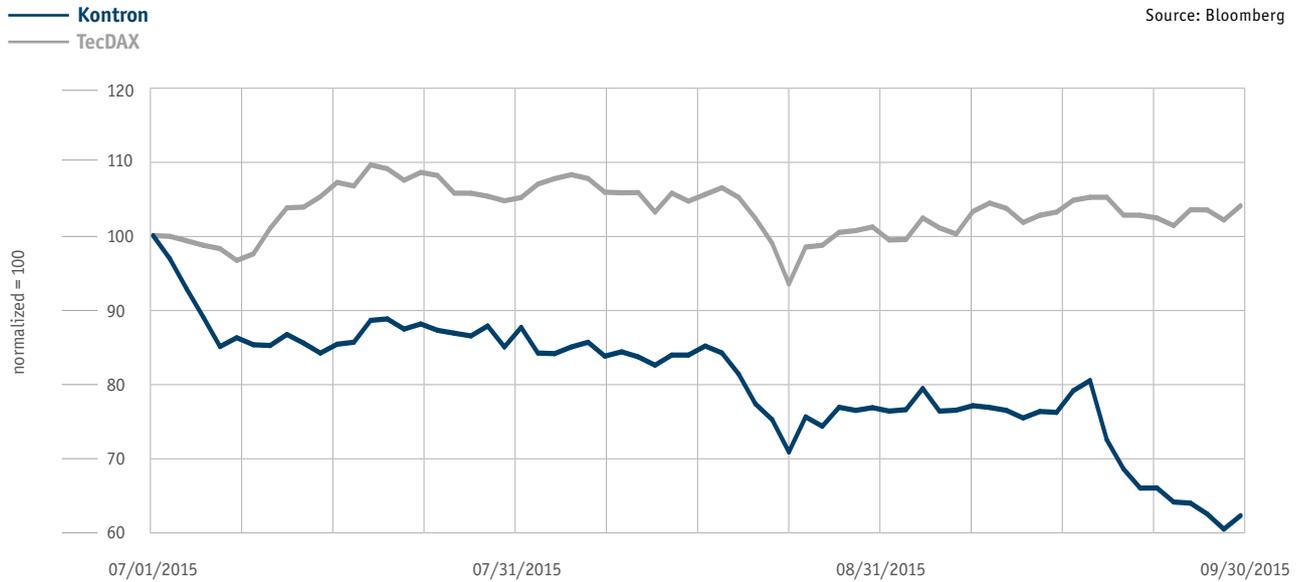
The third quarter of 2015 was the poorest quarter for the DAX, Germany's leading share index, for four years. The DAX fell by nearly 12 % compared to the prior-year quarter. The index was heavily burdened by the Chinese economic crisis, which above all triggered major sell-offs in August. The uncertainty surrounding the forthcoming decision on interest rates from the Federal Reserve and the VW scandal, which at times caused the VW share to cave in by 30 %, heavily burdened the index. First signs of recovery were not seen until the end of the quarter. The DAX closed on September 30, 2015 up 2.2 % at 9,660.4 points. The TecDax also experienced mixed development in the quarter. Although it briefly fell to 1,565.9 points in August, the TecDax nevertheless developed positively, up 3.8 % over the course of the quarter. The index recorded its quarterly high of 1,836.2 points on July 20, 2015 and stood at 1,743.3 points at the end of the quarter on September 30, 2015.

The Kontron share rose to a high for the quarter of € 4.08 on July 01, 2015 and recorded its quarterly low of € 2.46 on September 29, 2015. It closed the quarter at € 2.53. In comparison to the closing price of the prior quarter of € 3.95, the price had therefore fallen 36.0 %.

KEY FIGURES OF THE KONTRON SHARE AT A GLANCE

		01 – 09/2015	01 – 09/2014
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 September 30	€ million	141.0	275.6
Closing price (XETRA as of September 30)	€	2.53	4.95
Closing price high (XETRA)	€	6.30	5.68
Closing price low (XETRA)	€	2.46	4.39
Earnings per share	€	-0.15	-0.07
Equity per share	€	4.52	4.55
Operating cash flow per share	€	0.05	-0.11
Trading volume (XETRA)	million shares	27.2	15.1

DEVELOPMENT OF THE KONTRON SHARE COMPARED TO THE TECDAX



STOCK EXCHANGE TRADING AND MARKET CAPITALIZATION

11.1 million Kontron shares were traded on XETRA in the reporting period (Q3/2014: 3.1 million shares). This corresponds to an average daily trading volume of 168,756 shares in the third quarter of 2015, following 140,984 shares in the second quarter and 118,902 shares in the first quarter of 2015. On aggregate, the average daily trading volume in the third quarter of 2015 was thus considerably higher than in the comparative quarter of the prior year (Q3/2014: 46,640 shares). The month of July saw the heaviest trading with 5.2 million shares. The month of August saw the weakest trading with 2.9 million shares.

The company's market capitalization stood at € 141.0 million on September 30, 2015.

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

CORPORATE GOVERNANCE:

CHANGES ON THE SUPERVISORY BOARD

By court ruling, Dr. Dieter Düsedau was appointed onto the Supervisory Board of Kontron AG on September 22, 2015. Dr. Dieter Düsedau assumed the post of Mr. Peter Bauer, who stepped down from the Supervisory Board of Kontron AG on August 31, 2015.

INTERIM MANAGEMENT REPORT

RESULTS OF OPERATIONS

In the third quarter of 2015, consolidated revenues rose by 4.4% from € 108.6 million to € 113.4 million on account of exchange rate gains in comparison to the comparative period of 2014. EBIT adjusted for restructuring cost rose by € 6.9 million to € 5.1 million in the same period (Q3/2014: € -1.8 million). Adjusted for exchange rate gains, the increase would have been even greater at € 12.9 million. At € 320.4 million, revenues for the first nine months of 2015 were € 7.1 million below the figure reported for the comparative period of the prior year (€ 327.5 million). After eliminating restructuring cost, EBIT for the first three quarters came to € 1.1 million compared to € 2.4 million in the comparative period.

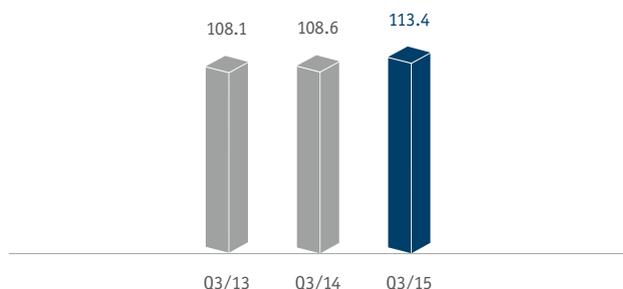
Despite sustained modest development in the Infotainment sector, revenues in the Industrial business unit grew by 12.2% to € 54.3 million (Q3/2014: € 48.4 million), in particular on account of stronger demand in Medical and Industrial Automation as well as the expansion of indirect marketing activities. Consequently, the Industrial business unit continues to be by far the largest business unit of the Kontron Group with a share of nearly 47.9% (Q3/2014: 44.6%) in group revenues. Revenues in the Communications business unit improved by € 2.1 million from € 24.9 million to € 27.0 million thanks to higher demand for products in the area of advanced telecommunications computing architecture (ATCA) and single-board

computers (SBC). This business unit's share of total revenues rose slightly to 23.8% (Q3/2014: 22.9%). By contrast, revenues in the Avionics/Transportation/Defense business unit were down, coming to € 32.0 million following € 35.2 million in the prior-year period. This 9.1% decrease is partly due to the postponement of customer orders. As a result of this development, this business unit only accounted for 28.3% of group revenues in the third quarter (Q3/2014: 32.5%).

Cost of goods sold came to € 83.1 million in the third quarter of 2015 compared to € 82.2 million in the comparative period of the prior year. Cost of materials rose by € 9.0 million or 14.0% to € 73.2 million (Q3/2014: € 64.2 million), which primarily relates to the stronger USD. Other production cost developed favorably, falling from € 7.6 million to € 7.0 million. Amortization of capitalized development projects decreased by € 0.3 million to € 2.9 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 € 7.1 million in the third quarter of 2015. Gross margin came to € 30.3 million which represents an increase of € 3.8 million on the prior-year level (Q3/2014: € 26.5 million) primarily as a result of an improved product mix in a quarter-on-quarter comparison. Gross margin rose accordingly by 2.3% to 26.7%.

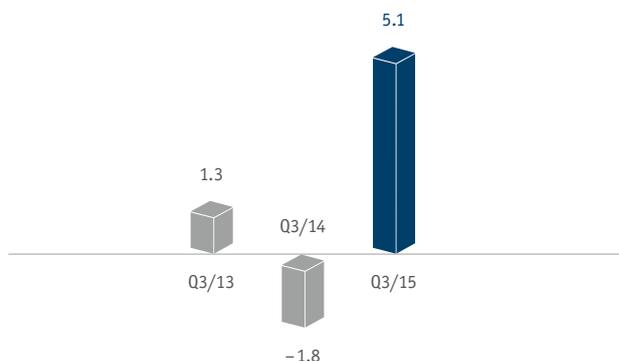
REVENUE 2013 – 2015

IN € MILLIONS



EBIT 2013 – 2015 (ADJUSTED FOR RESTRUCTURING COSTS)

IN € MILLIONS



The development of operating cost, which was reduced from € 28.6 million in the prior-year quarter by € 2.4 million to € 26.2 million, was also encouraging. After currency adjustments, this in fact secured cost savings of € 6.6 million. The € 10.3 million decrease in selling and marketing cost in the third quarter of 2015 (Q3/2014: € 11.5 million) is mainly attributable to lower warranty expenses compared to the third quarter of 2014 as well as an increase in payments received for receivables that had already been written off. General and administrative cost was reduced from € 9.1 million in the comparative period of 2014 to € 8.7 million in the third quarter of 2015, primarily on account of cost savings relating to personnel. Research and development cost was down € 0.6 million to € 7.3 million (Q3/2014: € 7.9 million), due, among other things, to lower outsourcing costs. Compared to the prior-year quarter, capitalized development costs rose by € 0.8 million to € 3.2 million; restructuring cost decreased by € 3.6 million to € 1.6 million. Other operating income came to € 7.4 million in the third quarter of 2015 (Q3/2014: € 4.8 million) and comprises above all exchange rate gains in addition to income from insurance indemnification as well as income from the deconsolidation of Kontron Compact Computers AG i.L., Luterbach, Switzerland. The € 1.8 million increase in other operating expenses to € 6.4 million relates almost entirely to exchange rate losses.

On aggregate, earnings before interest and taxes (EBIT) improved considerably from € -5.5 million to € 3.5 million. Finance income net of finance expense deteriorated € 0.7 million to € -0.9 million (Q3/2014: € -0.2 million), chiefly due to the higher interest expense owing to increased financial debt. The expense for taxes on income amounted to € -0.5 million in the third quarter of 2015

(Q3/2014: € 2.2 million). There was no income/loss from discontinued operations in the reporting period as the Energy project business was sold before the end of 2014 fiscal year.

Taking account of all of the above, the net income for the third quarter of 2015 comes to € 2.1 million (Q3/2014: net loss of € 3.4 million). Earnings per share totaled € 0.04, after € -0.06 in the prior-year quarter. The net loss for the first nine months of 2015 came to € 8.3 million compared to the net loss for the first nine months of 2014 of € 3.8 million. Earnings per share totaled € -0.15 (Q1-Q3/2014: € -0.07).

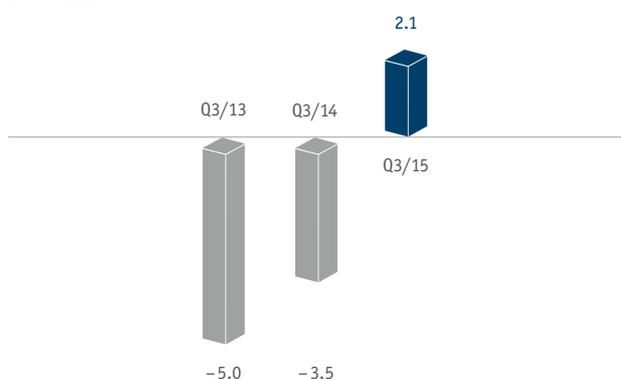
ORDER INTAKE AND ORDER BACKLOG

At € 111.2 million, the order intake in the third quarter of 2015 was € 23.7 million below the comparative quarter of the prior year (Q3/2014: € 134.9 million). This decrease mainly occurred in Industrial (Q3/2015: € 45.2 million, Q3/2014: € 73.3 million) and Avionics/Transportation/Defense (Q3/2015: € 25.7 million, Q3/2014: € 36.0 million). The decrease in order intake in the Industrial business unit can be partly explained by the various large framework agreements concluded for several years in the comparative quarter of 2014. By contrast, the Communications business unit recorded an increase in order intake of 57.4% to € 40.3 million in the reporting period (Q3/2014: € 25.6 million).

At € 320.7 million, the order backlog as of September 30, 2015 fell € 4.8 million short of the prior-year figure of € 325.5 million despite exchange rate gains.

RESULT OF CONTINUING OPERATIONS 2013 – 2015

IN € MILLIONS



FINANCIAL POSITION

The cash outflow from operating activities came to € 1.2 million in the third quarter of 2015, compared to a cash outflow of € 2.9 million in the third quarter of 2014. Cash inflows were boosted by an improvement of € 5.5 million in the net income for the quarter as well as lower funds tied up in trade receivables (€ +2.5 million), in inventories (€ + 5.9 million) and in other receivables and assets (€ + 3.4 million) compared to the third quarter of 2014. Cash flow was negatively impacted by € 15.9 million lower changes in liabilities and provisions.

The change of € – 10.0 million in cash flow from investing activities in comparison to the third quarter of 2014 can mainly be explained by higher capital expenditures on intangible assets (development projects and investments in the global IT infrastructure) of € 2.7 million as well as cash inflows from the sale of the RTSoft Group in August 2014 of € 7.7 million.

New long-term borrowings from banks of € 8.8 million were taken out in the third quarter of 2015 on the basis of a new credit facility, following the redemption of loans totaling € 4.1 million in the third quarter of 2014. The cash flow from financing activities was up € 14.4 million on the comparative figure of the prior-year quarter.

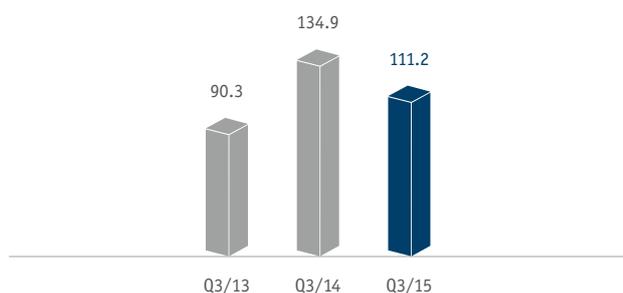
As of September 30, 2015, the Group carried cash and cash equivalents of € 12.2 million, down € 3.4 million on the figure reported on December 31, 2014 and € 0.6 million on the balance reported for the second quarter of 2015. On the reporting date, short-term borrowings from banks amounted to € 0.2 million and long-term borrowings from banks to € 52.0 million. In sum, borrowings from banks rose by € 7.7 million in comparison to the second quarter of 2015 and € 16.3 million in comparison to December 31, 2014.

As of the reporting date, the Kontron Group had cash lines of € 103.2 million available to it, of which € 52.2 million had been drawn on. Thus, the remaining credit available to the Group came to € 51.0 million.

As a result, the net cash position of the Group (defined as cash and cash equivalents less interest-bearing borrowings from banks) decreased by € 8.4 million as of September 30, 2015 to € –40.0 million, compared to the figure reported as of June 30, 2015. The net cash position as of December 31, 2014 came to € –20.3 million.

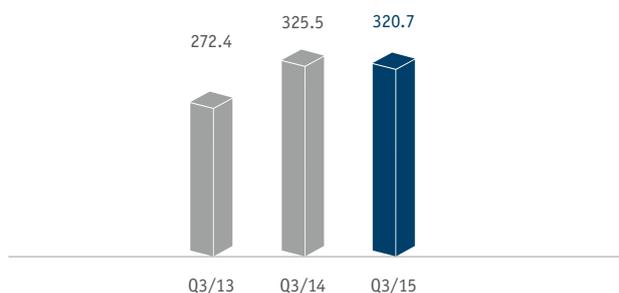
ORDER INTAKE 2013 – 2015

IN € MILLIONS



ORDER BACKLOG 2013 – 2015

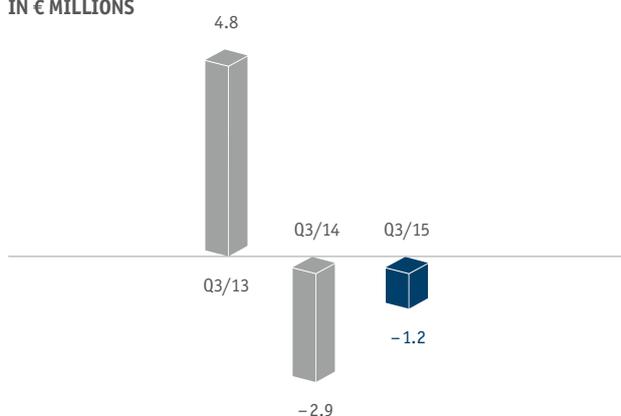
IN € MILLIONS



The gearing ratio (debt/equity) stood at 68.2% at the end of the third quarter, and is therefore 1.3 percentage points higher than the level reported on December 31, 2014. This figure stood at 64.7% on June 30, 2015.

CASH FLOW FROM OPERATING ACTIVITIES 2013 – 2015

IN € MILLIONS



NET ASSETS

As of September 30, 2015, the Group had total assets of € 423.7 million, more or less at the same level seen at the end of the prior year (December 31, 2014: € 421.8 million).

Current assets decreased by 6.8% compared to December 31, 2014, or € 16.5 million. While cash and cash equivalents decreased by € 3.4 million to € 12.2 million, inventories rose by € 10.9 million to € 96.6 million. This increase can chiefly be explained by the lower stock levels in December arising from the strong sales in the fourth quarter of 2014. At € 96.5 million, trade receivables were € 18.6 million below the level as of December 31, 2014, which was unusually high on account of strong revenues at year-end 2014. Other current receivables and assets decreased by € 2.4 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 € 2.1 million decrease in assets held for sale to € 6.1 million is due to the sale or value adjustments of property in Germany that is no longer used on account of the consolidation of facilities in the prior year.

Non-current assets rose by 10.2% in comparison to the close of the prior year, or € 18.4 million in absolute figures. Property, plant and equipment increased by € 1.0 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 € 10.7 million in other intangible assets to € 71.8 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 € 2.6 million to € 93.8 million as of September 30, 2015. The net balance of deferred tax assets and deferred tax liabilities rose from € 7.3 million to € 11.1 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 € 12.4 million or 10.3% below the balance reported on December 31, 2014. Trade payables decreased by € 13.2 million to € 63.1 million, primarily on account of the significant fall in the cost of materials used in comparison to the end of the prior year. The € 1.8 million decline in current provisions to € 9.0 million stems primarily from the utilization of restructuring provisions. Other current liabilities remained virtually unchanged at € 25.9 million.

The increase of 31.3% in non-current liabilities from € 48.2 million to € 63.3 million can be almost solely attributed to new borrowings.

At the end of the third quarter of 2015, equity came to € 251.8 million, almost identical to the figure reported at the end of the prior year of € 252.7 million. The equity ratio decreased slightly by 0.5 percentage points to 59.4%. The net loss of € 8.3 million in the reporting period is countered to some extent by exchange rate gains of € 7.3 million.

NON-FINANCIAL PERFORMANCE INDICATORS

As of September 30, 2015, Kontron had 1,269 employees (September 30, 2014: 1,350 employees). The decrease by 81 employees is largely due to measures from the New Kontron restructuring program as well as additional streamlining measures in the first quarter of 2015, primarily at the entities in Canada and Denmark. Employee churn in the third quarter was at the customary level.

SUBSEQUENT EVENTS

No other 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 October 01, 2015 and October 20, 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 nine 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

The results of the third quarter confirmed the Management Board's expectation for business to pick up significantly in the second half of 2015. Notwithstanding this, the Management Board assumes that revenues included in the forecast published at the beginning of the year for 2015 as a whole can no longer be achieved, despite continued positive forecasts for the fourth quarter of 2015. This estimation is based on the unexpected considerable hesitation of some customers, primarily in the transportation and defense segments, which cannot be fully compensated by the positive development of the other business segments.

The Management Board now anticipates revenues to be between € 460 million and € 470 million for 2015, compared to the original forecast of between € 490 million and € 510 million. Accordingly, the Management Board expects adjusted EBIT to be slightly below the original forecast of between 3% and 5%. The gross margin is still expected to exceed 25%.

The further expansion of the channel business, the Asian business and the service business are progressing well, although revenues generated by these fields of business are not yet sufficient to compensate for the lower revenues generated by the aforementioned segments.

From today's perspective, in terms of risk assessment some Kontron products fall under the EU Directive "Restriction of the use of certain hazardous substances" (RoHS). Our internal investigations have come to the conclusion that a sales ban is avoidable in most cases. Furthermore, 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, October 20, 2015

Kontron AG
The Management Board

CONSOLIDATED STATEMENT OF INCOME (IFRS)

IN €K	Q3/2015	Q3/2014	01-09/2015	01-09/2014
REVENUES	113,372	108,619	320,357	327,483
Cost of materials	-73,178	-64,239	-208,108	-199,110
Other production cost	-6,978	-7,617	-20,669	-23,000
Amortization of capitalized development projects	-2,890	-3,165	-9,034	-10,080
Order-related development cost	-6	-7,135	-74	-12,258
Cost of goods sold	-83,052	-82,156	-237,884	-244,448
GROSS MARGIN	30,320	26,463	82,474	83,035
Selling and marketing cost	-10,300	-11,534	-34,850	-31,579
General and administrative cost	-8,662	-9,134	-25,484	-25,173
Research and development cost	-7,284	-7,946	-22,678	-23,957
SUBTOTAL OPERATING COSTS	-26,246	-28,614	-83,012	-80,709
Restructuring cost	-1,560	-3,637	-6,287	-6,467
Other operating income	7,371	4,825	26,657	7,563
Other operating expenses	-6,394	-4,515	-25,010	-7,456
OPERATING INCOME BEFORE FINANCIAL RESULT AND INCOME TAXES	3,521	-5,478	-5,179	-4,034
Finance income	53	197	155	236
Finance expense	-993	-431	-2,150	-1,111
Income taxes	-460	2,182	-1,149	1,941
INCOME/ LOSS FROM CONTINUING OPERATIONS	2,121	-3,530	-8,322	-2,969
Net income/loss from discontinued operations	0	124	0	-827
NET INCOME/ LOSS FOR THE PERIOD	2,121	-3,406	-8,322	-3,796
thereof attributable to non-controlling interests	-3	-445	-164	-914
thereof attributable to equity holders of Kontron AG	2,124	-2,961	-8,158	-2,882
Earnings per share (basic) in €	0.04	-0.06	-0.15	-0.07
Earnings per share (diluted) in €	0.04	-0.06	-0.15	-0.07
Earnings per share (basic) from continuing operations in €	0.04	-0.06	-0.15	-0.05
Earnings per share (diluted) from continuing operations in €	0.04	-0.06	-0.15	-0.05

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

IN €K	Q3/2015	Q3/2014	01-09/2015	01-09/2014
NET INCOME / LOSS FOR THE PERIOD	2,121	-3,406	-8,322	-3,796
OTHER COMPREHENSIVE INCOME				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	-2,647	7,100	7,272	7,545
	-2,647	7,100	7,272	7,545
Other comprehensive income not to be reclassified to the statement of income in subsequent periods:				
	0	0	0	0
OTHER COMPREHENSIVE INCOME AFTER TAXES	-2,647	7,100	7,272	7,545
TOTAL COMPREHENSIVE INCOME	-526	3,694	-1,050	3,749
thereof attributable to non-controlling interests	20	-520	-301	-1,074
thereof attributable to equity holders of Kontron AG	-545	4,214	-748	4,823

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

IN €K	Q3/2015	Q3/2014*	01-09/2015	01-09/2014*
Income/loss from continuing operations	2,121	-3,530	-8,322	-2,969
Net income/loss from discontinued operations	0	124	0	-827
NET INCOME / LOSS FOR THE PERIOD	2,121	-3,406	-8,322	-3,796
Depreciation and amortization of fixed assets	4,966	5,215	15,067	16,102
Net gain/loss in connection with investing activities	-15	14	44	58
Change in deferred taxes	-1,097	-3,357	-3,748	-4,626
Interest income	0	-225	-28	-274
Interest expense	258	861	557	2,281
Other non-cash items	-2,275	-576	-692	-1,443
Change in assets/liabilities:				
Trade receivables	-9,436	-11,933	20,210	-12,205
Inventories	604	-5,251	-8,576	-4,902
Other receivables	-10	-3,412	2,980	-1,457
Liabilities and provisions	3,367	19,237	-13,797	7,268
Interest paid	-159	-292	-447	-639
Interest received	0	874	28	911
Income taxes paid	-248	-1,750	-1,351	-4,506
Income taxes refunded	696	1,112	1,116	1,338
NET CASH USED IN / PROVIDED BY OPERATING ACTIVITIES	-1,228	-2,889	3,041	-5,890
Purchases of property, plant and equipment	-292	-851	-3,229	-2,735
Purchases of intangible assets	-6,137	-3,456	-21,359	-14,001
Proceeds from the disposal of property, plant and equipment	0	155	1,734	546
Proceeds from the sale of subsidiaries, net of cash	0	7,690	0	7,128
NET CASH USED IN / PROVIDED BY INVESTING ACTIVITIES	-6,429	3,538	-22,854	-9,062
Change in current account/overdrafts	-1,004	-2,768	153	-2,955
Repayment of short-term borrowings	-13	0	-41	-7,473
Proceeds from short-term borrowings	0	3,352	0	11,455
Repayment of long-term debt	0	-7,498	-4,210	-17,928
Proceeds from long-term debt	8,757	0	20,318	13,270
Dividends paid to non-controlling interests	-81	0	-81	0
Increase in shareholdings	-214	0	-214	0
NET CASH USED IN / PROVIDED BY FINANCING ACTIVITIES	7,445	-6,914	15,925	-3,631
Effect of exchange rate changes on cash	-385	1,032	499	1,161
NET CHANGE IN CASH AND CASH EQUIVALENTS	-597	-5,233	-3,389	-17,422
Cash and cash equivalents at the beginning of the period	12,845	18,552	15,637	30,741
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	12,284	13,319	12,248	13,319

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) ASSETS

IN €K	09/30/2015	12/31/2014
ASSETS		
Cash and cash equivalents	12,248	15,637
Inventories	96,603	85,731
thereof prepayments	1,341	1,096
thereof receivables from construction contracts	0	506
Trade receivables	96,530	115,083
Tax receivables	2,412	3,320
Other current receivables and assets	11,844	14,279
Assets held for sale	6,077	8,146
TOTAL CURRENT ASSETS	225,713	242,196
Financial assets	604	637
Property, plant and equipment	11,913	10,902
Intangible assets	71,791	61,085
Goodwill	93,841	91,221
Other non-current receivables and assets	1,613	1,597
Deferred taxes	18,226	14,181
TOTAL NON-CURRENT ASSETS	197,988	179,624
ASSETS	423,701	421,820

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) EQUITY AND LIABILITIES

IN €K	09/30/2015	12/31/2014
LIABILITIES AND EQUITY		
Trade payables	63,137	76,334
Liabilities to banks	157	5
Current portion of finance lease obligation	23	39
Current provisions	9,031	10,868
Deferred income	3,411	4,796
Obligations from construction contracts	24	135
Taxes payable	6,810	3,467
Other current liabilities	25,935	25,304
TOTAL CURRENT LIABILITIES	108,527	120,950
Long-term borrowings	52,046	35,938
Non-current provisions	907	1,662
Pension provisions	1,816	1,742
Non-current portion of finance lease liability	76	100
Other non-current liabilities	1,412	1,840
Deferred taxes	7,077	6,890
TOTAL NON-CURRENT LIABILITIES	63,333	48,172
Issued capital	55,683	55,683
Additional paid-in capital	200,048	200,048
Retained earnings	12,147	20,554
Other equity components	- 14,083	- 21,492
Treasury shares	- 1,813	- 1,813
Equity attributable to equity holders of the parent	251,982	252,980
Non-controlling interests	- 142	- 282
TOTAL EQUITY	251,841	252,698
TOTAL LIABILITIES AND EQUITY	423,701	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			-2,882				-2,882	-914	-3,796
Other comprehensive income				8,385	-680		7,705	-160	7,545
TOTAL COMPREHENSIVE INCOME	0	0	-2,882	8,385	-680	0	4,823	-1,074	3,749
Sale of subsidiaries					4,516		4,516	-1,738	2,778
SEPTEMBER 30, 2014	55,683	200,048	24,108	-24,320	0	-1,813	253,706	-236	253,470
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			-8,158				-8,158	-164	-8,322
Other comprehensive income				7,409			7,409	-137	7,272
TOTAL COMPREHENSIVE INCOME	0	0	-8,158	7,409	0	0	-748	-301	-1,050
Dividend payment							0	-82	-82
Other consolidation entries			-249				-249	524	275
SEPTEMBER 30, 2015	55,683	200,048	12,147	-14,083	0	-1,813	251,982	-142	251,841

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. CHANGES IN BASIS OF CONSOLIDATION

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/page 129 et seq.). The income/loss from this business unit until deconsolidation as well as the income/loss from the sale of the business unit are disclosed separately in net income/loss from discontinued operations in the statement of income.

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.

With the initiation of liquidation procedures, Kontron Compact Computers AG i.L., Luterbach, Switzerland, was deconsolidated in the third quarter of 2015.

3. EQUITY

Issued capital (share capital) of Kontron AG stood at € 55,683k as of September 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 (until August 31, 2015)	0	0
Sten Daugaard	0	0
Martin Bertinchamp	30,500	0
Harald Joachim Joos	0	0
Dr. Harald Schrimpf	2,500	0
Dr. Dieter Düsedau (since September 22, 2015)	0	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 September 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 to avoid / mitigate currency risks from future cash flows in foreign currencies totals € 36.3 million as of the reporting date (December 31, 2014: € 34.5 million).

In light of the increased gross financial 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-wide business management so that the operating segments now correspond to the three global business units. In the third 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 – 09/2015

IN €K	Industrial	Communications	Avionics/ Transportation/ Defense	Other	Consolidated financial statements
REVENUES	154,638	75,168	90,551		320,357
OPERATING RESULT (EBIT)	5,795	5,824	11,520	-28,318	-5,179
TRADE RECEIVABLES	87,227	16,619	22,772		126,618

SEGMENT INFORMATION 01 – 09/2014

IN €K	Industrial	Communications	Avionics/ Transportation/ Defense	Other	Consolidated financial statements
REVENUES	150,685	79,542	97,256		327,483
OPERATING RESULT (EBIT)	6,790	6,226	11,352	-28,402	-4,034
TRADE RECEIVABLES	86,398	18,298	28,856		133,552

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

There were no significant events after the reporting date.

FINANCIAL CALENDAR

March 17, 2016	Publication of the Annual Report 2015
March 17, 2016	Annual Results Press Conference
April 28, 2016	Publication of the Q1/2016 Quarterly Report
June 09, 2016	Annual General Meeting of Shareholders

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 October 29, 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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