

## **Kontron AG continues record revenue and earnings growth**

- *Revenue grows to €447 million in 2007*
- *Operating earnings (EBIT) up 41 percent to €46.3 million*
- *Design wins and order book at record levels*
- *Outlook: target of double-digit operating revenue growth accompanied by disproportionately high earnings growth*

**Eching, Germany, March 26, 2008** – In the 2007 financial year, Kontron AG, one of the world's leading suppliers of embedded computer systems, successfully continued its profitable growth path of recent years. Total revenue grew from €405 million to €447 million - this corresponds to a nominal increase of 10 percent; when adjusted for currency losses resulting from the weak US dollar, the increase was even as high as 15 percent, and stands at 18 percent taking the disposal of the mobile product area in the United States into account. Operating earnings (EBIT) were up 41 percent, rising from €32.9 million to €46.3 million. Net income for the year was €32.6 million, compared with €25.7 million in the previous year. Earnings per share (diluted) rose to 60 cents compared with 46 cents in the previous year, representing an increase of over 30 percent. The company's high rate of growth is particularly reflected in the order book: this amounted to €268 million at the end of 2007, 20 percent higher than the previous year's record level (€220 million). There was a comparably dynamic rise in the number of design wins. The latter rose to 339 compared with 257 in the previous year, and, in monetary terms, volume increased from €218 million to €273 million. In overall terms, Kontron AG further improved its very solid liquidity position. For instance, the net cash position increased to €70.7 million, compared with €28.5 million on the previous year. Operating cash flow rose to €28.5 million, as compared with €23.4 million in 2006. Given total equity and liabilities of €382 million (previous year: €363 million), the equity ratio increased to 75.4 percent compared with 69.4 percent in 2006. Compared with the company's rate of business growth, the workforce grew only moderately, to 2,567 employees (previous year: 2,445). "In overall terms, we have fully achieved the targets we set ourselves in all divisions, and in some subdivisions we have exceeded them," commented Executive Board Chairman, Ulrich Gehrman, at the company's annual results press conference in Munich. In view of the sound business growth and liquidity, the Executive Board will propose that the Shareholders' General Meeting increases the dividend by 30 percent for 2007, to 20 cents per share. As in previous years, the dividend can be distributed free of tax, as Ulrich Gehrman stated. "The share repurchase program and the dividend distribution together mean we will have applied around €20 million directly in shareholders' interests in 2007. We aim to focus on continuing this shareholder-oriented policy in 2008," the Chairman commented further.

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**Fourth quarter: new sales structures in Asia**

Following consistent growth in the first nine months of 2007, Kontron AG once again reported a major increase in business in the period from October to December. Following €95.6 million in the first three months, €111 million in the second quarter, and €115 million in the third quarter, revenue of €124 million in the last three months of the year represented a new record level. Major new development orders were won in the final quarter of the year with a total volume of around €30 million, in the areas of infotainment, the energy sector, telecommunications, and automation, among others. The American market was particularly well represented, while demand also ran high in Russia (energy sector), and Europe (automation).

As a forward-looking step, Kontron AG launched a reorganization of sales structures in Asia in the fourth quarter with the aim of achieving higher EBIT margins in the region: all sales structures were bought out of the 66.0 percent-owned Kontron Asia Inc, Taipei, which has so far been responsible for both sales and production, and placed under the direct control of the Kontron AG parent company. Minority shareholders were simultaneously bought out of this important Chinese company. Consequently, Kontron has enjoyed 100 percent control of its sales companies in China since January 2008, as well as 90 percent control of its company in Australia. In Japan, the 18.5 percent stake in Kontron Technology Japan was acquired from Kontron Asia Inc. The sales office in Korea was also placed under the control of Kontron AG.

**Europe and emerging markets particularly strong**

As in previous years, Kontron reported higher demand in all regional markets. Europe continued its positive trend with an increase of around 20 percent year-on-year. Kontron consequently generated around 50 percent of its total sales on the old continent. At 11.9 percent, this region also generates the highest EBIT margin. Growth rates in the US were more moderate in 2007 due to the sale of the mobile computer business, which was a peripheral operation. The strategic decision to forego revenue resulted, however, in higher profitability. Whereas the EBIT margin in America was still below 5 percent in 2005, it was already up to 8.9 percent in 2007. With a share of total revenue of around 25 percent, America continues to constitute a central strategic sales market for Kontron AG. Lower rates of growth in this region in 2007 were more than compensated by higher rates of growth in Europe and emerging markets. With an increase of 24 percent, these areas reported the highest rate of growth, as in previous years. As a result, this region contributed around 25 percent of Kontron AG's entire revenue.

**Growth engines of medical technology, the energy sector, and infotainment**

In terms of vertical markets, telecommunications applications (among other things, the new ATCA technology) with around 25 percent, and automation (19 percent), continue to account for high shares of total revenue. Particularly fast rates of growth were achieved in the infotainment (24 percent),

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medical technology (13 percent), and energy supply (13 percent) areas. In the booming healthcare sector and the promising energy supply industry ever greater application areas for Kontron products are opening up. "Kontron is broadly positioned, and can react flexibly to risks as a result of its high level of diversification in regional and vertical markets, its technological breadth, and its customer structure," commented the Group's Chairman.

**On its way to cost-leadership**

According to the Executive Board, the disproportionate rise in profitability results mainly from the successful implementation of the Profit Improvement Program. The facility in Penang, Malaysia, which was acquired at the end of 2005, played a particular role in securing a long-term improvement in profitability. As in 2006, this has resulted in a major reduction in production costs. Whereas manufacturing costs were still 8.5 percent in 2006, this proportion was cut to an average of 6.6 percent during the course of 2007.

In addition, Kontron had already made a start in 2005 and 2006 with the integration of various locations, as well as the centralization of integration and logistics centers in America and Europe, allowing it to create efficient structures to successfully process a growing order book. The Group's production capacities have also been almost doubled as a result of the production facility in Penang, Malaysia. Besides technological and quality leadership, Kontron AG's medium-term goal is to assume a position of production-cost leadership in the embedded computer technology segment by 2009. A decisive step in this direction was taken in the first quarter of 2008 with the founding of a joint venture with the Taiwanese company Quanta Computer Inc., Taipei, the world's largest manufacturer of laptops. With over 40,000 employees globally, Quanta accounts for around 30 percent of global laptop production, and generated total revenue of over €16 billion in 2007. The Asian company, which is listed on the Taiwanese stock market, together with its associated companies acquired a 21 percent stake in Kontron Asia Inc., Taipei. The advantages of this new partnership for Kontron AG are clear. Firstly, Quanta's purchasing and production conditions allow the manufacturing costs of embedded computers to be optimized. Secondly, higher unit volumes are also now possible. "Volumes are constantly rising in the high-growth embedded computer market, particularly for applications in the POI/POS, cash machine, automated teller machine, infotainment, and gaming areas. The Quanta joint-venture now allows us to offer unit volumes in excess of 100,000 embedded systems per year on a competitive basis," commented Group Chairman, Ulrich Gehrman. Improved purchasing terms, in combination with further optimization of production costs, should allow the EBIT margin to be improved by up to two percentage points over the next three years, according to Kontron's Executive Board. This is why Kontron AG aims to relocate further production to Asia over the next three years. The objective is that 75 percent of all of Kontron's embedded computers will be manufactured at the new joint venture by 2010. However, processes such as final configuration and the installation of software, which are heavily dependent on know-how, will continue to be performed

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at the European and American Kontron companies. Besides this, Kontron AG will retain both operating control and the majority of the voting rights in the new joint venture.

**Greater strength in Europe**

With the acquisition of Thales Computers SA in France, Kontron AG is aiming for even better access to the French market. The purchase also promises to strengthen its core competency in the technology area of PowerPCs. The purchase agreement took legal effect in March 2008. Thales Computers SA generated revenue of over €20 million in 2007, and is primarily active in the embedded computer sector in the government, aeronautics, and transportation markets. This acquisition will allow Kontron to compensate for the revenue foregone as a result of the disposal of the mobile product group in America, in both 2008 and beyond.

**Outlook**

Given the fact that the company had successfully continued its profitable growth path, Group Chairman Ulrich Gehrman was also confident on the outlook for 2008: "As a fundamentally healthy and globally successful company, which is positioned on several pillars in both regional and vertical markets, we continue to enjoy the best prospects for the coming years as an outsourcing partner." Profitability will also improve further as the result of the company's successful focus on vertical markets, accompanied by a high level of cost-consciousness, as well as the new joint venture in Asia. Kontron aims to focus on organic growth rather than making expensive acquisitions. The only exception to this policy will be corporate purchases that can be made on particularly attractive terms. Gehrman added: "Double-digit revenue growth on the basis of unchanged exchange rates, accompanied by a disproportionately high rate of earnings growth with regard to revenue, is a realistic target for 2008, despite greater uncertainties in global markets due to the financial crisis in the United States." At the same time, the aim is to continue with our shareholder-value orientation in the form of rising earnings, and shareholder participation in the form of dividends and share buybacks.

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**About Kontron**

Kontron designs and manufactures standard-based and custom embedded and communications solutions for OEMs, systems integrators, and application providers in a variety of markets. Kontron engineering and manufacturing facilities, located throughout Europe, North America, and Asia-Pacific, work together with streamlined global sales and support services to help customers reduce their time-to-market and gain a competitive advantage. Kontron's diverse product portfolio includes: boards and mezzanines, Computer-on-Modules, HMIs and displays, systems, and custom capabilities. Kontron is a Premier member of the Intel® Embedded and Communications Alliance. The company is a recent three-time VDC Platinum vendor for Embedded Computer Boards. Kontron is listed on the German TecDAX stock exchange under the symbol "KBC". For more information, please visit: [www.kontron.com](http://www.kontron.com).

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