



Q3 | 2016

KONTRON GROUP | QUARTERLY STATEMENT

POSSIBILITIES START HERE

KONTRON IN FIGURES

		Q3/2016	Q3/2015	01-09/2016	01-09/2015
RESULTS OF OPERATIONS AND PROFITABILITY					
Revenues	€ million	89.5	113.4	270.0	320.4
EBITDA ¹	€ million	-2.9	8.9	-11.4	10.3
EBITDA margin ²	%	-3.2	7.8	-4.2	3.2
EBIT ³	€ million	-6.7	3.5	-92.7	-5.2
EBIT ⁴ (adjusted)	€ million	-6.7	5.1	-21.6	1.1
EBIT margin ² (adjusted)	%	-7.5	4.5	-8.0	0.3
EBT	€ million	-6.9	2.6	-94.1	-7.2
Net income/loss for the period	€ million	-7.4	2.1	-95.0	-8.3
Earnings per share (basic/diluted)	€	-0.13	0.04	-1.71	-0.15
CASH FLOW					
		Q3/2016	Q3/2015	01-09/2016	01-09/2015
Cash flow from operating activities	€ million	7.5	-1.2	5.6	3.0
STATEMENT OF FINANCIAL POSITION					
				09/30/2016	12/31/2015
Total assets	€ million			317.6	441.9
Equity	€ million			210.8	258.9
Equity ratio	%			66.4	58.6
Financial debt	€ million			6.7	57.3
EMPLOYEES					
				09/30/2016	09/30/2015
Employees				1,260	1,269

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, non-recurring costs and impairment losses on goodwill and other non-current assets.

KONTRON – A PROFILE OF THE COMPANY

Kontron is a leading global developer and manufacturer of Embedded Computer Technology (ECT) with a portfolio of standard high-quality boards and modules as well as custom-built hardware and middleware solutions. Since 2015, the Internet of Things (IoT) has been the driving force behind the further enhancement of Kontron's products towards integrated solutions. Kontron presented the first IoT-ready hardware and software platform with an integrated security and real-time analysis solution on the market at the beginning of 2016. This is part of a growing IoT network of partners. In addition to offering its customers embedded technologies, Kontron also offers services tailored to its product portfolio. Our engineers have in-depth development and solution expertise with many years of experience. Our sales staff possesses 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. Kontron's products 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 in 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 IoT and machine to machine communication (M2M) will have a positive impact on the ECT business in the 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.
- ▶ "Communication" 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 has its headquarters in Augsburg and has subsidiaries in 12 countries, including Germany, France, the US, Canada, China, India and Malaysia. Our subsidiaries and the international sales offices put us in close proximity to our customers and regional markets. As of September 30, 2016, the Kontron Group employed 1,260 staff worldwide.

For more information, please visit

www.kontron.com

INTERIM MANAGEMENT REPORT

RESULTS OF OPERATIONS

Results for the third quarter of 2016 are significantly below the comparative period of the prior year and therefore in line with the revised expectations after the forecast for the full year was revoked in July 2016.

Adjusted earnings before interest and taxes (EBIT) comes to € – 6.7 million, down € 11.8 million on the third quarter of 2015. As in the first half of 2016, weak sales were the main factor here.

Compared to the third quarter of 2015, revenues decreased by € 23.9 million or 21.1% to € 89.5 million. In sum, the Industrial business unit recorded a € 8.8 million decrease in revenues, a decrease of 16.2% in comparison to the comparative quarter of the prior year. Within Industrial, Industrial Automation recorded a slight improvement in revenues of € 1.6 million or 6.9%. Together, Infotainment and Medical recorded a revenues decrease of € 10.4 million or 32.1%. The € 11.2 million or 34.9% decrease in the revenues of the Avionics/Transportation/Defense business unit was disappointing, but some of this decline can be attributed to a shift in sales to later periods. While the revenues generated by Transportation decreased by € 6.7 million and Defense by € 6.1 million, Avionics increased its revenues slightly by € 1.6 million. As expected, the business volume of the Communications business unit continued to contract. Revenues decreased accordingly, decreasing by € 3,9 million or 14.4% in comparison to the same period of the prior year.

At 20.6%, the gross margin continues to bear the burden of weak sales (Q3/2015: 26.7%).

SEGMENT INFORMATION 01-09/2016

IN €K	Industrial	Communication	Avionics/ Transportation/ Defense	Other	Total
REVENUES	140,064	64,112	65,811	0	269,987
OPERATING RESULT (EBIT) ¹	-4,518	-7,558	-54,075	-26,517	-92,668
ORDER INTAKE	125,568	61,052	76,906	0	263,526

¹ EBIT includes cost of restructuring and reorganizing the company, non-recurring costs and impairment losses on goodwill and other non-current assets.

SEGMENT INFORMATION 01-09/2015

IN €K	Industrial	Communication	Avionics/ Transportation/ Defense	Other	Total
REVENUES	154,638	75,168	90,551	0	320,357
OPERATING RESULT (EBIT) ¹	5,795	5,824	11,520	-28,318	-5,179
ORDER INTAKE	145,632	73,956	79,404	0	298,992

¹ EBIT includes cost of restructuring and reorganizing the company.

Operating costs rose by € 1.7 million or 6.4% to € 27.9 million in a year-on-year comparison, primarily on account of non-recurring effects related to changes in the organizational structure.

The reversal of the provisions no longer needed as well as the anticipated decrease in current expenses resulted in restructuring cost of € -0.9 million compared to € 1.6 million in the comparative quarter of the prior year.

ORDER INTAKE AND ORDER BACKLOG

A fall in order intake was recorded by all business units in the third quarter of 2016. At € 79.0 million, order intake decreased by € 32.2 million on the comparative quarter of the prior year, or 29.0%.

The decrease of € 2.1 million in Industrial was moderate by comparison, thanks to the positive development of business in the Medical segment. Order intake in Communication business unit (down € 19.8 million) and Avionics/Transportation/Defense (down € 10.2 million) business unit lay below the volumes recorded in the comparative quarter of the prior year.

Owing to the inadequate order intake in recent periods, order backlog as of September 30, 2016 decreased by € 59.0 million (down 18.4%) to € 261.7 million compared to the order backlog as of September 30, 2015.

FINANCIAL POSITION

In spite of the loss of € 7.4 million in the quarter, cash flow from operating activities is positive. This effect is mainly due to the cash inflows from trade receivables.

NET ASSETS

As of September 30, 2016, total assets decreased by € 124.3 million to € 317.6 million in comparison to the close of the prior year.

The decrease on the assets side is largely due to impairment losses recorded on goodwill on June 30 (€ 60.9 million) and the decrease in trade receivables (down € 43.4 million) which were unusually high on account of strong sales in the fourth quarter of 2015.

Liabilities decreased by € 76.2 million to € 106.8 million. Trade payables of € 15.6 million were settled in the reporting period and liabilities to banks were reduced by € 50.5 million due to the use of the proceeds received in the first quarter of 2016 from the sale of the 49% stake in Kontron Canada Inc.

Equity decreased by € 48.1 million to € 210.8 million. The net loss for the period was partially compensated by earnings neutral consolidation effects from the sale of the minority shareholding in Kontron Canada Inc.

FORECAST

The forecast for the development of revenues in fiscal year 2016 remains unchanged. The Management Board expects revenues to lie at a comparable level in the second half of the year to the first six months. However, both the gross margin and the adjusted EBIT margin are expected to fall in the second half of the year compared to the first half.

SUBSEQUENT EVENTS

There were no significant events after the reporting date.

CONSOLIDATED STATEMENT OF INCOME (IFRS)

IN €K	Q3/2016	Q3/2015	01-09/2016	01-09/2015
REVENUES	89,534	113,372	269,987	320,357
Cost of materials	-62,482	-73,178	-182,146	-208,108
Other production cost	-6,183	-6,978	-19,340	-20,669
Amortization of capitalized development projects	-2,387	-2,890	-8,810	-9,034
Order-related development cost	0	-6	0	-74
COST OF GOODS SOLD	-71,053	-83,052	-210,296	-237,884
GROSS PROFIT	18,482	30,320	59,691	82,474
Selling and marketing cost	-9,127	-10,300	-35,725	-34,850
General and administrative cost	-12,059	-8,662	-35,814	-25,484
Research and development cost	-6,743	-7,284	-22,158	-22,678
SUBTOTAL OPERATING COSTS	-27,929	-26,246	-93,696	-83,012
Restructuring cost	944	-1,560	731	-6,287
Impairment losses on goodwill	0	0	-60,939	0
Other operating income	2,375	7,371	12,989	26,657
Other operating expenses	-544	-6,364	-11,444	-25,010
OPERATING INCOME BEFORE FINANCIAL RESULT AND INCOME TAXES	-6,672	3,521	-92,668	-5,179
Finance income	6	53	16	155
Finance expense	-266	-993	-1,447	-2,150
Income taxes	-487	-460	-929	-1,149
NET INCOME / LOSS FOR THE PERIOD	-7,419	2,121	-95,028	-8,322
Thereof attributable to non-controlling interests	1,152	-3	1,044	-164
Thereof attributable to equity holders of Kontron AG	-8,571	2,124	-96,072	-8,158
Earnings per share (basic/ diluted) in €	-0.13	0.04	-1.71	-0.15

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) ASSETS

IN €K	09/30/2016	12/31/2015
ASSETS		
Cash and cash equivalents	16,414	27,823
Inventories	80,140	83,333
Thereof prepayments	739	2,152
Trade receivables	79,262	122,684
Tax receivables	2,072	2,751
Other current receivables and assets	12,431	10,535
Assets held for sale	3,357	3,357
TOTAL CURRENT ASSETS	193,675	250,482
Financial assets	807	640
Property, plant and equipment	5,290	11,758
Intangible assets	68,497	67,395
Goodwill	32,987	94,454
Other non-current receivables and assets	1,433	1,407
Deferred taxes	14,904	15,772
TOTAL NON-CURRENT ASSETS	123,918	191,425
ASSETS	317,592	441,907

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) LIABILITIES AND EQUITY

IN €K	09/30/2016	12/31/2015
LIABILITIES AND EQUITY		
Trade payables	55,369	70,928
Liabilities to banks	6,673	702
Current portion of finance lease obligation	0	31
Current provisions	6,515	8,159
Deferred income	3,095	2,421
Obligations from construction contracts	0	8
Taxes payable	2,908	9,720
Other current liabilities	21,312	22,396
TOTAL CURRENT LIABILITIES	95,872	114,366
Long-term borrowings	0	56,513
Non-current provisions	1,040	1,045
Pension provisions	1,929	1,850
Non-current portion of finance lease liability	0	27
Other non-current liabilities	1,691	1,954
Deferred taxes	6,275	7,229
TOTAL NON-CURRENT LIABILITIES	10,934	68,617
Issued capital	55,683	55,683
Additional paid-in capital	200,048	200,048
Retained earnings	- 40,247	17,862
Other equity components	- 15,364	- 12,728
Treasury shares	- 1,813	- 1,813
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	198,307	259,052
Non-controlling interests	12,480	- 128
TOTAL EQUITY	210,787	258,924
TOTAL LIABILITIES AND EQUITY	317,592	441,907

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

IN €K	Q3/2016	Q3/2015	01-09/2016	01-09/2015
NET INCOME / LOSS FOR THE PERIOD	- 7,419	2,121	- 95,028	- 8,322
Depreciation and amortization of fixed assets	3,794	4,966	20,303	15,067
Impairment losses on goodwill	0	0	60,939	0
Net gain / loss in connection with investing activities	22	- 15	26	44
Change in deferred taxes	257	- 1,097	- 221	- 3,748
Interest income	- 7	0	- 16	- 28
Interest expense	297	258	1,446	557
Other non-cash items	558	- 2,275	497	- 692
Change in assets / liabilities:				
Trade receivables	10,291	- 9,436	45,169	20,210
Inventories	- 5,436	604	- 1,693	- 8,576
Other receivables	- 150	- 10	- 2,194	2,980
Liabilities and provisions	7,103	3,367	- 16,337	- 13,797
Interest paid	- 207	- 159	- 1,395	- 447
Interest received	7	0	15	28
Income taxes paid	- 1,763	- 248	- 6,264	- 1,351
Income taxes refunded	138	696	309	1,116
NET CASH USED IN / PROVIDED BY OPERATING ACTIVITIES	7,485	- 1,228	5,556	3,041
Purchases of property, plant and equipment	- 555	- 292	- 1,702	- 3,229
Purchases of intangible assets	- 6,401	- 6,137	- 13,935	- 21,359
Proceeds from the disposal of property, plant and equipment	4	0	42	1,734
Proceeds from the sale of subsidiaries, net of cash	0	0	- 440	0
NET CASH USED IN / PROVIDED BY INVESTING ACTIVITIES	- 6,952	- 6,429	- 16,035	- 22,854
Changes in short-term borrowings	2,179	- 1,017	5,971	112
Changes in long-term borrowings	0	8,757	- 56,513	16,108
Transactions with non-controlling interests	0	- 295	50,329	- 296
NET CASH USED IN / PROVIDED BY FINANCING ACTIVITIES	2,179	7,445	- 213	15,925
Effect of exchange rate changes on cash	- 197	- 385	- 717	499
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,516	- 597	- 11,408	- 3,389
Cash and cash equivalents at the beginning of the period	13,899	12,845	27,823	15,637
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	16,414	12,248	16,414	12,248

FINANCIAL CALENDAR

May 30, 2017

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Annual General Meeting of Shareholders

Our annual report and our quarterly reports and statements 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 27, 2016. It is available in German and in English. The German version is authoritative.

Kontron AG prepared its quarterly statement in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Due to rounding differences, figures in tables and cross-references may differ slightly from the actual figures.

The quarterly statement 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 amongst others 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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