ANNUAL REPORT 2011

funkwerk
aktiengesellschaft

Key data

	31/12/2011 € M	31/12/2011 € M
Results of operations		
Revenues	164.6	168.6
Gross yield	78.8	78.8
Operating profit*	4.7	5.4
Operating result*	–3.2	–1.7
EBIT	–13.1	–14.9
Earnings per share in EUR	–2.35	–2.82
Order backlog	97.8	98.8
Net assets and financial position		
Cash flow	–5.9	4.4
Working Capital	37.1	41.2
Net cash	4.5	11.6
Shareholder's Equity	48.7	64.5
Equity ratio in %	30.8	43.1
Equity ratio adjusted in %**	34.2	43.1
Balance sheet total	157.9	149.7
Employees (reporting date 31 December)***	1,008	1,363

* result before impairment charges and restructuring costs
** adjusted for liabilities held for sale
*** continued segments as at 2011

Funkwerk AG

Funkwerk specialises in solution-oriented information and communication systems for applications in transport and traffic, vehicles, security and data networks. Funkwerk's systems automate, rationalise and secure the operating processes of a wide range of customer groups, from private enterprises to public institutions. Based on different areas of application and appropriate target groups, Funkwerk today is an active technology supplier with three strategic business units.

TRAFFIC & CONTROL COMMUNICATION

- Infrastructure
- Rolling Stock

SECURITY COMMUNICATION

- Video security solutions
- Security communication
- Security products

AUTOMOTIVE COMMUNICATION

- Automotive Communication

Dear Shareholders,

2011 proved to be a year of radical changes for Funkwerk AG. In order to improve our competitive strength and increase our earning power, we decided to revise our strategy and reposition the company more efficiently. One of our main objectives is to focus Funkwerk as a group on our three core segments, Traffic & Control Communication, Security Communication and Automotive Communication. Within these segments, we are restricting ourselves to growth fields with a strong margin.

This intensification necessitated the discontinuation of activities that no longer form part of our basic operations. We promptly proceeded with single-minded determination and were successful in completing key transactions in 2011, selling Alpha Mess-Steuer-Regeltechnik GmbH and our entire Enterprise Communication segment. This move has helped us stabilise the financial situation of the Funkwerk group. In a next step, we sold Funkwerk Avionics GmbH in the first quarter of 2012.

As a further strategic approach we will increasingly utilise the existing synergy potential in the group more effectively – to change from purely being a financial and management holding into an efficiently operating group. As a result, we are simplifying our group structures and are systematically focusing our operating units on customers and the markets. We are also consolidating central areas such as administration, purchasing and production. This rearrangement of our organisation was prepared back in 2011 and implemented in early 2012 in that we divided our operations into six business units. Efforts to centralise our cross-divisional functions also delivered initial successes, though this will continue to keep us rather occupied throughout the rest of 2012.

Our strategic reorientation and its rigorous implementation enabled us to set the course for the future. In the short term, however, it was also accompanied with costs. These along with significant development and investment advances have once more placed a considerable burden on the earnings situation of Funkwerk. Earnings from operations amounted to EUR –3.2 m. Adding the restructuring and impairment costs of around EUR 10.0 m resulting from the reorientation, our EBIT in 2011 aggregated EUR –13.1 m compared to EUR –14.9 m in the previous year. The sales volume in the group reduced on a comparative basis by 2.4 per cent to EUR 164.6 m.

While 2011 was a period of radical change, we believe 2012 will be a year of consolidation. It is important that we continue to push ahead with the strategic measures initiated. Our focus will be on the further implementation of our defined centralisation measures, on optimising our supply chain management, and specifically on advancing our internationalisation. We will also continue to work intensively on streamlining our product portfolio and in terms of technology base our restructured business units on products with strong margins and unique selling points. Over and above these internal tasks, other major challenges facing us in 2012 include the more sluggish economic trend in our key markets and the persistently difficult situation of government authorities facing budget cuts. On the whole, we expect group sales to remain at prior-year level. Our earnings situation should increasingly benefit from cost reductions as a result of the restructuring measures initiated so that we foresee a balanced result in operations.

Despite the currently challenging situation, we are confident in our outlook for the future. The restructuring and reorientation of our company will bring the strengths of Funkwerk to bear even more intensively. This includes having worked hard to earn excellent positions in some markets as a specialist in information, communication and security systems. In many sectors, we now offer innovative solutions with unique selling points. Our measures aimed at increasing our competitive strength will help us maintain this position. In other markets, where we can still improve our position, we will focus specifically on increasing our shares. As a result, we invested significant amounts in our product portfolio and specifically in key components. At the same time, we are raising our sales potential through wider marketing using strategic partnerships and opening up new international regions.

Based on this, we expect to see considerable growth stimuli from 2013, which may well result in sales increases in the higher single-digit percentage range. This is when the restructuring and related cost savings measures will for the first time take full effect. We therefore project an operating result that will be back in the black.

Funkwerk as a group will dedicate itself to the tasks at hand to the very best of its ability and with utmost resolution. A principle that is also embodied by every member of our management team. We are optimistic that we can master the challenges facing us and reach our targets as planned. But we also want to thank all our employees deeply for their tremendous commitment in 2011, which proved a difficult financial year fraught also with personal hardship.

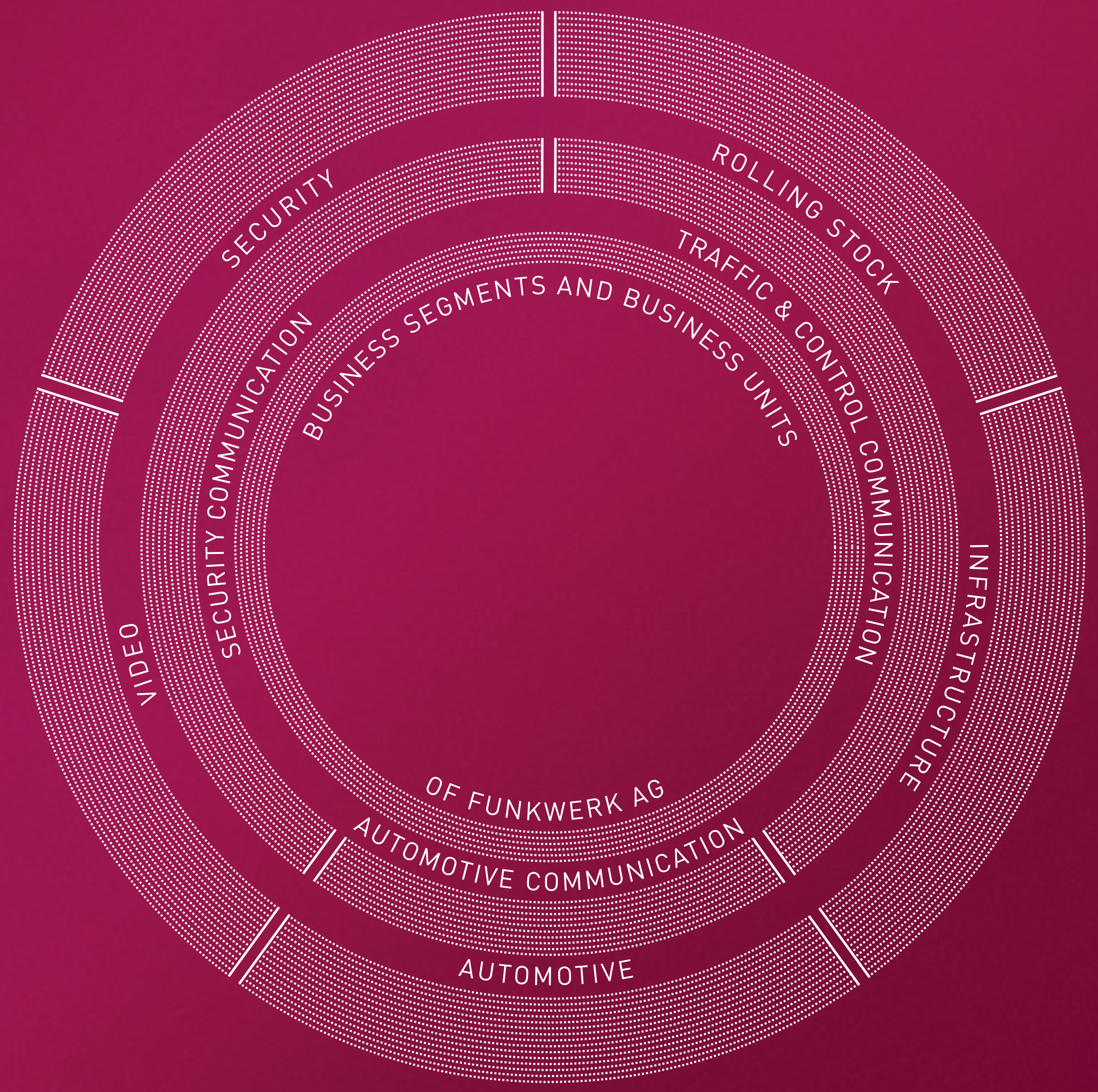
The Executive Board of Funkwerk AG

Johann M. Schmid-Davis　　Carsten Ahrens

JOHANN M. SCHMID-DAVIS
Masters in Bus. Econ, resort: Finances and organisation

CARSTEN AHRENS
MEng., resort: Business Development and strategy

Content



FUNKWERK HEADED IN THE RIGHT DIRECTION

In the previous year, our company underwent a full restructuring. The competences and contents of our three business segments Traffic & Control Communication, Security Communication and Automotive Communication are now consolidated and reorganised in new business units. This provides us with synergies that will enable our company to operate more efficiently, create a more stable basis and allow us to work more successfully in our markets. The following pages will introduce our business units, our strategies and our activities.

Traffic & Control Communication **Infrastructure**

TRAFFIC & CONTROL COMMUNICATION – INFRASTRUCTURE

Our Infrastructure business unit primarily concentrates on stationary rail transport systems. This includes such facilities as display and announcement systems in railway stations which are used to provide passengers with up-to-date, comprehensive and understandable information about delays, disruptions, changes in the timetable, etc. Funkwerk further supplies innovative timetable planning systems and operations control systems for road and route management. We also occupy an excellent position in the signalling technology sector – with our trendsetting Alister system used to control electronic interlocking systems in cargo carriage and, most recently, also in passenger transport.

Market position

In the infrastructure sector, Funkwerk has for the most part acted as an integrated systems supplier — for rail operators and other system suppliers. We are market leader in many areas. In Germany, for instance, Funkwerk is foremost in stationary information systems and ranks among the top 3 in Europe. We are also one of the three leaders in Europe to supply systems for the training and further education of personnel, and in the operations control technology sector. Our Alister interlocking system benefits especially from the significant need for modernisation in Europe — we expect to see a rise in demand here over the next few years.

Strategic measures

In the context of our focusing strategy, we are centring our Infrastructure BU exclusively on train and rail transport. All other activities are put to the test, as we are breaking away from peripheral fields which are no longer part of our core business. Back in 2011, for instance, we sold Alpha Mess-Steuer-Regeltechnik GmbH, which operates in the control systems sector for energy suppliers and the process industry. At the same time, we are focusing consistently on expansive business areas and plan to have a part in the growth seen in these sectors. We are also pushing ahead with the internationalisation of our business, primarily in West and East European countries and the BRIC states. In so doing, we are well forming strategic partnerships and are cooperating with other manufacturers. We see excellent growth opportunities for our Alister interlocking system both in Germany and in other European countries due to the enormous need for modernisation and upgrading. Other focal points of our strategic goals include the improvement of our efficiency in handling projects along with a better utilisation of our production capacities.

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1_ALISTER CARGO IN SWEDEN: Our interlocking system sold as Alister Cargo has been in use for several years now in marshalling yards, depots and works railways, which are subject to the lower safety level SIL 2. One country to use our system is Sweden, where one of the global leaders in the manufacture of iron ore products now controls its mine railway network using Funkwerk's interlocking systems.

2_LONDON UNDERGROUND COMMUNICATES VIA FUNKWERK SYSTEM: London's underground has been using Funkwerk's digital communication system DIKOS 310 since 2011. DIKOS 310 combines the assets of a modern telecommunication system with specific features of an industrial communication network. In London, the system integrates the control centre and 19 substations along with 32 other sites requiring a public address system.

3_GROUNDBREAKING CONTRACT FOR ALISTER SIL 4 INTERLOCKING SYSTEM: In 2011, Funkwerk won a landmark contract for a pivotal core product of our Infrastructure BU – the innovative interlocking system Alister SIL 4 for passenger transport. By October 2013, we will be modernising the signalling technology on the Bremen – Bremerhaven track section. Due to the dire need of modernisation, we expect to see demand for Alister SIL 4 increase greatly over the next few years.

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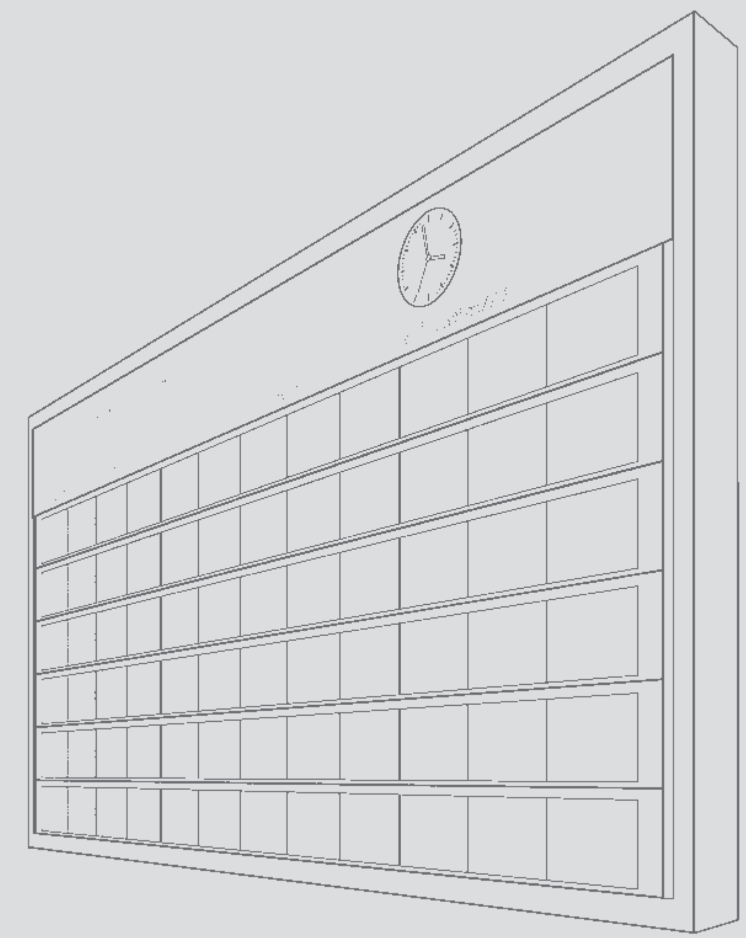

Traffic & Control Communication **Rolling Stock**

TRAFFIC & CONTROL COMMUNICATION – ROLLING STOCK

The product spectrum of our Rolling Stock business unit includes mobile radio systems for communication between train and stationary infrastructure, which is largely based on the digital GSM-R standard in Europe. We offer a wide variety of solutions in this field. Our latest product enhancement, the focX handheld radio devices, is also based on this technology. We further provide passenger information systems as part of our Rolling Stock BU spectrum. These are used for communication in the train enabling such aspects as passenger announcements, train conductors can communicate with each other and are at the same time in contact with the train driver and the operations control centre.

1_PA AND COMMUNICATION SYSTEM FOR STUTTGART SUBURBAN TRAINS: We are supplying a public address and communication system for 83 of Stuttgart's new suburban rail vehicles. Funkwerk is the first manufacturer to develop such a system based on the required safety and security standard and has the option of equipping a further 90 suburban trains in Frankfurt.

2_SUPPLY OF GSM-R TRAIN RADIO SYSTEM TO INDIA: Our initial delivery of 180 GSM-R mobile devices has gained us a foothold in India – as the only supplier to date in this fast-growing market. The contract is signed for a period of five years and includes after sales service.

3_ÖBB ORDERS FOCX HANDHELD TRANSCEIVERS: Funkwerk has signed a framework contract with Austrian railway operator ÖBB for the delivery of handheld transceivers of our new focX product range. The contract volume is expected to exceed 2,000 devices. These are based on the GSM-R standard, can transmit voice and data, and are highly dust and jet water resistant. The contract will run until the year 2016.

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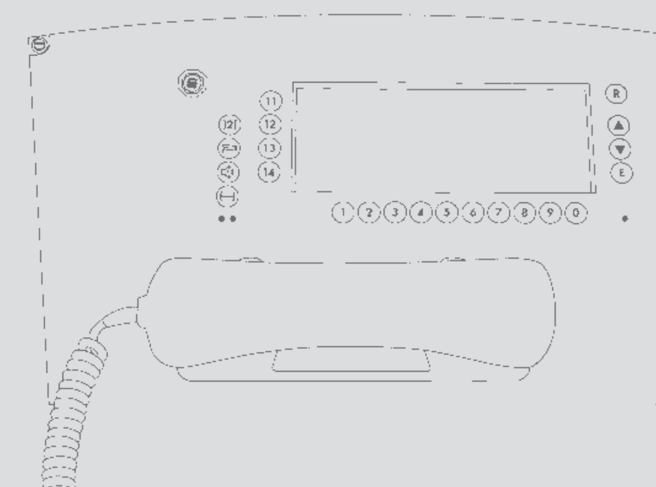
Market position

We are indisputable market leaders in GSM-R digital mobile radio systems in Europe and rank third in mobile passenger information systems. In order to consolidate our excellent positions, we are extending our service spectrum and are opening up new markets. New to our range, for instance, are professional mobile radio devices, but we have also launched our focX handhelds along with systems which are able to transmit data alongside voice communication.

Strategic measures

We anticipate significant growth rates for mobile radio equipment particularly in the BRIC states, in North Africa and in the Arab region. The market in Western Europe is defined overall by high equipment efficiency. That being said, there is still some potential for growth in individual niches here, such as radio equipment for shunting operations. In our Rolling Stock BU we are therefore concentrating primarily on pushing our internationalisation and are opting increasingly for strategic partnerships. Focus is given especially to gaining a foothold in the US American market, a step which we are planning to take in the course of this year. Special applications are implemented with such devices as our focX range, for which we have already received the first framework contracts. In terms of mobile information systems, rail vehicle manufacturers are increasingly ordering complete subsystems. As a provider of complete solutions, we have the required system integration expertise to be able to participate in this trend. Within the Funkwerk group, we are taking a look at our assembly and production sites with the aim to ensure a more efficient production.



Automotive Communication **Automotive**

AUTOMOTIVE COMMUNICATION – AUTOMOTIVE

In our Automotive Communication segment, Funkwerk focuses both on customised connectivity and infotainment solutions in the vehicle and on products that make it possible to network the vehicle with the outside world. As a tier 1 supplier, we deliver directly to European car and lorry manufacturers, concentrating here on the premium sector. Our core competences primarily include the Compenser technology, which amplifies the signal between device and outside antenna, and the charging and coupling of electronic equipment in the vehicle. We additionally offer a telematics system for forwarding agents and operators of sizeable fleets that allows innovative real-time fleet management.

Market position

Our Automotive BU supplies its customised solutions directly to the production lines of well-known European vehicle manufacturers. Our solutions for wireless charging and coupling of mobile phones have made us the market leader in Germany.

Strategic measures

Our focus in product development is primarily on three aspects. Firstly, our signal amplifier Compenser, which ensures optimal data and voice transfers in and to the vehicle. To consolidate our market position, we have developed a new equipment generation here, which will be ready for delivery from 2012. Further impetus is expected from the increasing use of smartphones in the car. Since many of these devices do not have connection options for an external antenna, an inductive coupling chamber which we have developed can be used to pick up the signal and route it to the Compenser. Secondly, we are addressing the trend that it is no longer only smartphones and mobile phones that have made their way into new vehicles, but also other CE devices such as tablet PCs, infotainment equipment, online services or storage media. These are connected with each other and with the environment, with interfaces increasingly bridged using wireless solutions. And thirdly, we are planning to concentrate further on contactless energy supply for devices, known as wireless charging, as a strategic operating area, for which we also provide innovative solutions. Our customer focus continues to be on the premium sector, as we seek to form preferably close partnerships. We are increasingly establishing ourselves as a system supplier among vehicle manufacturers and are benefiting from our cooperation with other specialists and our expertise in high frequency technology.

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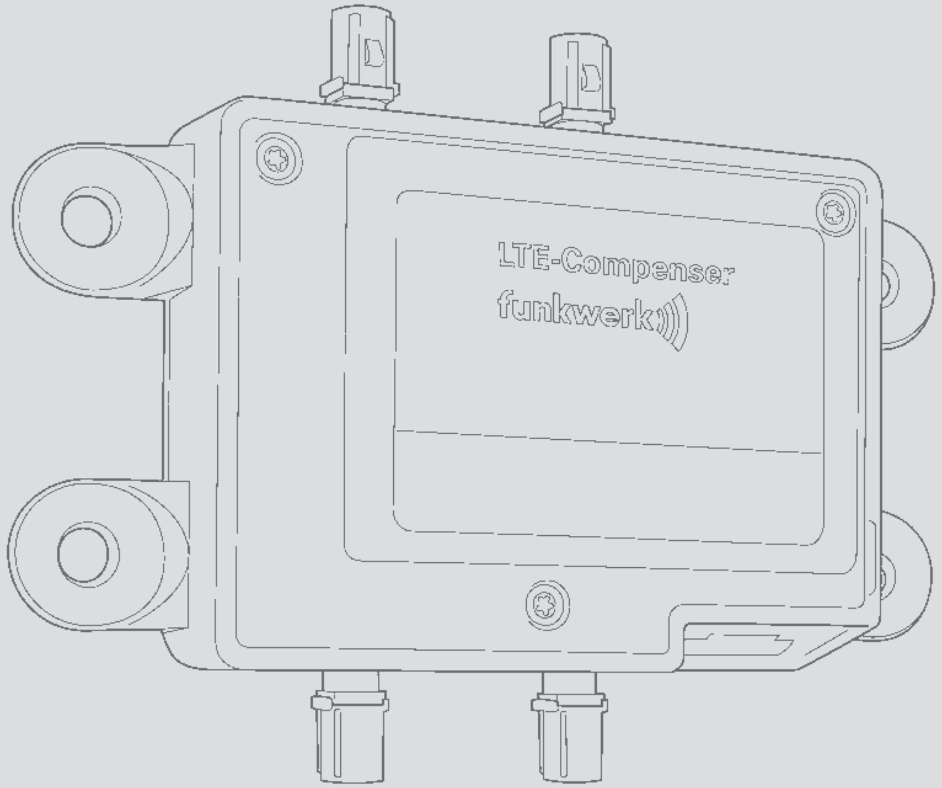

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1_TELEPHONE INTEGRATION PLUS COMPENSER: Drivers can use their mobile phones in the car not only for voice communication. Thanks to our solution, it can now also be used for Internet and infotainment applications. We are using our proven Compenser technology here for wireless reception and amplification of the radio signal from the mobile phone. Even smartphones can be used. We also provide a number of innovations for wireless charging, which is currently a topical issue.

1_USB CONNECTION IN PREMIUM SEGMENT: Interfaces such as USB are increasingly integrated especially in premium class automobiles. This enables drivers to use their mobile terminals in the car in the same way as in other situations. A particular challenge here is the special protection required for USB transmissions in the vehicle due to electromagnetic interference.

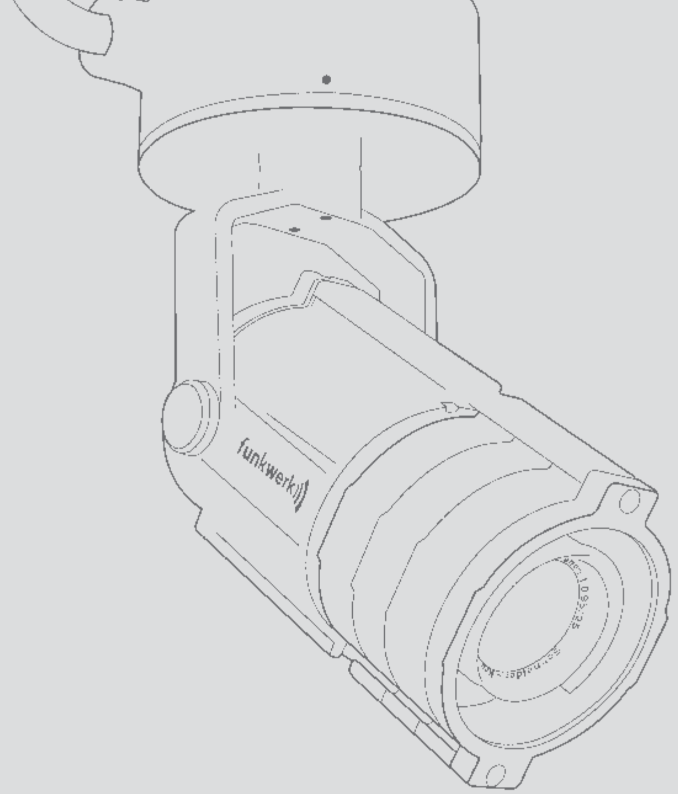
2_TELEMATICS SOLUTION FOR DEUTSCHE TELEKOM: We provide a telematics system for forwarding agents and operators of sizeable fleets which enables innovative real-time fleet management. Our exceptional expertise in this field was confirmed by a contract received from Deutsche Telekom. Under this contract, we will equip a fleet of around 6,000 cars and transporters of different makes with a solution that meets special requirements.

Security Communication **Video**

SECURITY COMMUNICATION – VIDEO

The products of our Video competence centre address the increasing security requirement of individuals and companies. Offering professional video cameras, video transmission technology and software, Funkwerk covers the entire requirement spectrum here – from image recording all the way to their transfer and processing. Our systems improve security at airports and main train stations, in football stadiums, traffic control systems and production plants – both of property and people. Our offering is rounded off by sector and individual system solutions. As an example, we provide underground trains with appropriate equipment to enable driverless operation.

Security Communication **Video**



Market position

In Germany, Funkwerk is market leader for high-end solutions in the video monitoring and surveillance sector. We are presenting ourselves as an integrated systems supplier, but are also taking the lead in specific sector solutions and in the area of highly precise pan/tilt cameras. These are used, for instance, for hard shoulder monitoring on motorways. Together with intelligent software, these modern cameras make it possible to open up hard shoulders as an additional lane on heavily frequented sections of the motorway. The customer spectrum in our Video BU ranges from small and mid-sized companies both in Germany and abroad all the way to global corporations.

Strategic measures

Our key targets in the video sector are focused on standardising internal areas of operation and our product lines. Our agenda further includes the internationalisation of distribution. Over the next few years, we are planning to expand our worldwide activities by way of partnerships with global system integrators. We also seek to participate in the trend towards increased use of network-based video technology offering appropriate solutions to our customers. Internally, our strategic goals focus on improving our efficiency in handling projects. Furthermore, we hope to make better use of existing synergies through simplification and streamlining of our group structures. We have in mind to consolidate central areas, but also to cooperate more intensively in our service business.

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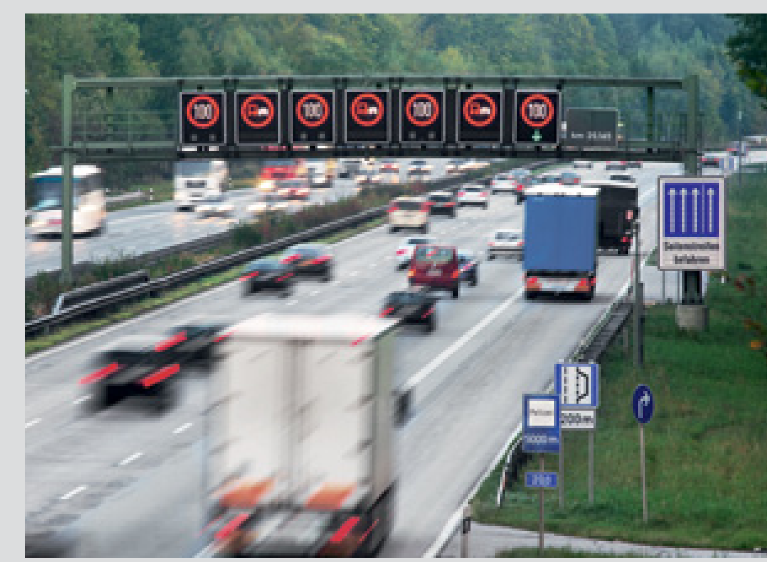
1_NUREMBERG UNDERGROUND TRAVELS DRIVERLESS THANKS TO FUNKWERK TECHNOLOGY: Since 2008, Nuremberg has been the first city worldwide to use driverless and conventional underground trains in a mixed service. The operator is using a video-based system for passenger compartment monitoring provided by Funkwerk. Camera images are sent in real time to the control centre using wireless LAN networks – even at maximum speeds of up to 100 km/h.

2_VIDEO SYSTEM IN HAMBURG'S ELBTUNNEL: Funkwerk is upgrading the video system in Hamburg's Elbtunnel by 2012. More than 110 cameras, including 70 with innovative pan/tilt heads will then improve security in the tunnels and the escape routes. The contract also involves new digital workplaces for the surveillance staff.

3_HARD SHOULDER RELEASE ON MOTORWAYS: Our Argoscan software solution and innovative video cameras provide the option of opening up hard shoulders on heavily frequented motorway sections to be used as additional lanes. This solution is used, for instance, on the A63. Previously, disruptions at the Klein-Winternheim junction were an almost daily occurrence; thanks to 32 pan/tilt cameras these could now be reduced.



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Security Communication **Security**

SECURITY COMMUNICATION – SECURITY

Our Security business unit comprises personal security solutions and emergency call systems along with the appropriate terminals. Focus is given here to fields of work with increased security requirements, such as found in penal facilities or in areas with increased risk of explosion, as our explosion-proof equipment automatically sets off an alarm in the event of a hazardous incident. We frequently use the GSM mobile radio network here to ensure that our systems also work in remote locations. Funkwerk further provides innovative solutions based on the TETRA standard – the main standard used by authorities and organisations with security functions – and DECT systems. These connect standard communication equipment such as telephony with professional radio technology.

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1_PERSONAL EMERGENCY CALL SYSTEM SECURES POWER PLANT IN LUDWIGSHAFEN: Supplied by Funkwerk, a personal emergency call system based on the DECT standard now protects personnel at a power plant in Ludwigshafen. Thanks to the detailed tracking function, a person in distress can easily be located and their position pinpointed on a map – a huge contribution to making dangerous workplaces safer.

2_SPECIALLY PROTECTED TETRA DEVICES FOR OIL PLATFORM IN NORWAY: In 2011, we obtained certification in the highest ATEX protection class for our TETRA handheld devices and promptly received our first contract here. We are supplying FT4 EX TETRA ATEX devices with a high gas protection rating to an oil rig of Maersk Drilling in the North Sea.

3_PROFESSIONAL PERSONAL SECURITY AT LEIPZIG PENAL FACILITY: At Leipzig's penal facility, a TETRA-based personal emergency call system from Funkwerk ensures the safety of personnel. Staff are provided with a radio transceiver which they can use to communicate and in an emergency immediately raise alarm. In case of a fall, sensors even automatically call for help.

Market position

We have many years of experience in the rapidly growing market for electronic security systems and are the no. 1 in some subsectors in Germany. This particularly includes personal emergency call systems for penal facilities. Here, around half of all facilities in the country are now using a Funkwerk system. We also occupy a top position in the highly precise location of individuals pinpointed down to the exact room. As our TETRA solutions are increasingly gaining market shares, we rank among the top 3 companies in Germany to provide explosion-proof DECT and TETRA devices.

Strategic measures

Due to steadily increasing security requirements, we expect the global market for security technology to grow over the next few years. Depending on the region, annual growth rates are predicted to range between 3 and 10 per cent. We plan to play a significant role in this and are focusing on internationalising our product business in our Security BU. We already have a network of distribution partners that stretches across 13 countries. In addition, we are pressing ahead with our cooperation with infrastructure companies adding further global partners to our numbers. Significant growth rates are expected especially for our highly popular innovative TETRA solutions. But we are also planning to gain further market shares in such niche sectors as explosion-proof devices. In terms of DECT equipment, we foresee growth to come from our new Funkwerk D4 Office, a high-end handheld business unit with comprehensive telephony and messaging functions. Integrated problem solutions merging diverse solutions relevant to security are equally increasing in importance. We have many years of experience in this field along with a wide product range, which stands us in good stead here. Internally, we primarily want to improve our efficiency in handling projects.

01

GROUP MANAGEMENT REPORT

1. Business and general setting

Basis and group structure

Funkwerk AG is a mid-sized technology company specialising in solution-oriented information, communication and security systems for rail transport, vehicles, infrastructure, authorities and businesses. Funkwerk products are based on the state-of-the-art principles of radio and communication technology and data processing to improve security and comfort and help reduce customer costs. Our mission is to maintain a high degree of flexibility in reacting to customer requests which we couple with leading technological expertise.

Under the umbrella of Funkwerk AG, operations are divided into three strategic segments. Our Enterprise Communication (EC) segment was sold in the preceding financial year.

Traffic & Control Communication (TCC) covers the development, production and sale of high-end system solutions for railway and transport companies, infrastructure operators and railway vehicle manufacturers worldwide. This includes such equipment as interlocking and information systems and train radio devices. Our customer base here primarily consists of rail transport companies, infrastructure operators and system providers.

Security Communication (SC) specialises in the development, production and sale of systems for high-end security solutions such as personal security and video monitoring and surveillance systems. Our customers in this segment include authorities, penal facilities, public transport companies and businesses.

Automotive Communication (AC) provides car and lorry manufacturers with customised connectivity and networking solutions for the vehicle along with telematics systems. Its target group primarily includes premium manufacturers in the vehicle industry and transport companies.

From 2012, the Funkwerk group moved towards a more centrally managed structure. As a result, operations in these three strategic segments were divided into business units (BU) at fiscal year change which now operate company-wide across all sites. The TCC segment, for instance, will in future be divided into the BUs Infrastructure and Rolling Stock; our SC segment, into Video Systems, Security Communications and Security Products. At AC, operations will be taken on by a BU of the same name, Automotive Communication. Alongside these, central functions will in future be combined and managed from Funkwerk AG.

Funkwerk is represented in key markets through branch establishments or subsidiaries. At the end of 2011, the group — with its three continued segments — operated eight sites in Germany and four abroad. Our consolidated group changed in the reporting year due to the sale of our subsidiary Alpha Meß-Steuer-Regeltechnik GmbH and our entire Enterprise Communication (EC) segment including subsidiaries. The latter was sold in early October, while the beneficial title passed to the new owner on 13 January 2012. In addition, Funkwerk Avionics GmbH was sold in the first quarter of 2012. Details are included in the net asset, financial and earnings position. A full account of the consolidated group is provided in the notes to the financial statements.

DIVISION OF OPERATIONS

TRAFFIC & CONTROL COMMUNICATION	SECURITY COMMUNICATION	AUTOMOTIVE COMMUNICATION
▪ INFRASTRUCTURE ▪ ROLLING STOCK	▪ VIDEO SECURITY SOLUTIONS ▪ SECURITY COMMUNICATION ▪ SECURITY PRODUCTS	▪ AUTOMOTIVE COMMUNICATION

CUSTOMER TARGET GROUPS

▪ PUBLIC RAIL AND TRANSPORT OPERATORS ▪ RAIL TRANSPORT / MANUFACTURERS ▪ INFRASTRUCTURE OPERATORS	▪ COMPANIES ▪ INSTITUTIONS & AUTHORITIES ▪ ENERGY SUPPLIERS	▪ CAR AND LORRY MANUFACTURERS ▪ TRANSPORT COMPANIES

Reorientation of the Funkwerk group

The strategy of Funkwerk AG is strictly focused on profit-oriented growth along with advancement of our technological expertise and the improvement and consolidation of our leading positions in many sectors. In the 2011 financial year, the group set in motion comprehensive reorientation measures to reposition itself more efficiently, improve its competitive strength throughout the group, and increase its earning power. In so doing, we are primarily pursuing four objectives:

- In focusing on our core areas, the group now concentrates strictly on its three strategic segments, TCC, SC and AC. Within these segments, we are restricting ourselves to growth fields with a strong margin and have put all other activities to the test. In 2011 and in the first quarter of 2012, we already sold a number of companies that were no longer part of our core business and implemented or initiated further adjustment measures, specifically relating to our product portfolio.
- At the same time, we will increasingly utilise the existing synergy potential in the group more effectively to regain our earning power. In so doing, we are streamlining and simplifying the group's structures, aligning our operations rigorously to the market, and consolidating central areas such as administration, purchasing and production. This will help us use our resources more specifically, reduce complexities, and address the market more efficiently.
- We also intend to increase the financial strength of Funkwerk AG as a further focal point. Back in 2011, we already improved our liquidity through a multi-year syndicated loan agreement. The sale of the above companies has further contributed to ensuring a more stable financial situation for the group.
- On the whole, Funkwerk AG is geared towards growth. We are focused on expansive product fields and plan to establish our three segments in international markets that promise sustainable growth rates. In so doing, we are capitalising on our technological lead in key product sectors and are steadily moving away from being a supplier for special niche sectors and towards becoming a solution-oriented system provider. We are also broadening our access to these markets through appropriate partnerships.

Corporate governance and control system

Funkwerk is managed on the principles of the German Corporate Governance Code. Specific responsibility for corporate governance rests with the Executive Board. Its work is monitored by the Supervisory Board. The Executive Board also specifies the group strategy and together with the responsible parties in the segments and business units works out suitable measures for implementation.

The operating units are controlled both on the basis of strategic requirements and key performance indicators. These include sales, the EBIT margin, the value added per employee, the working capital to sales ratio, the investment intensity, and the turnover ratio. These management tools are used in the context of group-wide controlling and are extended where required. We also keep a close eye on various leading operational indicators such as market, economic and selected industry figures, incoming business in our segments, and the trend of key raw material prices and currencies. Corporate management and controlling at Funkwerk also includes the analysis of current and target positions in competition. To establish these, we regularly examine each of our market shares, the quality of our products, the sales contribution of new products, and the development intensity.

Economic parameters in 2011

The world economy in 2011 on the whole developed against the backdrop of positive trends. The International Monetary Fund (IMF) estimates that the global economy grew at a rate of 3.8 per cent. This comparatively high increase was achieved in the main within the first few months, whereas economic activity visibly began to flag in the further course of the year. According to the IMF, this was triggered primarily by the gradually aggravating debt crisis in some countries of the eurozone and the difficult situation in the financial markets.

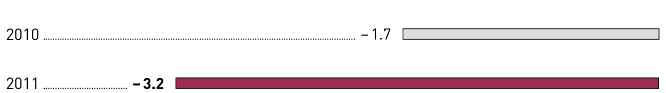
The lion's share of growth in 2011 was once again contributed by the emerging markets and developing countries, which grew by a total of 6.2 per cent, despite ultimately also seeing a significant decrease in economic momentum. At 1.6 per cent, the industrialised nations, in contrast, managed but a moderate performance. A positive exception in this group of countries was Germany. According to preliminary data published by the Federal Statistical Office, the real gross domestic product in this country rose by 3.0 per cent in 2011. Despite this impressively strong growth, however, Germany also increasingly saw clouds threatening to darken its economic skies towards the end of the year.

For Funkwerk as a system and infrastructure manufacturer, the trend of gross fixed capital formation and of equipment investments is a key economic indicator. According to the Federal Statistical Office, spending on equipment in 2011 rose by 8.3 per cent. This figure, however, hides notable differences in trend in the various sectors. Communication and information systems as a highly important market for Funkwerk, for instance, remained difficult on the whole. This was due, among other things, to budgetary constraints in the public sector, which led to delays in contract awards and to projects being stretched over longer periods. Investments made by Deutsche Bahn to modernise its interlocking equipment in the regional transport sector also remained behind our expectations in 2011.

Business trend of Funkwerk at a glance

In the 2011 financial year, Funkwerk AG initiated fundamental strategic reorientation measures and made good progress in their implementation. We have focused the group on three core segments and within these strategic segments will in future restrict ourselves to expanding fields. We made preparations for the planned restructuring of our organisational setup in the reporting year and were able to implement plans to divide operations into six market-oriented business units in early 2012. Efforts to centralise our cross-divisional functions, such as in purchasing and production, also delivered initial successes. In terms of our operating business, we were able to win key strategic contracts and hold our market position in many sectors.

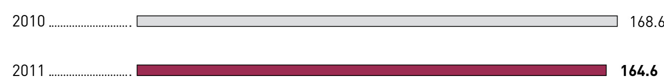
OPERATING PROFIT* (€ M)



* before impairment costs and restructuring

Our reorientation along with significant development and investment advances, however, have placed a burden on our earnings situation. The 2011 financial year closed with earnings from operations (operating result before impairment and restructuring costs) of EUR −3.2 m. The reorientation measures also resulted in restructuring costs totalling EUR 4.7 m in 2011 and, once again, in impairment costs from capitalised product developments and goodwill to the amount of EUR 5.3 m. On balance, earnings before interest and taxes aggregated EUR −13.1 m, compared to EUR −14.9 m in the previous year. The sales volume in the group reduced on a comparative basis by 2.4 per cent to EUR 164.6 m.

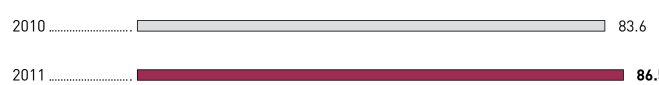
REVENUES (€ M)



2. Segment reports

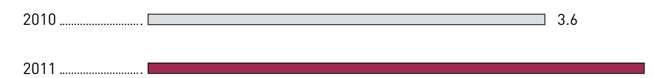
Traffic & Control Communication

REVENUES BUSINESS UNIT TCC (€ M)



Restructuring measures in our biggest segment, TCC, which accounts for more than half of the group's sales, were rigorously focused on centring the segment's activities on train and railway transport in 2011. A key step here was the sale of our subsidiary, Alpha Meß-Steuer-Regeltechnik GmbH (Alpha). Up until its deconsolidation on 30 September 2011, the company with around 120 employees had generated sales of EUR 11.2 m. The sports display product line of Funkwerk Information Technologies Karlsfeld GmbH was also put up for sale, thus reclassifying sales in 2011 to the amount of EUR 1.5 m. Adjusted TCC sales, i.e. without Alpha and the sports display line, proved somewhat higher in 2011 than in the previous year, up from EUR 83.6 to EUR 86.5 m. At EUR 4.5 m, the operating result before impairment and restructuring costs notably improved on the previous year (EUR 3.6 m). Due to higher restructuring and impairment costs to the total of EUR 4.1 m, however, the EBIT reduced to EUR 0.4 m (2010: EUR 1.1 m).

OPERATING PROFIT BUSINESS UNIT TCC* (€ M)



* before impairment costs and restructuring

One of the highlights in 2011 was the successful completion of trial operations involving our electronic interlocking system Alister SIL 4. The development of this platform has helped Funkwerk over the last few years to reposition itself in the signalling technology sector, which we plan to use to our advantage to open up a market with significant growth potential. We have now commenced with further marketing efforts in the passenger transport sector expecting to obtain formal SIL 4 certification in 2012. Back in late 2011, we already received an important follow-up contract from the passenger transportation sector. We have been commissioned to modernise the signalling technology of Deutsche Bahn on the Bremen – Bremerhaven section and so will be equipping the second section in Germany with Alister SIL 4. Initial operation is scheduled for the third quarter of 2013.

Our interlocking systems sold as Alister Cargo have already been in use for several years in marshalling yards, depots and works railways, which are subject to the lower safety level SIL 2. In 2011, we also received a number of new contracts here both from Germany and abroad. Alister Cargo was installed in Sweden, Denmark, Austria, Switzerland and Slovakia, to name but a few countries.

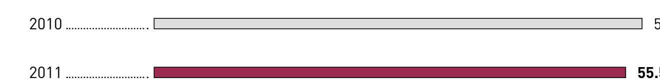
A further new contract from Deutsche Bahn AG concerns the software migration of the eight operating centres of DB Netz AG to a new hardware platform and modern operating systems, which are due to be connected in September 2012. Furthermore, we are involved in a project to provide the control and safety systems of Deutsche Bahn with modern, efficient standard interfaces.

In the train radio systems sector, Funkwerk has occupied a dominant position in mobile communication systems based on the GSM-R standard over the last years. Our market share in Europe is around 70 per cent here. In the reporting year, we introduced a new generation of handheld devices. These focX devices, which can be used both for train radio applications and for shunting communication, promptly gained a foothold in the market in 2011 leading to a major framework contract from Austria. Until 2016, we will be delivering more than 2,000 handheld transceivers to the Austrian railway company (ÖBB). The first delivery went ahead in the last quarter of 2011.

In 2011, our information systems sector received a momentous new order from Deutsche Bahn commissioning us with upgrading and improving the audio side of passenger information systems as part of its quality assurance drive. The project includes almost half of all main-line stations in Germany. Also worth a mention are two train equipment projects involving such aspects as electronic public address systems, which we are supplying to a train manufacturer.

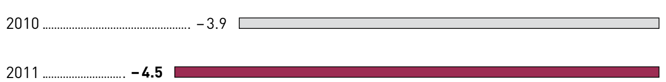
Security Communication

REVENUES BUSINESS UNIT SC (€ M)



In 2011, restructuring measures in our SC segment primarily focused on harmonising business areas and standardising products. Camera production, for instance, was concentrated at our Salzgitter site, which involved considerable organisational changes also affecting the personnel sector. This has enabled us to optimise our cost structures, simplify our organisation here, and increase the joint use of existing resources — especially in purchasing. We further optimised the production costs of our products while reducing product complexities. In addition, we made considerable headway in our planned internationalisation. The SC segment of Funkwerk now works with 30 contracting partners in 13 countries, of which as many as 17 partners were added in the reporting year. Segment sales marginally decreased from EUR 57.4 m to EUR 55.5 m. At EUR −4.5 m, the operating result before impairment and restructuring costs remained below the prior-year figure (EUR −3.9 m). The EBIT amounted to EUR −6.2 m to improve considerably on EUR −13.7 m in the previous year. This development was due to the significant impairment necessary in the previous year on grounds of our Algeria business.

OPERATING PROFIT BUSINESS UNIT SC* (€ M)



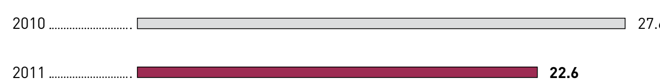
* before impairment costs and restructuring

In terms of personal security systems, we enjoy a prime position particularly with correctional facilities. Today, around half of all facilities in Germany already use Funkwerk systems, and of the total number of projects tendered in Germany in 2011, Funkwerk was able to decide more than two thirds in its favour. Innovative TETRA solutions in particular are very much in demand — so also at the Leipzig penal facilities. To secure and further consolidate our market position here, we have extended our customer base. As a result, we have been supplying a power plant of RWE with personal emergency call systems since 2011. On the other hand, we have widened our offering by launching such products as our new Funkwerk D4 Office, a high-end handheld business unit with comprehensive telephony and messaging functions. This unit can be used in virtually all DECT networks. In 2011, we also received ATEX certification in the highest class for our TETRA handhelds. Initial orders for this explosion-proof version came from a French energy supplier and for an oil platform in Norway.

In our video monitoring and surveillance systems sector, one of the key contracts placed in the reporting year was from the European Central Bank (ECB), the first project ever for Funkwerk from the banking sector. Funkwerk is set to equip the new ECB building in Frankfurt with a full video surveillance system. A new application area for our video-based control system is hard shoulder release on motorways. Using our Argoscan software solution along with innovative video cameras, the hard shoulders on heavily frequented motorway sections can now temporarily be opened as additional lanes. Funkwerk's innovative cameras feature highly robust, state-of-the-art pan/tilt heads. In Nuremberg our systems enable driverless operation of underground trains. Through video-based passenger compartment monitoring including transmission of high-quality video images in real time via wireless LAN, our systems have increased not only the reliability and security of operations here, but also help protect against crime and vandalism.

Automotive Communication

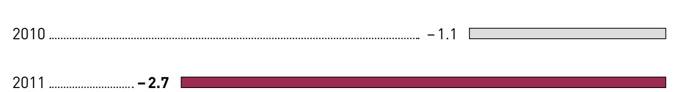
REVENUES BUSINESS UNIT AC (€ M)



Our AC segment was reorganised in 2011 as part of our reorientation efforts to focus solely on OEM business with the automobile and lorry industry. Our business involving products for the automobile after-sales market was sold to a German distribution partner while our avionics line with annual sales to the amount of EUR 3.3 m was also put up for sale in 2011. We simultaneously restructured our internal processes here and initiated measures aimed at reducing our costs and optimising the inventory.

As a result of these restructuring measures and the planned sale of our avionics line, the sales volume of AC reduced to EUR 22.6 m, down from EUR 27.6 m in fiscal 2010. The operating result (before impairment and restructuring costs) was affected by considerable advance payments and amounted to EUR –2.7 m (2010: EUR –1.1 m). Due to restructuring costs and impairments, the financial year ended with an EBIT of EUR –6.9 m (2010: EUR –2.1 m).

OPERATING PROFIT BUSINESS UNIT AC* (€ M)



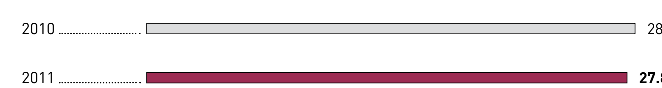
* before impairment costs and restructuring

The advance payments relate to major contracts from leading automobile and lorry manufacturers, which we received in the spring of 2011. The order volume under framework contracts totalled close to EUR 100 m. Executing these orders will initially involve significant development costs before their effect will show in our sales figures in later periods. These framework contracts, some of which are based on a new development platform, basically involve three projects. Firstly, we will supply an automobile manufacturer with customised products for integration of mobile terminals in the car. The second project concerns telematics devices for the vehicles of a leading lorry manufacturer. In a third project, Funkwerk will provide another major car manufacturer with a universal solution for inductive connection of the mobile phone in the car to optimise reception (known as the coupling chamber). We plan to offer these solutions also to other manufacturers and will participate in appropriate tenders in 2012.

In addition, we received a major contract for our innovative real-time fleet management system aimed at forwarding agents and operators of sizeable fleets, which largely determined our activities in the telematics sector. Since the end of 2011, we have been providing Deutsche Telekom, one of the main fleet operators in Germany, with a vehicle log solution for some 6,000 cars and transporters from different manufacturers. The system transmits relevant data largely automatically and meets the requirements under tax law for logbook documentation.

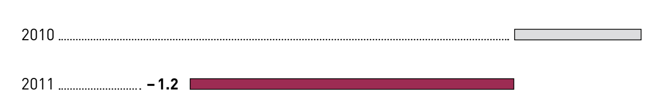
Enterprise Communication (EC)

REVENUES BUSINESS UNIT ES (€ M)



Specialising in integrated communication solutions primarily for small to mid-sized companies, our EC segment generated sales of EUR 27.8 m (2010: EUR 28.3 m) with earnings before interest and taxes of EUR –1.2 m (2010: EUR 0.5 m). Our EBIT in 2011 was affected by the sale of this division. Once the entire segment was sold in the context of our group reorientation measures under a purchase contract of 18 October 2011 and the beneficial title passed to the buyer on 13 January 2012, details were netted in the 2011 consolidated statement of income and accumulated earnings under the item ›Profit from discontinued operations‹.

OPERATING PROFIT BUSINESS UNIT EC (€ M)

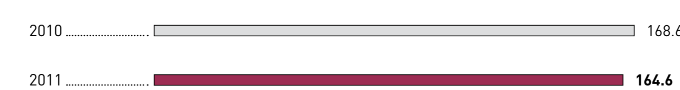


3. Earnings, financial and asset position

Sales and earnings affected by restructuring

The 2011 statement of income and accumulated earnings of Funkwerk AG was once again affected by high restructuring costs and considerable advance payments for new projects primarily in our AC segment. Further key influencing factors include the measures taken to concentrate on our core segments. As a result, Alpha Meß-Steuer-Regeltechnik GmbH (TCC) (included in the consolidated financial statement up until 30 September) was sold last year in October 2011, followed by our EC segment (included up until 31 December) in early January 2012. Funkwerk Avionics GmbH (AC) was divested in March 2012. We also intend to sell our sports display line (TCC) in the course of 2012. The sales and cost shares of these companies were combined and reported as a cumulative total under the »Profit from discontinued operations (after taxes)« item in the statement of income and accumulated earnings; the figures for fiscal 2010 were adjusted accordingly.

REVENUES (€ M)



Consolidated sales of the continued segments reduced by 2.4 per cent to EUR 164.6 m in 2011. This was due mainly to the difficult economic parameters in key consumer sectors. The other operating income remained stable at EUR 6.7 m (2010: EUR 6.8 m) despite insignificant investment subsidies. The reason for this was the retransfer of a reserve which had been set up for legal licence disputes, but which is now no longer required after a successful outcome for Funkwerk.

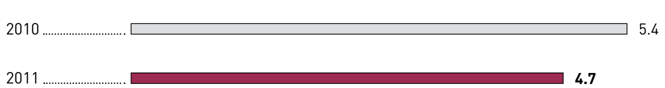
OPERATING PROFIT* (€ M)

* before impairment costs and restructuring

Personnel expenses declined comparatively moderately by 1.4 per cent to EUR 62.5 m despite the reduction in workforce. This development resulted from the fact that previous restructuring measures primarily saw employees in the low-wage segment being cut as part of our reorientation strategy. On the other hand, pay-scale and non-pay-scale wages and salaries were up again for the first time.

The trend in the cost of materials proved satisfactory with costs reducing quite notably by 7.1 per cent to EUR 83.8 m and so more drastically than sales. The gross yield (without internally produced and capitalised assets and other operating income) of EUR 78.8 m remained at prior-year level despite a drop in business volume. The gross yield margin improved from 46.7 per cent to 47.9 per cent. The considerable savings in the cost of materials reflect initial positive effects resulting from our rigorous restructuring efforts. Other operating expenses amounted to EUR 24.0 m in 2011, after EUR 24.3 m in the previous year. The 2011 financial year closed with an operating EBITDA (before impairment and restructuring costs) to the amount of EUR 4.7 m, after EUR 5.4 m in 2010.

OPERATING EBITDA* (€ M)



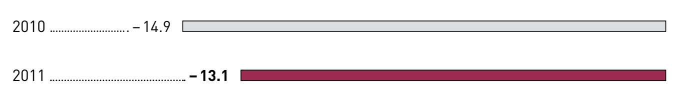
* before impairment costs and restructuring

The operating result before impairment and restructuring costs totalled EUR −3.2 m in 2011, compared to an adjusted result of EUR −1.7 m in 2010. The massive group shake-up initiated in 2011, however, once again led to significant restructuring costs of EUR 4.7 m (2010: EUR 2.0 m). In addition, impairments of intangible assets amounted to EUR 5.3 m (2010: EUR 3.4 m). This includes amortisation of development costs and goodwill, which are explained in more detail in the notes. Nonetheless, earnings from operations (EBIT) marginally improved in total, up from EUR −14.9 m to EUR −13.1, as one-off expenses from project business no longer applied, whereas 2010 had involved significant impairments related to our Algeria business to the amount of EUR −7.8 m.

The financial result in 2011 totalled EUR −2.2 m, compared to EUR −1.7 m in the previous year. This was due, primarily, to a rather low market interest rate level for investments which led to considerably less financing income of EUR 0.2 m (2010: EUR 0.5 m). At EUR −2.4 m, the financing expenses primarily concerned costs related to raising loans.

Taking account of the financial result, consolidated earnings before taxes totalled EUR −15.3 m, after EUR −16.6 m in the previous year. Taxes on income amounted to EUR 3.6 m, with the lion's share of the additional allocation due to a reserve which was set up on grounds of an additional tax demand resulting from a tax audit which proved higher than expected. We have appealed against these tax assessments and were granted complete suspension of execution. Net earnings of the continued segments totalled EUR −18.9 m in 2011, after EUR −22.7 m in 2010. The diluted and undiluted earnings per share for the continued segments therefore came to EUR −2.35 (2010: EUR −2.82).

RESULT AFTER IMPAIRMENTS AND RESTRUCTURING COSTS (€ M)



Taking into account the earnings from discontinued activities of EUR 3.0 m (2010: EUR −2.2 m), the consolidated annual deficit for fiscal 2011 of EUR −15.9 m was considerably much lower below the line than in the previous year (EUR −24.9 m).

Financial position

The key financial management targets of Funkwerk AG are to secure the group's liquidity, to optimise the financial expenses and income, and to control and minimise the currency and interest risks. In our efforts to achieve these targets, we employ as wide a spectrum of financing instruments as possible. This diversification provides us with a much wider scope for action and increases our options.

To ensure a more stable financing basis for Funkwerk AG in the long term, we concluded a syndicated loan agreement of EUR 75.5 m with three German commercial banks headed by Commerzbank AG in March 2011. The loan has a term of over three years with an option of a further two years. It comprises a revolving money market loan of EUR 12.5 m, credit in current account of EUR 5.0 m, and a bank guaranteed credit line of EUR 58.0 m. Funkwerk AG and its subsidiaries have provided collateral for this loan, which also required a government indemnity bond as a stipulation for loan approval, which we received from the »Germany funds« Government/Laender programme. Specifically, this involves an 80 per cent indemnity bond for EUR 9.0 m of cash credit and a 60 per cent indemnity bond for EUR 10.6 m of guaranteed credit. The bond has a term of five years and is tied to the standard condition typically applied to government bonds. This means that during its term the majority shareholder of Funkwerk AG is obligated to vote for a retention of earnings at the annual general meeting to ensure that no dividend is paid out.

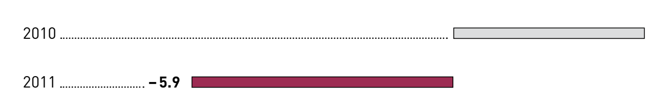
The syndicated loan agreement stipulates as a condition that the equity ratio of the Funkwerk group must not at any point drop below 35 per cent. At the same time, the adjusted debt to equity ratio of the Funkwerk group as at 30 September 2011 and up until 30 December 2011 must not exceed 7.0, and as at 31 December 2011 and thereafter, 3.5.

In respect of the clear effects of the reorientation, Funkwerk AG notified the banking syndicate of non-compliance with the ratio specifics for 30 September 2011, for 31 December 2011, and for the following quarters in 2012. The banking syndicate accepted our reorientation related non-compliance for 30 September 2011 and 31 December 2011. Under confirmed plans to amend the syndicated funding, new ratios will be defined for 2012 and the following periods based on our changed group structures. In respect of the planned changes to the existing syndicated loan, we refer to section (10) Events after the reporting period. Until conclusion of the amendment agreement, it was agreed in accordance with the current loan agreement that the cash inflow of EUR 18 m from the sale of companies in 2011 and early 2012 be pledged to the banking syndicate.

On the whole, our financial situation has stabilised considerably as a result of the syndicated loan and our focusing strategy initiated in 2011 and largely implemented with great success by early 2012 and the related sale of Alpha (TCC), our EC segment, and the avionics product line (AC).

Liquidity trend

CASH FLOW FROM OPERATING ACTIVITIES (€ M)



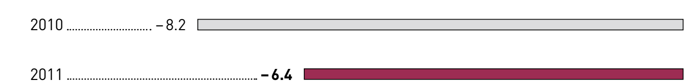
The liquidity outflow from current operations across the group amounted to EUR 5.9 m in 2011.

At EUR 7.4 m, the lion's share of investments was made in development, EUR 2.7 m were spent on the purchase of fixed assets. Investments in the discontinued operations amounted to EUR 2.6 m. The receipts resulted from investment subsidies (EUR 1.1 m) and the sale of Alpha (EUR 9.6 m).

Adding up the cash inflow and outflow from current operations and investment activities, the free cash flow totalled EUR −6.4 m in 2011, compared to EUR −8.2 m in the previous year.

The cash flow from financing activities amounted to EUR 12.3 m. This inflow was due primarily to the utilisation of the revolving money market loan.

FREE CASH FLOW (€ M)



Asset position – consolidated balance sheet extended

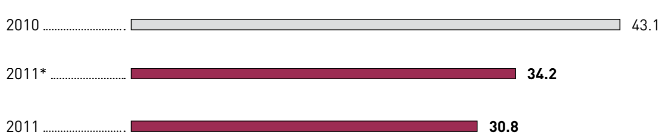
Our consolidated balance sheet as at 31 December 2011 was significantly affected by the deconsolidation of Alpha Meß-Steuer-Regeltechnik GmbH and the completed divestiture in 2012 of our EC segment and Funkwerk Avionics GmbH. As a result, a direct comparison with the previous year is no longer possible. All assets of operations sold in 2012 are shown on the assets side under the new item »Assets held for sale«, which amounted to EUR 14.6 m, and pertinent liabilities of EUR 15.7 m under »Liabilities held for sale« on the liabilities side. Since the internal and previously consolidated liabilities are treated as external liabilities of the buyer in a planned sale and correspondingly the group's internal receivables are allocated to short-term assets in line with their nature, this accounts for an extension of total assets to the amount of EUR 9.9 m.

Consolidated total assets rose by 5.5 per cent on the previous year to EUR 157.9 m. Long-term assets amounted to EUR 36.9 m after reclassification of the sold operations. Of this amount, EUR 24.6 m were attributable to intangible assets and EUR 12.3 m to tangible assets. Initial successes in restructuring our Purchasing and Production units led to a reduction in inventories to EUR 35.6 m. The increase in trade accounts receivable by EUR 6.4 m to EUR 34.0 m resulted from the expiry of the factoring (in 2010, utilisation of EUR 7.5 m), but was also due to the cutoff date, as quite a number of projects were billed in the last quarter. The financial assets increased on account of the contractually agreed settlement of internal loan and cash pool receivables for the company units sold in the first quarter of 2012. Liquid funds rose by EUR5.3 m to

EUR 17.4 m owing primarily to the payment of the purchase price for Alpha. As at the cutoff date, EUR 9.4 m of the liquid funds were pledged to the banking syndicate.

On the liabilities side of the consolidated balance sheet, the most notable aspect other than the non-consolidated statement due to the sale was primarily the decrease in equity from EUR 64.5 m to EUR 48.7 m because of the annual deficit. As a result, the equity ratio stood at 30.8 per cent at the end of 2011. Adjusted for the liabilities held for sale, it came to 34.2 per cent.

EQUITY RATIO (IN %)



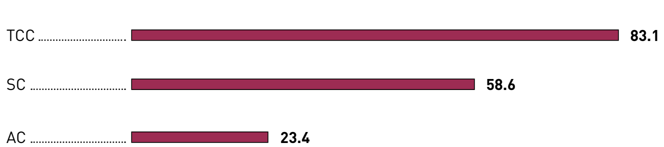
* adjusted for liabilities held for sale

The long-term liabilities of EUR 14.4 m, which primarily included pension commitments of EUR 12.8 m, barely changed on the prior-year figure of EUR 14.5 m. The short-term liabilities increased in total by EUR 24.1 m to EUR 94.8 m. In addition to the non-consolidated internal debt in connection with the completed sale of companies in 2012, this reflects the increase in short-term financial liabilities from EUR 0.4 m to EUR 12.9 m after utilisation of the revolving money market loan to finance current operations.

The net cash, i.e. the balance of financial liabilities and liquid funds, amounted to EUR 4.5 m at the end of 2011 and so still remained noticeably positive despite once again reporting a deficit. With respect to the planned release of the pledged liquid funds, please refer to section (10) Events after the reporting date.

Overall view of the economic situation

ORDER VOLUME (€ M)

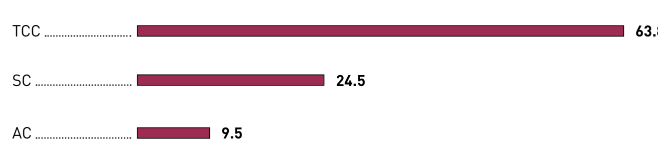


Total volume of incoming orders in 2011: EUR 165.1 m

Despite new losses incurred in 2011, the economic situation of Funkwerk AG could, on the whole, be stabilised through our comprehensive focusing and reorientation strategy, which was largely implemented by early 2012. Adjusted for the liabilities still held for sale as at 31 December 2011, total assets could be reduced from EUR 149.7 m to around EUR 142.2 m. Adjusted correspondingly, the equity totalled around EUR 49 m, so that the adjusted equity ratio stood at around 34.5 per cent. Working capital was reduced by around EUR 4.1 m, or 10 per cent, to EUR 37.1 m (2010: EUR 41.2 m). Due to payment of the purchase price for our Enterprise Communication segment sold in the first half of 2012, net liquidity will increase further by around EUR 8 m after the planned release of pledged funds. We refer to section (10) Events after the reporting date on this.

Incoming orders of continued operations in the group totalled EUR 165.1 m in the reporting year. Of this amount, around EUR 83.1 m were attributable to our strategic TCC segment and around EUR 58.6 m to SC, while our AC segment booked new orders worth around EUR 23.4 m. Defined by project business, the volume of orders in the group, which was also adjusted for discontinued operations, totalled EUR 97.8 m on 31 December 2011, after EUR 98.8 m on the prior-year reference date. At EUR 63.8 m (2010: EUR 68.7 m), almost two thirds were attributable to TCC. In our SC segment, the level of orders increased to EUR 24.5 m (2010: EUR 21.0 m), while AC improved to EUR 9.5 m (2010: EUR 9.2 m).

ORDER BACKLOG (€ M)



Total volume of order backlog in 2011: EUR 97.8 m

4. Other performance indicators

Procurement

The raw materials and supplies which we need to produce our own products are procured from different sources worldwide to avoid dependencies and procurement bottlenecks and to offset as much as possible any price fluctuations in some regions. Asia is a highly important region for the Funkwerk group. Due to the earthquake disaster in Japan, we were faced with significant price increases and delivery bottlenecks here. This additional expense could be more than compensated, however, through savings in other places and through initial positive effects from our restructuring measures. On the whole, the cost of materials in 2011 reduced by 7.1 per cent to EUR 83.8 m throughout the group.

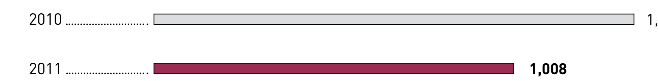
In the context of our strategic reorientation, the Purchasing sector was centralised to ensure a better use of internal synergies. Our aim is to improve the management of capacities in the group and achieve further cost savings over the next few years. To ensure success here, we are increasingly focusing on standardising our suppliers and components and on more intensive cooperation across our divisions.

Production

In terms of production, we commenced in 2011 to review our production and assembly sites in the group and focus on three main facilities. This will help us optimise the utilisation of capacities in the group and consolidate expertise in order to reduce our fixed costs. Our Dabendorf site is used as a central location for our AC segment, Kölleda for the rail sector, and Salzgitter for electronics production. In 2011, the production of video cameras was completely relocated from Funkwerk plettac electronic GmbH in Fürth to Salzgitter and the related structures adjusted accordingly. This enabled us to close a production facility and increase the capacity utilisation in Salzgitter. The Kölleda facility was also sufficiently used to capacity, while capacities in Dabendorf were not fully utilised. For two large-quantity products in Kölleda and Salzgitter, we also began to change our production methods to »lean« principles in 2011. This will help us reduce our production and running times, but also our inventories.

Employees in continued segments

EMPLOYEES



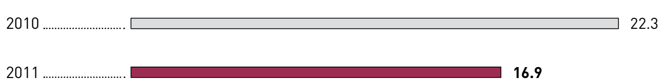
As at 31 December 2011, Funkwerk as a group employed 1,008 people (excluding discontinued operations), which is 355 employees less than on the prior-year reference date. The reduction is due, on the one hand, to the sale of companies (– 285) and, on the other, to the streamlining of our operating units (– 70). The sale of our EC segment reduced the workforce by 144 employees, while TCC was down 117 jobs because of the sale of Alpha Meß-Steuer-Regeltechnik GmbH. Divided into strategic segments, this paints the following picture: 515 employees worked in TCC (2010 incl. Alpha: 665), 327 in SC (2010: 343) and 158 in AC (2010 incl. avionics: 204). As in the previous year, Funkwerk AG as the holding company of the group employed 8 people.

On the whole, Funkwerk employees are exceptionally well trained: 43 per cent of staff in the group have graduated from university, some 45 per cent are skilled workers. We further increased the know-how of our workforce by offering a variety of qualification measures in 2011. These involved the Production, Sales, Development, Controlling and Quality Management sectors and also included the various companies' executives. We believe that the continual further training and education of our employees will also help us secure the future of our group.

In 2011, an annual average of 60 young trainees (2010: 67) at our various sites were prepared for work in commercial and industrial fields and in information technology. Job profiles include industrial business management assistant, electronics engineer, warehouse logistics specialist, specialist computer scientist, management assistant in IT systems, and IT system technician. In cooperation with the university of cooperative education, we also offer the opportunity to study business administration or engineering. In 2011, the range of subjects involved in this practically oriented course, which finishes with a state-approved academic degree (German ›Diplom‹), includes construction, information and communication technologies, Bachelor of Engineering, and business studies.

Research and development

EXPENDITURE F & M (€ M)



Intensive research and development activities (R&D) at Funkwerk are aimed at designing new products and solutions and increasing the efficiency of our production processes to ensure that we are able to further consolidate our lead already held in many markets. Rather than restricting ourselves to basic research, however, we concentrate on the development of products and systems that meet the needs of our customers. In addition, we devise concepts and are involved in preparatory efforts for newly developing markets. In 2011, R&D spending in the group totalled EUR 16.9 m (2010: EUR 22.3 m). In terms of sales, this produces a R&D ratio of around 10 per cent. On an annual average, Funkwerk employed 284 people in the group's R&D division in 2011, which corresponds to 22 per cent of the total workforce.

Our development projects are planned, structured and driven with due consideration of the market and customer requirements. To improve our productivity in development and accelerate the marketability of our products, Funkwerk increasingly uses generic development platforms in its segments. In the context of our reorientation, we have also begun to consolidate our group-wide R&D activities and our existing know-how and work more intensively in competence centres. This will enable us to improve the use synergies between the sectors and individual companies and share our innovative development results in a wider context. We have already had initial successes with our software development framework. This technology was developed for our AC segment and is also used in the telematics sector and for rail vehicles. The group's individual segments are also working more closely now in the development of IT transmission systems and video systems.

Our three segments focused on the following development projects in 2011

TCC — Based on our lead in GSM-R train radio systems throughout Europe, our product portfolio in 2011 was advanced primarily with a view to the market's requirements. Focus here was given to the new generation of train radio systems, MESA, a mobile train radio system for voice and data transmission. The modular components are compatible with existing GSM-R systems, so that generations already in the market can be gradually upgraded. Our MESA 26 system is expected to be ready for the market in 2012. We are also working on extending our GSM-R product spectrum. The new devices can transmit both voice and data.

Development activities in our passenger information systems sector concentrated on the improvement of security. Focus was put primarily on electronic public address systems in the train.

SC — Major development projects in our personal emergency call systems sector included a new DECT-over-IP system. These DECT base transceiver stations can be used, for instance, in large office buildings, but also in penal facilities using the existing Ethernet wiring. Developments in our video cameras sector are aimed primarily at diversifying into HD technology — with an IP camera in HD quality designed by Funkwerk. In addition, improvements were made to our highly precise pan / tilt head for cameras and our leading video management solution.

AC — R&D focal points in our AC segment were determined by preparatory efforts for the framework contracts won in 2011, but also by the trend towards connectivity in vehicles. The latter concerns the integration of mobile terminals with existing electronics and the connection of vehicles to mobile network or the Internet. Further developments in the reporting year concentrated on such products as our signal amplifier, Compenser. The amplifier technology developed here enables consistent, high-quality data and voice transmissions from and to the vehicle. Further impetus for the Compenser is expected to come from the increasing use of smartphones in the car. Since many of these devices do not provide the option of connecting an external antenna, we have devised a coupling chamber enabling the reception of inductive antenna signals from the mobile phone, which are then routed to the Compenser. A further topic of increasing importance is wireless charging of devices in the vehicle. Again, Funkwerk is working on various innovations here that use energy-transmitting inductors. Other focal points of our R&D activities include modern interfaces such as USB or HDMI, which are integrated into the vehicle. In our telematics sector, we have developed a new, larger screen that is now ready for the market, along with a process that allows lorry fleet operators to archive data as required by law (radio-based tachograph download).

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

Funkwerk takes responsibility towards its social, economic and ecological environment seriously. As a global operator, our actions have a bearing on people, social sectors and nature. Consequently, we are committed to acting with a view to sustainability and take account of the requirements of all interest groups affected by our activities.

At all our corporate sites, Funkwerk directly and indirectly takes social and community responsibility for its employees. As an example, we directly support various initiatives and charitable organisations. This ranges from promoting youth work and junior programmes in clubs and society and site preservation projects all the way to regional help for those in need. We further believe that the successful training and further education of our staff, the compatibility of work and family, and the provision of attractive jobs along with healthy and safe working conditions are indicators of sustainability.

QUALITY MANAGEMENT

The reliability and high quality of our products, systems and processes are paramount aspects in maintaining our market position; they are also an integral part of the economic responsibility of Funkwerk. For this reason, all relevant business processes are subjected to regular quality control based on an ISO standard Quality Management System installed at all our operations. Individual facilities also have specific certification to meet the requirements of their respective sectors and customer target groups.

Improving the efficiency of our Quality Management System is an ongoing process, which was continued in 2011. The responsibilities for individual areas of operation, information flows and processes at our Dabendorf site were redefined as a result of the restructuring of our AC segment. The production and quality assurance of our video systems sector was relocated from Fürth to Salzgitter.

Our focus on quality is confirmed by independent sources through certifications based on national and international standards. All three of our segments underwent re- and surveillance audits in 2011 based primarily on the international standards ISO 9001 and ISO 14001 and the automobile industry standard ISO/TS 16949.

This was complemented by internal specifications and regulations such as our organisational and calculation guidelines or principles of project management, which are mandatory both in filling contracts and in internal development projects. This enables us to identify and rectify deficiencies promptly and speedily. Our clearly defined quality standards are documented in handbooks kept at our various sites, where they are consistently implemented.

ENVIRONMENTAL PROTECTION

Funkwerk considers environmental protection a paramount corporate objective and makes every endeavour to reconcile ecological issues with economic interests. Our environmental management is geared to preserving natural resources to the greatest extent possible and to maintaining an intact environment. Our production facilities have their own environmental management systems, which are largely certified to national and European standards. A similar system was set up at our AC site in Dabendorf in the reporting year; certification is expected to be completed in 2012.

Internally, we are making efforts to reduce our energy consumption and so, our carbon dioxide emissions along with water consumption and wastewater quantities in all sectors. All sites in the group are involved in active waste reduction and separation, opting first for recyclable, environmentally friendly and reusable materials and increasingly installing energy-efficient information technology (GreenIT). Our R&D efforts are equally aimed at improving the ecobalance of our products and processes.

5. Risk and opportunity report

Risk policy

Opportunities and risks are an integral part of any business operation and so also the globally oriented activities of Funkwerk. The primary aim of our risk policy is not to prevent any and all potential risks. Rather, it is designed to provide scope of action so the company can take chances in full awareness of these risks knowing their implications if the business involving these risks is expected to improve the value of our company. This requires thorough knowledge of the risks and their correlations. This risk policy established by the Executive Board determines the actions of all individuals involved in the risk management process.

Risk management system

Funkwerk has implemented a multistage risk management system (RMS) along with other supporting control systems. This also includes our internal control system (ICS). Together, both systems provide an adequate framework to allow early detection of risks that may jeopardise the continued existence of the company, but also to identify and use opportunities. The system is centrally coordinated, is mandatory for all group companies, and includes every division and department. It ensures a high level of transparency through regular and systematic monitoring of all projects and the pertinent basic parameters, so that appropriate measures can be defined and implemented early on where so required.

The RMS of Funkwerk AG comprises guidelines and working documents including checklists. These are designed to standardise processes and ensure a systematic and continuous review of operational and non-operational risks, but also to define opportunities. Along with risk management and new compliance guidelines, other guidelines are directed at accounting, project management and costing to ensure a comprehensible and uniform approach. The RMS is implemented autonomously by the management of each company in the group and, where so required, extended to include specific issues relating to the company. Reporting forms the framework that links the RMS and ICS. While it is stipulated centrally, it is also complemented by company-specific reports for the purpose of managing operations. The synergy of RMS and ICS effectively working together is ensured through a continuous review, analysis and discussion of the current reports. Both the Executive Board and Investment Controlling are intensively involved in this process.

Each company evaluates its projects using a risk checklist which allows a systematic identification and assessment of risks. Focus here is given both to quantitative and qualitative criteria. Where defined risk thresholds are exceeded, Investment Controlling is notified. The latter then prepares the data for the Executive Board and ensures prompt assessment, discussion, where necessary a definition of measures and, finally, agreement with the Executive Board.

The progress of these projects and the general trend of business including risks are discussed in detail at least once a month and appropriate measures are deliberated and initiated where appropriate. In addition to these monthly meetings, an overall risk inventory is carried out at least once a year as part of the planning. The risk checklist used as the basis for this inventory is specified centrally, but complemented by company-specific issues and reviewed annually. Investment Controlling analyses the data at group level and considers a repackaging of risks. Based on this analysis, the Executive Board assesses the current risk situation and agrees appropriate measures with the Supervisory Board in important cases.

Internal control and risk management system in the financial reporting process

Based on Section 315 (2) no. 5 of the German Commercial Code (HGB), Funkwerk is obligated to describe the main features of its internal control and risk management system in the financial reporting process. This system is not defined by law. ICS refers to the policies, principles, processes and measures introduced by the Management in the company which are focused on the Management's decisions to secure the effectiveness and efficiency of the company's operations and to ensure truth and fairness of the internal and external accounting and compliance with the statutory requirements pertinent to the company. These control activities also contribute to ensuring the provision of reliable and comprehensible information through accounting documents.

In terms of the financial reporting process, we consider the main features to be such that could significantly influence the accounting and overall conclusion of the annual and the consolidated financial statements including management report and group management report. This includes risks relating to the financial statements as such, but also to the illustration of individual types of transactions and individual account balances and statement details. Specific risks for Funkwerk AG may result from such events as the conclusion of unusual or complex transactions, specifically towards the end of a financial year due to time sensitivity. Furthermore, transactions which are not routinely processed involve a latent risk. Accounting risks related to derivative financial instruments are explained in the notes to the consolidated financial statements.

Accounting transactions are currently still recorded in the individual accounts of the subsidiaries and group companies of Funkwerk AG using various accounting systems. All subsidiaries have been issued annually revised group accounting guidelines with explanatory notes to ensure uniform group accounting. For the preparation of the consolidated financial statements of Funkwerk AG, the subsidiaries and group companies provide their individual accounts along with further information in standardised reporting packages. These reports are further processed by the group accounting department of Funkwerk AG using new consolidation software. The consolidation processes for preparation of the consolidated financial statements of Funkwerk AG, such as the consolidation of capital, assets and liabilities, or revenue and expenditure, are carried out by means of automated consolidation assistants and via manual adjustments. The tax balance sheets are prepared with the help of the national tax consulting firms of each subsidiary.

Measures to ensure effectiveness of the RMS / ICS

Regular discussions and follow-up in monthly meetings, complemented by individual reviews, provide assurance that the measures taken are, and remain, effective. At the same time, this platform is used to make changes to existing systems and thus is a starting point for a continuous improvement process. Furthermore, the information provided is analysed on the basis of key figures. This allows us to identify weak points and any divergences. Investment Controlling is also responsible for verifying efficiency through spot checks and, where necessary, making appropriate changes.

The implementation of the risk management system is verified by our auditors as part of their annual audit. The opportunities and risks are regularly reported to the Supervisory Board.

Individual risk report

COMPANY-SPECIFIC AND MARKET RISKS

The market for professional communication systems relevant to Funkwerk is a comparatively young market and subject to rapid technological change. Our business development therefore always depends on the extent to which Funkwerk is able to maintain or consolidate its market position and technology leadership while reacting flexibly to market changes. In order to reduce the development-related risk, it is crucial that new products are developed using the right technology and launched at just the right time.

This requires that we recognise and implement new technological trends in good time. We particularly face the risk that competitors launch improved or innovative products earlier or cheaper than Funkwerk. And we cannot always guarantee that improved or new products are accepted accordingly by the market.

If Funkwerk fails in the future to recognise and implement new customer requirements or technological advances and further develop its products in compliance with appropriate business standards, or does so too late, this can have a detrimental effect on the net asset, financial and earnings position of Funkwerk.

Due to its operations, Funkwerk is also subject to the cyclical swings in economic activity of the electronics industry, specifically the dynamic product life cycles of electronic components. Suppliers, for instance, replace components and assemblies with new ones within short lead times, so that Funkwerk is continuously forced to adapt its products to these new components and assemblies. This goes hand in hand with the risk that Funkwerk may not be able to provide the development resources required for adaptation of its products.

Since Funkwerk needs to guarantee a spare part stock at times for over 10 years due to warranties agreed with customers particularly in Traffic & Control Communication and in Security Communication, we have a significant stock on hand. This may lead to impairment of inventories over and above the regular depreciation.

Due to the highly dynamic behaviour of technology, the scalability of serial production and the innovative and competitive pressures, the market for communication technology relevant to Funkwerk is defined by price deterioration. Especially in periods of economic crisis, competitors increasingly try to gain market shares through rock-bottom prices. Even with a technology lead the risk remains that competitor products prevail on the market because of the price. These cases can have a detrimental effect on the net asset, financial and earnings position of Funkwerk.

DEPENDENCE ON POLITICAL DECISIONS AND CONTRACTING PRACTICES

A large fraction of business at Funkwerk depends to quite a degree on political decisions based on which funds are made available to the contracting authorities and customers of Funkwerk. Our Traffic & Control Communication and Security Communication segments, in particular, depend on investments of the public sector in railway equipment, personal security, property protection systems, motorways and infrastructure measures. Delays or cancellations of investment projects and subsidies especially against the background of the budget consolidation pressure currently experienced in many European states and declining tax income may have a detrimental effect on public contracting and, as a result, on the business development at Funkwerk.

DEPENDENCE ON EMPLOYEES AND PROJECT MANAGEMENT

The future success of Funkwerk depends quite considerably on the further involvement and performance of its executives, managerial staff and employees in other key positions. If Funkwerk fails in the future to find appropriately qualified personnel, the strategic and economic targets of Funkwerk may be in jeopardy, with detrimental effect on the net asset, financial and earnings position of Funkwerk.

Funkwerk is involved in project business. When project contracts are placed, both the customer and Funkwerk may act on the basis of different premises and requirements, which may jeopardise the implementation of the project. Since Funkwerk is paid after completion of specific performance stages in project business, the termination of a project may mean that preparatory efforts or expenses and costs incurred are not fully compensated. Furthermore, the risk assessment carried out prior to submitting offers for projects may be incorrect or incomplete for a specific project so that the agreed payment bears no relation to the expenses actually incurred by Funkwerk.

If they materialise, the risks related to project business may have a significantly detrimental effect on the net asset, financial and earnings position of Funkwerk.

DEPENDENCE ON INTERNATIONAL MARKETS

The focal point of Funkwerk to date has been on Germany and other European countries. In Traffic & Control Communication and Security Communication, in particular, Funkwerk plans to concentrate more intensively on internationalising its operations into non-European countries. The further internationalisation of our operations, however, poses risks. These primarily include risks arising from the general economic, legal and tax parameters existing in the various countries, exchange risks, and the necessity to comply with current technical standards. If Funkwerk is unable to control these risks, this may have a significantly detrimental effect on our net asset, financial and earnings position.

The vast majority of sales at Funkwerk are generated in Euro and in a number of other currencies. Components and assemblies, on the other hand, are purchased largely in foreign currencies, more often than not in US dollar. We therefore face a not inconsiderable exchange risk which may affect the purchase prices, currency reserves, liabilities, and with it, the result of Funkwerk. The use of exchange rate hedging at Funkwerk may not be enough to compensate all exchange rate fluctuations between other currencies and the Euro, which could have a significantly detrimental effect on our net asset, financial and earnings position.

DEPENDENCE ON CUSTOMERS AND CERTIFICATIONS

Funkwerk has customers which each generate business of up to 10 per cent, in one case even slightly over 10 per cent, of total sales. The prorated sales volume produced with these customers compared to sales generated in the relevant segment is considerably higher in some cases involving key accounts.

If several key accounts cease purchasing products in the same amount from Funkwerk, this may have a significantly detrimental effect on the net asset, financial and earnings position of Funkwerk.

The success of business at Funkwerk also depends on such factors as obtaining sector-specific licences and certification and complying with the prescribed standards and technical regulations which govern the introduction of new products and technologies.

If Funkwerk is unable to develop products which comply with the prescribed standards and technical regulations or fails to obtain the approval required to market and sell its products in a specific country, this could impact business at Funkwerk.

COMPLIANCE

In view of the complexities of our business and the geographical location of Funkwerk, violations of the law and criminal acts on the part of our employees may not necessarily be discovered and prevented in time.

If employees or third parties acting for Funkwerk leverage or provide unfair advantages in connection with business initiations, or use any other illegal business practices, we may face legal sanctions such as fines, the exclusion from tenders and the loss of contracts, and thus considerable damage to the reputation of Funkwerk. Funkwerk cannot guarantee that existing and future risk management and control procedures at Funkwerk are appropriate to cover every conceivable legal requirement in every country and are fully observed by all our employees and other parties acting for Funkwerk, which could have a detrimental effect on the net asset, financial and earnings position of Funkwerk.

INFRINGEMENT OF PROPERTY RIGHTS AND PATENT VIOLATIONS

To date, Funkwerk has registered, or applied for registration of, a large number of patents and other industrial property rights for its products in various countries. Funkwerk cannot guarantee that patents based on pending or future patent applications are granted or that Funkwerk will always be able to protect current and future developments, applications and computer programs by patent. Even if patents have been, or are, granted, it is not certain that the scope of current or future patents is sufficient to provide protection vis-à-vis third parties that is economically significant or guarantees potential competitive advantages for Funkwerk.

The success of Funkwerk in developing and marketing its products depends quite considerably on such aspects as ensuring that third-party property rights are not violated. It cannot be ruled out that current or future new and further developments of Funkwerk will violate third-party property rights and that third parties, as a consequence, assert claims against Funkwerk because of a violation and may therefore be entitled to damages or payment of royalties from Funkwerk.

Products of Funkwerk may be flawed. These flaws may be the responsibility of Funkwerk or of its suppliers and result in warranty or liability claims from customers or third parties or adversely affect the products' acceptance in the market and, as a result, lead to a drop in sales. The fact that no significant claims have to date been asserted against Funkwerk does not mean that Funkwerk will not be subject in the future to considerable warranty and liability claims or demands of payment of contractual penalties on the part of customers or sales partners. Claims of this nature may have a significantly detrimental effect on the net asset, financial and earnings position of Funkwerk. There is also the risk if a liability case becomes public that it damages the reputation of our products and destroys the basis of trust which we enjoy with our customers and adversely affects the acceptance of our products.

RISKS FROM LEGAL DISPUTES

Companies in the Funkwerk group are defendants in various legal and out-of-court disputes partly with considerable amounts involved. The outcome of these proceedings is uncertain and there is a risk that we may lose a case or aspects of it. Where claims are likely, appropriate provisions have been set up to cover any eventualities.

RISKS FROM OUR ALGERIA BUSINESS

Funkwerk plettac electronic GmbH, a subsidiary of Funkwerk AG, is involved in a joint venture under Algerian law. In connection with the internal developments in Algeria described in much detail in last year's report, a preliminary investigation was opened against a number of companies and individuals because of suspicion of corruption and illegal price increases. Affected parties include the joint venture, the Algerian partner and, along with other foreign companies, also Funkwerk plettac electronic GmbH, but not its management or other employees in the Funkwerk group or individuals locally involved. In the course of these investigations, the accounts of the joint venture were frozen with the result that the money on these accounts totalling around EUR 4 m, which had been duly paid after completion of work performed and which is due exclusively to Funkwerk plettac electronic GmbH, cannot currently be transferred to Germany and therefore will not be freely available to the Funkwerk group in the foreseeable future. Funkwerk has also furnished bank guarantees to the total amount of around EUR 10 m. These were issued by Algerian banks based on appropriate counter-guarantee agreements with a number of German banks. Based on the contracts with the client, around EUR 7 m in bank guarantees should no longer be at risk of claims against Funkwerk due to fulfilment of the underlying supply and performance obligations and expiry of the contractual warranty periods and due to failure to observe the time limit of the guarantees. There is, however, a remaining risk involving the bank guarantees not yet returned in so far as the German banks have issued »real« counter-guarantees on first request to the Algerian banks.

RISKS RELATED TO THE REPAYMENT OF GRANTS AND TO TAX AUDITS

The Funkwerk group was and is granted or promised government investment subsidies for several development projects and business measures. Use of these funds is generally earmarked and subject to appropriate terms and conditions. If Funkwerk is unable to ensure and demonstrate earmarked use of these funds in compliance with these terms and conditions, we may have to repay these investment subsidies.

Funkwerk believes that the tax returns prepared are complete and correct. Nonetheless, there is a risk of additional retrospective tax demands due to different views of facts. Particularly with respect to debt claims of EUR 14.7 m and EUR 12.0 m of Vossloh AG, the former shareholder and seller, which Vossloh AG waived in the preliminary stages of our sale of Funkwerk Information Technologies GmbH, Kiel, and Funkwerk Information Technologies Karlsfeld GmbH, Karlsfeld. We believe these debt claims are recoverable. There is, however, a tax risk regarding assessment of the value of these claims by the tax authorities, which may result in subsequent taxes of up to EUR 4.6 m plus supplementary interest payments from the 2007 assessment year. In 2011, Funkwerk appealed against this assessment and applied for a suspension of execution. This request for suspension of execution was granted by the authorities. An action was filed with the Tax Authorities in January 2012. Tax back payments could have a significantly detrimental effect on the net asset, financial and earnings position of Funkwerk.

6. Remuneration report

The remuneration report of Funkwerk AG is based on the recommendations of the German Corporate Governance Code and includes details that are a component part of the notes to the consolidated financial statements and the management report under the requirements of the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRS).

EXECUTIVE BOARD REMUNERATION

The current salary structure for the Executive Board is based on the German Act on the Appropriateness of Executive Board Remuneration (VorstAG), which came into force on 5 August 2009 and is also found in the recommendations of the current German Corporate Governance Code. The Supervisory Board regularly reviews this remuneration system and verifies the adequacy of executive contracts. In so doing, it ensures that the total emoluments of each member of the Executive Board is in appropriate proportion to their responsibilities and work, to the economic situation, and to the future prospects of the company, and that they do not exceed the usual amount without good reason.

Main features of the remuneration system

In agreement with the Code, the following will explain the basic features of the remuneration system for the Executive Board of Funkwerk AG. In principle, the emoluments of members of the Board are made up of a fixed component and a performance-related component; their level and structure are determined by the Supervisory Board. Executive contracts are concluded for a fixed term and provide for a target salary for each year of service.

Fixed component

The component of the board member salary which is not related to performance is made up of a fixed salary plus fringe benefits, which include private use of a company car and insurance premiums. The fixed annual base salary is paid monthly in equal instalments and is not dependent on certain targets being reached. It is reasonable in relation to comparable companies.

Variable components

The performance-related pay component factors in the achievement of quantitative and possibly qualitative targets. It is divided into an annual management bonus and a component with a long-term incentive effect.

Short-term remuneration component

Members of the Executive Board receive an annual bonus as a short-term variable remuneration component. This payment is calculated on the basis of a fixed percentage profit share of 0.8 to 1.0 per cent of generated earnings before interest and taxes (EBIT) and 0.3 per cent of cash flow after investments. It is limited to 1.25 times the basic salary, of which 20 per cent are retained to offset negative amounts which may subsequently accrue, and bears interest at 4 per cent. Mr Johann Schmid-Davis also receives an annual bonus of EUR 50,000 where predefined qualitative targets are met. Members who are on the board only for a portion of the financial year are remunerated on a pro rata temporis basis. The annual bonus can reduce down to zero. This complies with the requirements of the German Act on the Appropriateness of Management Board Remuneration (VorstAG) and the Code.

Long-term remuneration component

In order to create incentives for positive performance of the company in the long term, the Executive Board is given share options. The number of options is determined by the Supervisory Board. The terms and conditions for exercising these options are identical with those stipulated for other allottees among our employees. The share option plan is described in detail in the notes to the financial statements under section E (11). Currently, members of the board receive share options from the 2008 and 2010 share option plans. No share options were granted to them in the reporting year and no options were exercised in 2011.

Pension commitments

In addition to remuneration, each member of the board is entitled to a pension insurance scheme (pension commitment). Insurances are taken out for each person separately. Contributions under this commitment are paid into a pension fund. The terms and conditions of the remuneration are determined by the Supervisory Board for the entire term of the employment contract. Compared to other companies, the pension payments of the Executive Board of Funkwerk AG are also appropriate.

Remuneration costs in 2011

All Executive Board members are entitled to these remuneration components and each must tax them as appropriate. The total remuneration in 2011 of around EUR 574 k (2010: EUR 539 k) is appropriate compared to other companies of similar size. It takes account both of the positive and negative developments in the company. Furthermore, the individual remuneration components keep the Executive Board from taking unreasonable risks. In summary, we can confirm that the remuneration of the Executive Board of Funkwerk AG meets the requirements of the VorstAG and the Code and is geared to sustainability. An individual account of the Executive Board remuneration is found in the notes to the financial statements under section I (8).

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board is governed by Section 12 of the Articles of Incorporation of Funkwerk AG. It is divided into a fixed and a variable component as well as a meeting attendance fee. The members of the Supervisory Board receive a fixed component of EUR 5,000 per financial year and an attendance fee of EUR 1,300.00 per session. Under the remuneration system, the chairman receives twice, his deputy 1.5 times, the annual pay and attendance fee. As a variable component, EUR 1,000 are paid for every full 5 cents of dividend paid per share in the financial year.

Members of the Supervisory Board who have not served on the Board for a full financial year receive a prorated remuneration. Where a member of the Supervisory Board fails to attend a meeting, the pay is reduced accordingly. All components of the remuneration for the preceding financial year are payable on conclusion of the annual shareholders' meeting at which the annual accounts for the preceding financial year are presented or approved and, where applicable, a resolution is passed on the appropriation of profits. Section 113 (2) AktG remains unaffected by this.

The members of the Supervisory Board are further reimbursed for their expenses and for any VAT applicable to their remuneration and expenses.

In the 2011 financial year, the total remuneration amounted to around EUR 56.8 k, after EUR 56.3 k in the previous year. An individual account of Supervisory Board remuneration in 2010 and 2011 is found in the notes to the financial statements under section I (8).

7. Corporate Governance Report

As a listed German stock corporation, corporate governance at Funkwerk AG is dictated in the first instance by the German Stock Corporation Act (AktG), but also by the specifications of the German Corporate Governance Code as amended. The current Corporate Governance report including compliance statement under Section 161 AktG is found in the annual report.

The Corporate Governance report is fully disclosed on our website at www.funkwerk.com.

8. Report in compliance with Section 315 (4) HGB

There were no changes to the subscribed capital (capital stock) in the reporting period. Hence, the subscribed capital of Funkwerk AG as at 31 December 2011 was divided into 8,101,241 (2010: 8,101,241) non-par-value shares with an accounting value of EUR 1 each. The majority shareholder was Hörmann Funkwerk Holding GmbH with 4,280,00 shares, which corresponds to 52.83 per cent of the capital. As at 31 December 2011, Funkwerk AG held 41,579 own shares.

Each share grants one vote in the shareholders' meeting and the right to participate in agreed dividend payouts. There are no restrictions relating to the voting rights.

Based on a decision passed at the annual shareholders' meeting on 28 May 2009, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the capital stock of the company by up to EUR 4,050,000 by 27 May 2014, through a single or repeated issue of new, ordinary bearer shares in the form of non-par shares against contributions in cash and/or in kind (2009 approved capital).

Where the shareholders are granted subscription rights, the shares may also be offered to a credit institution or a company operating in compliance with Section 53 (1) sentence 1 or Section 53 b (1) sentence 1 or (7) of the German Banking Act (KWG), with the undertaking to offer them to the shareholders for subscription (indirect subscription right). The Executive Board was also authorised, with the approval of the Supervisory Board, to suspend the statutory subscription rights of the shareholders,

- to exclude subscription rights for fractional amounts.
- in case of capital increases against assets in kind in the form of companies, divisions, investments in companies, or receivables from the companies if the shares issued excluding the subscription rights do not exceed 4,050,000 shares in total.
- in case of capital increases against cash investments if the amount for which the shares are issued is not substantially less than the market price of the shares at the time when this amount is determined by the Executive Board and the shares issued excluding the subscription rights do not exceed 810,000 shares in total.

The Executive Board was authorised by the shareholders' meeting of 27 May 2010, with the approval of the Supervisory Board, to acquire its own stock up to a share of 10 per cent of the current capital stock by the end of 26 May 2015. Together with other own stock held by the company or attributable to it under Sections 71 a ff AktG, the shares acquired must not at any point exceed 10 per cent of the capital stock. The time limit only applies to the acquisition, not to ownership of the shares. The shares must be acquired at the stock exchange or through a public offer to buy or a public request for submission of such an offer.

Under Section 5 (7) — (9) of the Articles of Incorporation, the increase in conditional capital is used to issue option rights on shares. Option holders may be members of the Executive Board of the company, members of the management of affiliated companies, executives of the company and the affiliated companies, and other employees of the company and affiliated companies. The conditional increase in capital stock is effected only where option rights have been issued and are exercised by the authorised parties.

Under Section 5 (10) of the Articles of Incorporation, the increase in conditional capital (conditional capital IV) is used to issue convertible and/or warrant bonds. Conditional capital will only be increased in so far as the holders or creditors of convertible and/or warrant bonds which the Executive Board was authorised to issue based on the resolution passed at the shareholders' meeting held on 27 May 2010 exercise their conversion privilege or option on the shares of the company or meet their conversion obligations under these convertible and/or option bonds.

With respect to the conditional capital I to IV, please refer to the notes to the financial statements section E (11).

Sections 84, 85 and 133, 179 of the German Stock Corporation Act have been implemented in the Articles of Incorporation.

9. Dependent company report

The Executive Board of Funkwerk AG hereby declares that all legal transactions concluded with affiliated companies involved adequate compensation, and that neither party was prejudiced in any way. Reference is made to Section 312 (3) sentence 1 of the German Stock Corporation Act.

10. Events after the reporting period

The sale of Funkwerk Enterprise Communications GmbH including subsidiaries of our previous EC segment was successfully concluded on 13 January 2012. Upon execution of the notarised contract, these companies passed to the Spanish Teldat group, Madrid. As expected, this transaction brought a cash inflow for Funkwerk AG of around EUR 8.5 m.

Under a notarised purchase contract dated 21 March 2012, all shares in Funkwerk Avionics GmbH, the existing shareholders' loan and other receivables were sold to a German associated company. By the end of March 2012, this sale will add around EUR 1.0 m in cash to the books of Funkwerk AG.

In view of the group's restructuring measures and the funds inflow resulting from the sale of companies, the loan syndicate headed by Commerzbank AG guaranteed on 26 March 2012 that the syndicated loan agreement, which has been in existence since March 2011, would be adjusted in an addendum. The addendum will centre on reducing the loan funds from EUR 75.5 m to EUR 50.0 m, divided into a cash credit line of EUR 10 m and a bank guaranteed credit line of EUR 40 m. At the same time, funds from the sales of around EUR 18 m will be made available to Funkwerk AG at its free disposal. It was also agreed that the lenders would return the existing indemnity bonds received from the »Germany funds« Government/Laender programme. This means that from fiscal 2012 the condition whereby the majority shareholder of Funkwerk AG is obligated to vote for a retention of earnings at the annual general meeting no longer applies. The contractual implementation of the addendum is expected by mid-2012

11. Forecasting report

General economic setting

In view of the rise in global risks, the majority of research institutes expects economic growth to temper notably in 2012. The IMF, for instance, now predicts economic performance to increase by only 3.3 per cent, in contrast to the previous estimate of 4.0 per cent. This more cautious forecast comes mainly as a result of the risk of recession in the eurozone, where the economy could shrink by as much as 0.5 per cent. The industrialised nations should grow by 1.2 per cent in total. The prospects for emerging markets and developing countries in 2012 are also more conservative than initially expected. The Monetary Fund predicts that growth achieved in this country group could now amount to around 5.4 per cent. The reason for this damper in momentum, according to the IMF, is the slowing effects emanating from the industrialised countries along with a poorer domestic demand. The IMF forecasts are also based on the assumption that the euro crisis will not further escalate and that politicians will find ways and means to tackle the challenges in appropriate ways.

Germany is also expected to see a notable slowdown in economic activities in 2012. The IMF predicts a rise in gross domestic product here by no more than 0.3 per cent. From today's perspective, this slowed momentum along with significant global uncertainties will also dampen the propensity to invest. Equipment investments, so the expert advisory board says, are now likely to increase only moderately by around 3 per cent. In the railway sector, the German government is making additional funds available as part of its infrastructure acceleration program, to be used for the development of the railway infrastructure in 2012. Consequently, we can expect sales in the railway sector to grow on the whole, but not to the benefit of all subsectors. The parameters particularly for communication and information systems should remain difficult.

Development in the Funkwerk group

In 2012, the Funkwerk group will once again be faced with significant challenges. As a matter of priority, the measures initiated for our reorientation must be rigorously implemented so that Funkwerk can hold its excellent market position and increase its competitive capabilities. Focus will be given specifically to advancing our internationalisation, to implementing our new operational structure with its defined centralisation measures, and to optimising our supply chain management. We will also continue to work intensively on consolidating our product portfolio and base the technology on our restructured business units. Other challenges include the more sluggish economic trend in our key markets and the persistently difficult situation of government authorities facing budget cuts.

Against this background, we believe 2012 will be a year of consolidation and expect sales to remain at prior-year level. We may sell or discontinue further peripheral sectors. Our earnings situation should increasingly benefit from cost reductions as a result of the restructuring measures initiated so that we foresee a balanced result in operations. From 2013, we anticipate growth stimuli to increase sales presumably in the higher single-digit percentage range. This is when the restructuring and related cost savings measures will for the first time take full effect. We therefore expect our operating result to be back in the black again.

Trend and opportunities in the segments

Over the next few years, our TCC segment should see growth particularly in the international markets. We are therefore expanding our global sales activities through partnerships focusing primarily on such regions as Austria, Switzerland, the Benelux countries, Scandinavia, the Eastern European countries, Turkey, Russia, the USA, and Australia. Our Rolling Stock BU, i.e. mobile systems, on the whole is expected to grow quite significantly by 2014. Along with our lead in the GSM-R sector, where we are involved in several international tenders, we are benefitting here from our new focX handhelds. Further impetus from 2013 is expected to come from our planned entry in the North American market. Our Infrastructure BU is believed to grow moderately over the next three years. The product spectrum of TCC will be expanded and measures will be taken to reduce the complexity of our systems and improve our margins here. In terms of our signalling technology, we anticipate appreciable increases here over the next few years after system approval of Alister for passenger transport, which is expected in 2012. In Germany alone, some 31,000 interlocking systems have reached their age limit, while across Europe, a large number also needs to be modernised over the next few years. Due to positive references in numerous countries, there will also likely be increased demand for our Alister Cargo system in the cargo sector.

In our SC segment, the systematic development of our international partner network will contribute considerably to growth over the next few years here. On the product side, we expect to gain further market shares in personal emergency call systems — primarily our innovative DECT and TETRA devices. We are making efforts to increase our customer base both among penal facilities, where we are benefitting from our lead, and in the industry. Our new business handheld, D4 Office, which was launched in 2011, has also met with a positive response and should gain us further market shares. The video systems sector is expected to see the highest growth due to our new HD camera and our solution for hard shoulder release on motorways. We will further market an innovative compact video monitoring solution, due out in the second quarter of 2012, through international system partners and expect further impetus here as a result.

The trend in AC over the next few years will be defined to a not insignificant degree by preparatory efforts and investments relating to our new major contracts. These will likely contribute to sales and earnings not until the end of 2013. We are offering this solution also to other manufacturers and expect further orders to materialise here. At the same time, we plan to increase our group of customers based on our existing product spectrum. One of the benefits for us here is the trend towards networking in the automobile sector, the increased use of smartphones, and the need for wireless charging of a diverse range of equipment in the car. We plan to form further strategic partnerships with specialised suppliers here, as these will play a key role. This will allow us to provide car manufacturers with complete solutions and improve our market share.

Financial situation and investments

The notable stabilisation of the financial situation in the Funkwerk group, which started back towards the end of 2011, will continue in 2012. Earlier this year, we were able to improve our liquidity base by a further around EUR 8 m through payment of the purchase prices for Enterprise Communication and Avionics GmbH. As a result, the long-term financing provided by the existing banking syndicate could be adjusted to our requirements and secured as described in the section on events after the reporting date.

From today's perspective, the operating cash flow will be positive in 2012. This is based on our expectation of a balanced operating result and on the measures taken to improve our working capital. The free cash flow allowing for planned investments and the cash inflow from sales to the amount of over EUR 8 m will likely be balanced, if not slightly positive. Projections for 2013 also provide for a balanced free cash flow. The improved earnings situation must be seen opposite the necessity to build up our working capital because of projected sales increases.

The investment volume planned for 2012 totals around EUR 12 m, of which some EUR 6.6 m relate to proprietary developments. Divided into strategic segments, around half of the total budget falls to the major contracts received in AC, which will go into call order mass production by the end of 2013. A further focal point at around EUR 3.4 m will be our SC segment. Here, we will need to invest specifically in production and in new product developments also in connection with our planned internationalisation. In TCC, our capital spending will focus primarily on replacements and new plant capacity to the amount of around EUR 1.2 m and on development at EUR 0.7 m. Priority here will also be given to optimising our product portfolio and to our internationalisation. Across the group, the investment budget for 2013 will range at around EUR 11.6 m, with the lion's share of around EUR 5.6 m once again earmarked for our AC segment.

Other performance indicators

To improve our supplier structure and purchase conditions, we have set up an externally supported project in our Purchasing sector which should show initial appreciable successes in 2012. Based on this, we will implement specific cost optimisation measures that should produce appropriate impetus for the following years. This will help us counter the price increases expected in 2012 particularly in the electronic components sector, where we expect less agreeable purchase conditions due among other aspects to more unfavourable exchange rates.

The majority of measures in our Personnel sector required in the context of our restructuring have already been implemented. In 2012, we will take a look at restructuring particularly our Administration and Production in connection with the centralisation of cross-divisional sectors.

The consolidation of our production facilities begun in 2011 will be continued throughout the year to further improve our efficiency. In a next step, we plan to outsource the production of individual components to suppliers and centralise the production of switch cabinets at our Kölleda site. At our Salzgitter and Kölleda sites, we introduced a lean manufacturing concept for selected products towards the end of 2011 which should lead to efficiency increases in the two-digit percentage range. This project is due to be extended to include other products in the course of the year. In addition, we are constantly checking further options to optimise our production structure and reduce complexities.

Strategic orientation

Over the past few years, Funkwerk has invested in its product portfolio and in many sectors now offers innovative solutions with unique selling points. In order to participate in the growth anticipated in the market segments in which we operate, we are investing specifically in key components. This will enable us to improve our value added and maintain, or even consolidate, our technological lead. Throughout the group we are concentrating on products with strong margins, which we are increasingly also selling through partners.

Through wider marketing of our extended product range we should see further specific opportunities arise. In future, our work will therefore focus on improving our access to markets through development of existing sales channels and strategic distribution partnerships. We particularly aim to expedite the internationalisation of our operations in an efficient and purposeful approach through systematic analysis and development of new regions.

Our group structures will basically be simplified and streamlined in order to allow us to use internal synergies in better and more effective ways. Central areas such as Purchasing will be consolidated and the resources in operations used more intensively across the group. Our development will in future be focused more in competence centres. This closer networking should enable us in the long run to realise considerable savings potential.

In terms of Production, we will improve our efficiency throughout the group through rigorous outsourcing of standard jobs and ongoing optimisation measures. We will also look at all assembly and production sites of our group to see where redundant areas can be combined and capacity utilisation of these sites can be optimised.

As a high technology company, the know-how and expertise of our employees are key factors for our success. As a consequence it is one of our main priorities to ensure the advancement and qualification of all Funkwerk staff and to increase further training and education opportunities.

On the basis of this strategic orientation, we hope in the long term to generate a sustainable result in the group.

Kölleda, 26 March 2012
— The Executive Board –

Johann M. Schmid-Davis Carsten Ahrens

Responsibility statement by the legal representatives

To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group 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.

Kölleda, 26 March 2012
— The Executive Board –

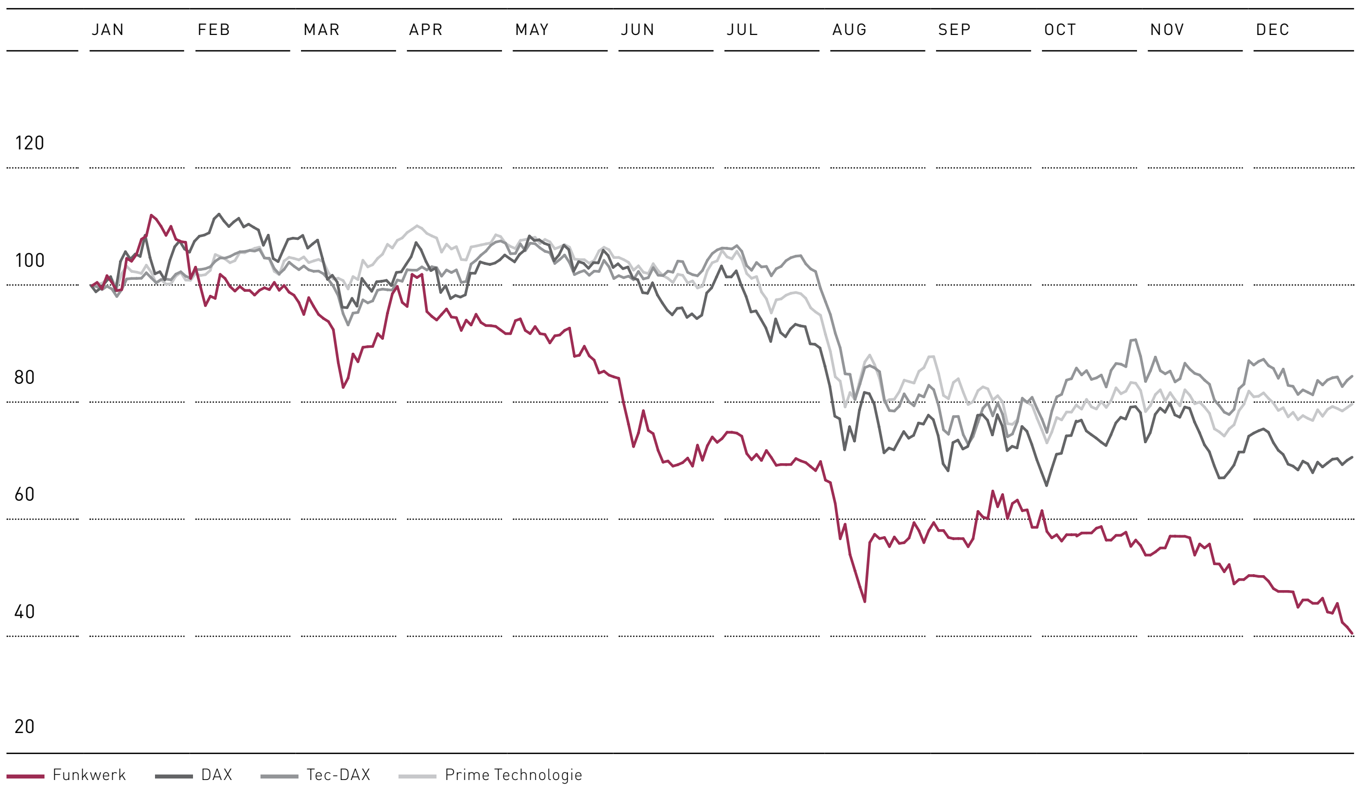
Johann M. Schmid-Davis Carsten Ahrens

02

TO OUR SHAREHOLDERS

The Funkwerk share

PERFORMANCE FUNKWERK-SHARE [INDICATED TO 100]



Basic information on the Funkwerk share

- First listing: 15 November 2000
- Ticker symbol: FEW
- ISIN: DE0005753149
- WKN: 575314
- Stock class: No-par bearer share at a nominal value of EUR 1
- Market segment: Prime Standard
- Designated Sponsor: Close Brothers Seydler Bank AG
- Capital stock: EUR 8,102,241
- Number of shares: 8,102,241

2011 proved to be a turbulent year for the international stock markets. Major events such as the political unrest in North Africa or the escalating debt problems of various countries along with inconsistent economic indicators led to great uncertainty and fluctuating prices. On balance, the majority of the key share indices suffered losses. This was true primarily for the European stock markets, which suffered the most as a result of the eurozone crisis, which had taken on dramatic proportions in the latter half of the year. Despite a robust domestic activity, these tendencies also affected the German stock market. Germany's leading stock index, the DAX, lost 14.7 per cent in the reporting year, while the technology index, TecDAX, was down by as much as 19.5 per cent.

Funkwerk share in the red – Strategic reorientation improves prospects

The unstable market environment also took its toll on the price performance of Funkwerk's share. This was aggravated by the fact that the development of operations at our company remained below our expectations in 2011 due to the difficult economic situation in a number of key customer sectors. The consistent and rigorous implementation of our strategic reorientation measures, which we had initiated, and the resulting shedding of activities which no longer formed part of our core business led to initial successes as early as in second half of the year. This was rewarded by the stock market, though it could mitigate the selling pressure weighing on Funkwerk's share only temporarily. In the fourth quarter, the price lost further ground. The closing quotation at the end of December stood at EUR 2.82, which also marked the annual low and meant a drop by 61.0 per cent on the prior-year benchmark. The share peaked in early 2011 at EUR 8.14.

Based on the close, the 8.1 million Funkwerk shares had a market capitalisation of EUR 22.8 m compared to EUR 58.8 m at the end of December 2010.

In early 2012, the Funkwerk share rallied quite significantly again. By mid-February its price was up by 20 per cent to EUR 3.40. Investors quickly started snapping it up again after progress of the restructuring measures became more and more apparent and a notable cash injection was booked in January after company divestitures. Funkwerk was also able to report success in its operating business – the company won a landmark contract from Deutsche Bahn for one of its key products, the highly efficient Alister interlocking system.

Investor Relations activities

Funkwerk AG subscribes to an active information policy. Our aim is to apprise investors and financial market players promptly and regularly of our economic situation and key events in the company. We do so using a number of different instruments including the annual and quarterly financial statements. This is complemented by press reports released to take up current issues. Comprehensive information is also available at any time on our website at www.funkwerk.com.

In addition, we seek direct contact with shareholders, analysts and journalists. One of the focal points of our current work is to communicate the latest status and objectives of our new corporate strategy and the resulting prospects. These were also the key topics at our Capital Markets Day 2011, where we provided analysts with detailed information and gave the opportunity in frank and in-depth talks with the Executive Board and the CEOs of individual subsidiaries to gain deeper insight into the Funkwerk group. A further regular event is the annual press conference on our financial statements at which we are available to journalists and analysts for questions.

Shareholder structure remains unchanged

The shareholder structure of Funkwerk AG as at the end of 2011 remained unchanged: 52.83 per cent of the shares were held by HÖRMANN Funkwerk Holding GmbH, the remaining 47.17 per cent of the shares were in free float.

ALFONS HÖRMANN
Chairman of the Supervisory Board

Report of the Supervisory Board

Dear Shareholders, ladies and gentlemen,

Funkwerk as a group is engaged in a difficult restructuring process and in 2011 began a fundamental reorientation. In this context, all activities of the group were put to the test, a number of companies were sold, and the group structure was streamlined. Funkwerk, as a result, managed to achieve important milestones, but needs to continue pursuing the measures initiated with vigour in the current financial year in order to ensure profitable growth again in the long term. On behalf of the Supervisory Board, I would like to thank all our employees and the Executive Board for their tremendous efforts and achievements. Our thanks and appreciation also to the customers and business partners of Funkwerk who have supported our reorientation.

In the 2011 financial year, the Supervisory Board once again performed the duties incumbent on it by law and the Articles of Incorporation with the greatest diligence. It acted in an advisory capacity to the Executive Board of Funkwerk AG while monitoring its conduct of affairs. The Executive Board informed the Supervisory Board regularly, promptly and comprehensively both verbally and in writing of any matters relevant to the work of the latter. Focal points included the trend of operations and any other events of fundamental significance to the development of the company. All issues, specifically business requiring approval, were discussed in detail at the meetings of the Supervisory Board. Between the meetings, the chairman of the Supervisory Board also promptly discussed key issues with the members of the board.

Supervisory Board meetings

In the 2011 financial year, the Supervisory Board assembled for six ordinary and one telephone conference. At all meetings, the board had a quorum. Conflicts of interest affecting the performance of duties performed by members of the Supervisory Board did not occur in the reporting year. No committees were set up in 2011.

Regular points of discussion in the meetings included the present state of business, the budgeting and, particularly, the strategic reorientation of the company. Potential sales and an adjustment of the company's internal structure were further items discussed in detail. In addition, the Supervisory Board gave attention throughout the year to the situation in Algeria, where Funkwerk discontinued all operations until further notice due to the internal conflict in 2010 and the pending action. It also focused on the effectiveness of the company's risk management system, the financial, investment and personal planning, and the operating targets. The Executive Board presented the latest quarterly reports, explained deviations of the trend of business from the budget, and agreed the further strategic approach with the Supervisory Board.

In its first meeting of the year held on 24 January 2011, focal points alongside regular issues included the preliminary annual financial statements of the AG and the group for the 2010 financial year. The Supervisory Board discussed at length the potential financing alternatives to improve the company's liquidity. A further item on the agenda dealt with the ongoing restructuring of Funkwerk plettac electronic GmbH. In addition to the latest developments of the project, attention was given to the progress made and to the challenges still ahead.

Items on the agenda for the meeting held on 18 March included the syndicated loan agreement of EUR 75.5 m produced by the Executive Board, the agenda for the annual general meeting, and the election of a new chairman for the Supervisory Board along with his deputy. The plenum also looked into the requirements of the German Corporate Governance Code as amended on 26 May 2010 and finalised the current declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (AktG). This declaration is printed in the current annual report and is available on the company website at www.funkwerk.com. The annual accounts and the consolidated financial statements of Funkwerk AG as at 31 December 2010 along with the management report were discussed at length in the presence of the auditors. Calling a telephone conference on 29 March 2011, the Supervisory Board subsequently voted to approve and adopt the annual accounts of the AG and the consolidated financial statements along with the subordinate status report by written circulation.

The meeting convened on 19 May was focused on such issues as the current status of the restructuring process and on planned company sales. The content of ongoing negotiations was discussed in detail and potential strategic courses considered.

In the context of the Supervisory Board meeting on 23 August, a key issue looked at was the syndicated financing valued in mid July. In this context, the board also discussed internal measures to improve the company's liquidity. A further item on the agenda involved the revision of the Rules of Internal Procedure for the Executive Board, which were approved by the Supervisory Board. The Supervisory Board also agreed to the sale of the subsidiary Alpha Mess-Steuer-Regeltechnik GmbH and the Executive Board presented the future organisation of Funkwerk AG along with the planned streamlining of corporate divisions.

The new division structure was again discussed at the following meeting held on 11 October and approved by the Supervisory Board. Further discussions focused on alternatives to optimising the location structure including potential options of consolidating production facilities. The board further approved the sale of the Enterprise Communications segment including associated subsidiaries and considered in detail the corporate planning for the next three years.

At the last meeting held on 15 December 2011 and at a follow-up meeting called for 4 January 2012, the board discussed at length the further development of the Automotive Communication segment and its investment planning and presented the liquidity trend in fiscal 2011 along with the expected requirement for 2012.

Annual accounts and consolidated financial statements

On 19 May 2011, the annual general meeting of Funkwerk AG elected KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as the auditor and group auditor for the 2011 financial year. KPMG audited the annual accounts of Funkwerk AG prepared in compliance with the German Commercial Code (HGB), the management report and the related party report along with the consolidated financial statements prepared under IFRS and the group management report, providing these with an unqualified audit certificate. The management reports adequately describe the situation of the AG and the group along with the opportunities and risks of future development. The auditor further assessed the quality of the risk management system in positive terms.

The financial statements and the audit reports were made available to all members of the Supervisory Board in due time. These were then discussed at length at the ordinary Supervisory Board meeting on 26 March 2012. Representatives of the auditor present at this meeting reported on the results of their audits and were then available for further information. They confirmed to the Supervisory Board the effectiveness of the risk management system and the internal control system. They also affirmed that they did not perform any services of significance other than the audit for Funkwerk AG in the reporting year and that there were no circumstances affecting their independence. The final result of the review of the annual accounts and the management reports of both the AG and the group by the Supervisory Board did not lead to any objections. The members of the Supervisory Board approved the annual accounts of the AG and the consolidated financial statements prepared by the Executive Board for fiscal 2011. The annual accounts of Funkwerk AG are therefore adopted. The Supervisory Board consented to the proposal of the Executive Board to carry the annual deficit over to new account.

KPMG AG also audited the report on relationships with associated companies (dependent company report) prepared by the Executive Board in compliance with Section 312 of the German Stock Corporation Act. The auditor issued the following audit certificate regarding the result:

»Following our dutiful audit and assessment, we hereby confirm that the actual information contained in the report is correct, that payments of the company for the legal transactions specified in the report were not inappropriately high or that disadvantages were balanced, and that there are no circumstances relating to the measures described in the report which indicate a fundamentally different assessment than given by the Executive Board.«

The Supervisory Board also examined the dependent company report. It raised no objections to the final declaration of the Executive Board in the report and the result of the audit conducted by the auditors.

Personnel matters

On 18 March 2011, Mr Maximilian Ardelt (Dipl. Ing.) resigned from his office as chairman of the Supervisory Board and retired from the board with effect from the end of the annual general meeting held on 19 May 2011. The Supervisory Board thanks Mr Ardelt for his always constructive cooperation. The annual general meeting on 19 May 2011 voted Mr Manfred Egner (Dr. Ing.) onto the Supervisory Board to stand in for Mr Manfred Egner with immediate effect for the remaining term of the latter. At the general meeting on 18 March 2011, the plenum appointed Mr Alfons Hörmann as chairman of the board and Prof. Dr. Ing. Gerhard Fettweis as his deputy.

Changes made in fiscal 2011 also affected the Executive Board of Funkwerk AG: Chairman of the Board Dr. Hans Grundner retired from the company at his own request on 19 May. The Supervisory Board thanks Dr. Grundner for his great commitment and dedication over the past years. His duties were transferred to CFO Johann Schmid-Davis and CTO Carsten Ahrens, who have since managed the company on an equal footing.

The Supervisory Board wishes the Executive Board and all employees of the company all the very best in meeting the challenges facing us in the current financial year.

Kölleda, March 2012
For the Supervisory Board

Alfons Hörmann
Chairman

Members of the Supervisory Board

- Alfons Hörmann, CEO of Hörmann Holding & Co. KG, Kirchseeon, Chairman (since 18 March 2011)
- Prof. Dr. Gerhard P. Fettweis, professor, Dresden Deputy chairman (since 18 March 2011)
- Dr. Ing. Manfred Egner, executive manager of Freudenberg & Co. Kommanditgesellschaft, Aidlingen (since 19 May 2011)
- Maximilian Ardelt, entrepreneur, Starnberg (until 19 May 2011)

Corporate Governance Report

Funkwerk AG is committed to responsible and transparent corporate management and control (corporate governance). Our principles of corporate governance are based on the legal requirements, the company's articles of incorporation, the Rules of Internal Procedure for the Executive Board and the Supervisory Board, and the German Corporate Governance Code (the Code). These principles factor into every decision-making process. Over and above the Corporate Governance Code, the Executive Board and the management of Funkwerk AG act on the basis of a code of conduct drawn up internally to comply with strict insider regulations. The appropriate Insider Trading Policy and Publication Guidelines are published on the website of Funkwerk AG.

Funkwerk AG complies with the majority of the recommendations and proposals of the German Corporate Governance Code as amended on 26 May 2010. Deviations and their reasons are explained in our current declaration of compliance issued by the Executive Board and the Supervisory Board in accordance with Section 161 of the German Stock Corporation Act (AktG) of March 2011. This can be found in this annual report on page 61 and is also available along with the declarations of previous years on our website at www.funkwerk.com.

Under the terms of item 3.10 of the Code, the following provides details of corporate governance at Funkwerk. This report is also part and parcel of the Statement of Corporate Governance found on our website in the »Investor Relations« section.

Shareholders and shareholders' meetings

At the end of 2011, Funkwerk AG reported a share capital of EUR 8,102,241, divided into as many non-par owner shares. Each share strictly grants one vote at the annual shareholders' meeting. The Executive Board of the company is responsible for ensuring the timely mailing of all reports and documents including agenda required by law for the annual shareholders' meeting. These documents along with a list of those present and the results of votes at the shareholders' meeting are also published on our website. Furthermore, shareholders are given opportunity via electronic communication to direct questions at the Investor Relations department.

In the course of the annual shareholders' meeting, the Executive Board presents the annual financial statements of the preceding financial year and comments on the main events. Every shareholder is entitled to attend the shareholders' meeting, to address the meeting on any items on the agenda, and to pose related questions or file motions. Shareholders who are prevented from attending the shareholders' meeting may exercise their voting rights by a duly authorised representative, or by a proxy of Funkwerk AG subject to instructions. These proxies may be authorised and instructed at any time and are available to all shareholders throughout the meeting. The annual shareholders' meeting in 2010 decided to introduce the option for shareholders to submit their votes by post. This option was not yet put into effect in the 2011 shareholders' meeting.

Executive Board

Since the retirement of the previous chairman, Dr. Hans Grundner, on 19 May 2011, the Executive Board of Funkwerk AG comprises two members, who manage the company on an equal footing. These are introduced on page 116 of this annual report.

The Executive Board is responsible for the corporate management and acts in the interest of the company with a view to increasing its value on a sustainable basis. For this purpose, it sets up an appropriate strategy which it agrees with the Supervisory Board and ensures its implementation. Its responsibilities further include effective opportunity and risk management and controlling, the preparation of annual financial statements for the company (AG) and the group and the interim and quarterly statements of account. The Executive Board fills management positions in the company with a view to ensuring diversity and specifically aims to provide for an appropriate level of female representation.

The collaboration within the Executive Board is governed by Rules of Internal Procedure, which were stipulated by the Supervisory Board most recently in August 2011. These also specify the areas of responsibility of board members, matters which concern the entire Executive Board, the majority required for resolutions, and a catalogue of transactions requiring approval. Detailed information on the remuneration of the Executive Board is provided in the remuneration report on page 46 of this annual report. The Executive Board did not hold any reportable second jobs in the reporting year.

Supervisory Board

The Supervisory Board of Funkwerk AG comprises three members, who are introduced in the report of the Supervisory Board on page 56 and in the notes to the financial statements on page 117. The work of the Supervisory Board is governed by Rules of Internal Procedure and its efficiency is regularly monitored.

In terms of key responsibilities, the Supervisory Board advises and supervises the Executive Board in its management of the company. Where decisions of fundamental importance to the company are required, it is involved in the decision-making process from the very outset. The Supervisory Board also specifies the information and reporting requirements of the Executive Board vis-à-vis the Supervisory Board. The Executive Board regularly, promptly and comprehensively informs the Supervisory Board of all relevant issues related to corporate planning, business development, the risk situation and risk management. Deviations of the targets from the actual course of business are discussed. Based on the results of the auditor's report, the Supervisory Board then reviews the annual financial statements of the company and the group. The interim and quarterly statements of account are also discussed with the Supervisory Board prior to their publication.

The Supervisory Board of Funkwerk is composed so as to ensure that the knowledge, ability and professional experience required to properly complete the tasks of the board are covered. All members of the Supervisory Board are proven experts in their field. We further endorse the diversity required by the Code. We aim for a composition of the Supervisory Board and the Executive Board which typifies especially the criterion of internationality and ensures an appropriate level of female representation. A specific number or quota of females has not been determined.

The various responsibilities of the board are coordinated by the chairman of the board, who also remains in close contact with the Executive Board for a regular dialogue. The structure and level of remuneration of the Supervisory Board are detailed in the remuneration report on page 46. The members of the Supervisory Board hold at most a further three seats on the Supervisory Boards of other listed companies or in supervisory bodies of companies with similar requirements. The company adequately supports the board members in independently pursuing training and further education measures required to perform their duties.

The Supervisory Board convenes on a regular basis, having held six ordinary meetings and one telephone conference in 2011. Issues discussed in these instances are detailed in the report of the Supervisory Board on page 56. Where necessary, the Supervisory Board also meets without the Executive Board.

Cooperation of Executive Board and Supervisory Board

The Executive Board and the Supervisory Board of Funkwerk AG work together in close cooperation for the good of the company maintaining a basis of trust. The Executive Board agrees the strategic orientation with the Supervisory Board and regularly discusses with it the progress and stage reached in implementing the strategy. The Supervisory Board is also regularly, promptly and comprehensively informed of any key events and of the corporate planning, the trend of business and the risk situation. The information and reporting requirements of the Executive Board are stipulated in the Rules of Internal Procedure for the Executive Board. At Supervisory Board meetings, the Executive Board and the Supervisory Board discuss key strategic decisions and transactions requiring approval in great detail in an open dialogue while maintaining strict confidentiality. In addition to the ordinary meetings, the Executive Board and the Supervisory Board met regularly to deliberate on relevant topical issues. Further information on the cooperation of both boards is provided in the report of the Supervisory Board (page 56).

Funkwerk AG has concluded a D&O insurance for the Executive Board and the Supervisory Board. Contrary to the German Corporate Governance Code, it does not include an excess for the Supervisory Board. The Executive Board and the Supervisory Board of Funkwerk AG hold the view that the due diligence and sense of responsibility which the members of the Supervisory Board exercise at all times as a matter of principle in the performance of their duties could not be further optimised through agreement of an excess. As stipulated in Section 93 (1) of the German Stock Corporation Act (AktG), the current employment contracts of Executive Board members include an excess of 10 per cent of the damage up to at least one and a half times their fixed annual remuneration.

Transparency

Funkwerk AG notifies its shareholders, the shareholders' meetings, financial analysts, the media and the interested public equally, promptly and in detail of the development of the company and any key events. In so doing, the company uses a variety of communication channels. All mandatory publications along with comprehensive additional information are always available in up-to-date versions on the website of Funkwerk AG. The latter also provides the latest financial calendar containing key dates of publications and events. Publications such as ad hoc releases, press information, interim and annual reports are published in both German and English. At regular capital market conferences we regularly meet analysts and institutional investors to engage in an intensive dialogue. The presentations held at these events are also made available on our website.

All share transactions of the Executive Board and the Supervisory Board and of related parties (Directors' Dealings under Section 15a of the German Securities Trading Act – WpHG) are published on the website of Funkwerk AG as soon as the company is appropriately informed. No such transactions were reported in fiscal 2011.

Remuneration report

The remuneration report of Funkwerk AG is based on the recommendations of the German Corporate Governance Code and includes details that are a component part of the notes to the consolidated financial statements and the management report under the requirements of the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRS). A detailed account is given in the management report on page 46 and in the notes to the financial statements on page 118.

Declaration of compliance

The Executive Board and the Supervisory Board of Funkwerk AG hereby declare compliance – both currently and in the past – with the recommendations of the »Government Commission on the German Corporate Governance Code« as amended on 26 May 2010 and published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette:

1. The German Corporate Governance Code recommends that the company also assist the shareholders in the use of postal votes and proxies (item 2.3.3 of the Code). Funkwerk AG has already taken the precaution through the resolution passed at the shareholders' meeting on 27 May 2010 of introducing a new clause in its Articles of Incorporation authorising the Executive Board to allow a postal vote in accordance with the option granted in Section 118 (2) AktG. We believe that postal votes have not to date been sufficiently tested. Against this background and in consideration of the administrative work involved in a postal vote and the option of instructing a representative appointed by the company to exercise shareholders' voting rights, the Executive Board does not intend to utilise its authorisation to allow a postal vote at the annual shareholders' meeting in 2012.
2. The German Corporate Governance Code recommends for D&O insurances for the Supervisory Board the agreement of an excess of at least 10 % of the damage up to at least 1.5 times the fixed annual remuneration (item 3.8 of the Code). The D&O insurance contract concluded for the Supervisory Board of Funkwerk AG does not provide for an excess. The Executive Board and the Supervisory Board of Funkwerk AG hold the view that the due diligence and sense of responsibility which the members of the Supervisory Board already exercise at all times in the performance of their duties could not be further optimised through agreement of an excess.
3. The German Corporate Governance Code recommends that the Supervisory Board set up qualified committees (item 5.3.1 of the Code), specifically an audit committee (item 5.3.2 of the Code) and a nomination committee (item 5.3.3 of the Code). Since the Supervisory Board does not comprise more than three members, the setup of committees is considered impractical. The duties assigned to the audit committee are performed jointly by the whole Supervisory Board.
4. The German Corporate Governance Code recommends that the Supervisory Board specify concrete objectives regarding its composition, which, whilst considering the specifics of the company, take into account the international activities of the company, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board and diversity, and stipulate an appropriate degree of female representation (item 5.4.1 of the Code). The Supervisory Board is of the opinion that decisions on Supervisory Board candidates should still be made on the basis of whether relevant candidates possess the knowledge, ability and expert experience required to properly complete the tasks of the Supervisory Board. The implementation of the concrete objectives recommended in item 5.4.1. para. 2 of the Code regarding specific criteria for recommendations of candidates for the Supervisory Board opposite other criteria will not be realised. The Supervisory Board intends to continue deciding on recommendations for its composition on a case-by-case basis based on the given specific situation.

Funkwerk AG
Kölleda, 26 March 2012
The Executive Board and the Supervisory Board of Funkwerk AG

03

FINANCIAL STATEMENTS

Consolidated Statement of Financial Position ACC. TO IFRS AS AT 31. DECEMBER 2011

ASSETS	NOTES	31/12/2011 € K	31/12/2010 € K
A. LONG-TERM ASSETS			
1. Intangible assets	E. (1)	24,607	35,658
2. Tangible assets	E. (1)	12,252	14,224
3. Other assets	E. (1)	4	43
		36,863	**49,925**
B. SHORT-TERM ASSETS			
1. Inventories	E. (3)	35,611	43,560
2. Trade accounts receivable	E. (4)	33,991	27,629
3. Receivables from projects in progress	E. (5)	4,733	8,017
4. Due from affiliated companies	E. (6)	52	206
5. Tax refund claims	E. (7)	1,010	1,304
6. Other assets	E. (8)	1,602	3,026
7. Financial assets	E. (9)	11,997	3,969
8. Liquid assets	E. (9)	17,424	12,056
9. Long-term assets available for sale	E. (10)	14,631	0
		121,051	**99,767**
		157,914	149,692

LIABILITIES	NOTES	31/12/2011 € K	31/12/2010 € K
A. LIABILITIES	E. (11)		
1. Subscribed capital		8,101	8,101
2. Capital reserve		63,529	63,422
3. Retained earnings (revenue reserve)		38,211	38,211
4. Own shares		–1,062	–1,062
5. Net loss for the year		–59,915	–43,976
6. Foreign currency items		–204	–237
Equity of Funkwerk AG shareholders		48,660	64,459
		48,660	**64,459**
B. LONG-TERM LIABILITIES			
1. Pension obligations	E. (12)	12,822	12,525
2. Deferred investment subsidies	E. (13)	517	874
3. Deferred taxes	E. (14)	1,066	1,071
4. Financial liabilities	E. (15)	0	12
		14,405	**14,482**
C. SHORT-TERM LIABILITIES			
1. Financial liabilities	E. (15)	12,886	422
2. Trade accounts payable	E. (16)	27,939	29,368
3. Advance payments received on orders	E. (17)	9,004	8,735
4. Due to affiliated companies	E. (18)	390	56
5. Tax liabilities	E. (19)	5,674	3,867
6. Accured liabilities	E. (20)	11,532	14,323
7. Deferred investment subsidies	E. (13)	87	138
8. Other liabilities	E. (21)	11,679	13,842
9. Liabilities held for sale	E. (10)	15,658	0
		94,849	**70,751**
		157,914	149,692

Statement of Comprehensive Income ACC. TO IFRS

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2011	NOTES	2011 € K	2010 € K
Continued segments			
1. Sales revenues	F. (22)	**164,569**	**168,638**
2. Decrease (2010: Increase) in finished goods inventories and work in progress		–1,936	438
3. Other own work capitalised		5,641	7,354
4. Other operating income	F. (25)	6,655	6,844
5. Total operating performance		**174,929**	**183,274**
6. Cost of materials	F. (23)	83,820	90,253
7. Personnel expenses	F. (24)	62,488	63,363
8. Planned depreciation		7,801	7,058
9. Other operating expenses	F. (26)	23,972	24,283
10. Operating result before impairment charges and restructuring costs		**–3,152**	**–1,683**
11. Depreciation and other expenses from the project business Algeria	F. (27)	0	7,816
12. Impairment charges for intangible assets	F. (27)	5,278	3,432
13. Restructuring costs	F. (28)	4,693	2,004
14. Operating result / EBIT		**–13,123**	**–14,935**
15. Financial income		228	482
16. Financial expenses		–2,445	–2,155
17. Financial results	F. (29)	–2,217	–1,673
18. Earnings before taxes		**–15,340**	**–16,608**
19. Taxes on income	F. (30)	–3,609	–6,089
20. Result of continued segments		**–18,949**	**–22,697**
21. Result of sold business segments (after tax)	C. (1)	**3,010**	**–2,183**
22. Earnings after taxes / result for the year		–15,939	–24,880
Amounts directly included in equity			
23. Currency differences		33	86
24. Other period results – continued segments		**33**	**86**
25. Other period results – sold business segments		**0**	**0**
26. Total		–15,906	–24,794
THE RESULT FOR THE YEAR COMPRISES			
Funkwerk AG shareholders		–15,939	–24,880
THE AMOUNTS DIRECTLY INCLUDED IN EQUITY COMPRISE			
Funkwerk AG shareholders		33	86
EARNINGS PER SHARE			
Earnings per share (undiluted and diluted)	E. (11)	–1.98	–3.08
EARNINGS PER SHARE CONTINUED SEGMENTS			
Earnings per share (undiluted and diluted)	E. (11)	–2.35	–2.82

Consolidated Statement of Cash flows ACC. TO IFRS

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2011	NOTES	2011 € K	2010 € K
1. Annual result		**–15,939**	**–24,880**
2. Income tax expenditure	F. (30)	4,133	7,566
3. Depreciation of development costs	E. (1)	8,077	4,554
4. Amortisation of goodwill	E. (1)	1,850	1,000
5. Depreciation of tangible assets and intangible assets	E. (1)	5,156	6,475
6. Writedown of investments	F. (29)	24	0
7. Earnings from financial assets reported using the equity method		0	786
8. Other non-cash expenditure and income	G. (31)	–4,955	7,395
9. Reversal of investment subsidies	F. (25)	–1,079	–236
10. Changes in reserves		–2,573	1,249
11. Loss from disposal of fixed assets		–10	–330
12. Changes in inventories, receivables and other assets		–3,944	–3,315
13. Changes in advance payments received on orders		332	1,386
14. Changes in other debts		2,144	3,627
15. Interest income	F. (29)	–132	–145
16. Interest expenditure	F. (29)	1,581	1,347
17. Interest paid		–387	–569
18. Interest received		96	34
19. Paid / received income tax		–301	–1,582
20. Cash flow from operating activities	G. (31)	**–5,927**	**4,362**
21. Reiceipts from the disposal of fixed assets		21	432
22. Payments for investments and development costs		–7,384	–9,438
23. Payments for investments in intangible assets without goodwill and development costs		–1,192	–847
24. Payments for investments in fixed assets		–2,716	–1,774
25. Receipts from investment subsidies		1,115	126
26. Acquisition of participating interests		0	51
27. Receipts (2010: Payments) for deconsolidating		9,644	–1,144
28. Cash flow from investing activities	G. (32)	**–512**	**–12,594**
29. Free Cash flow	G. (34)	**–6,439**	**–8,232**
30. Receipts from take-up of (financial) credit		12,500	0
31. Payments for the redemption of (financial) credit		–166	–1,853
32. Cash flow from financing activities	G. (35)	**12,334**	**–1,853**
33. Net change in cash and cash equivalents		5,895	–10,085
34. Cash and cash equivalents at beginning of period		12,056	22,141
35. Cash and cash equivalents at end of period	G. (36)	**17,951**	**12,056**

Consolidated Statement of Changes in Equity ACC. TO IFRS

	NOTES	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE REVERSE	OWN SHARES	NET LOSS FOR YEAR	FOREIGN CURR. ITEM	EQUITY OF FUNKWERK AG SHAREHOLDERS	MINORITY INTERESTS	TOTAL
		€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K
January 1, 2010		**8,101**	**63,270**	**38,211**	**–1,062**	**–19,096**	**–323**	**89,101**	**14**	**89,115**
Group profit for the year	E. (11)	0	0	0	0	–24,880	0	–24,880	0	–24,880
Foreign currency items		0	0	0	0	0	86	86	0	86
Total		**0**	**0**	**0**	**0**	**–24,880**	**86**	**–24,794**	**0**	**–24,794**
Share options (IFRS 2)	E. (11)	0	152	0	0	0	0	152	0	152
Change in minority interests	E. (11)	0	0	0	0	0	0	0	–14	–14
Transactions with owners		**0**	**152**	**0**	0	**0**	0	152	–14	138
December 31, 2010		8,101	63,422	38,211	–1,062	–43,976	–237	64,459	0	64,459
January 1, 2011		**8,101**	**63,422**	**38,211**	**–1,062**	**–43,976**	**–237**	**64,459**	**0**	**64,459**
Group profit for the year	E. (11)	0	0	0	0	–15,939	0	–15,939	0	–15,939
Foreign currency items		0	0	0	0	0	33	33	0	33
Total		**0**	**0**	**0**	**0**	**–15,939**	**33**	**–15,906**	**0**	**–15,906**
Share options (IFRS 2)	E. (11)	0	107	0	0	0	0	107	0	107
Change in minority interests	E. (11)	0	0	0	0	0	0	0	0	0
Transactions with owners		**0**	**107**	**0**	**0**	**0**	**0**	**107**	**0**	**107**
December 31, 2011		8,101	63,529	38,211	–1,062	–59,915	–204	48,660	0	48,660

Notes on the 2011 Consolidated Financial Statements

A. Description of group relations

PARENT COMPANY

The parent company is Funkwerk AG, Im Funkwerk 5, 99625 Kölleda, (hereinafter also referred to as »Funkwerk« or the »corporation«), entered in the Jena Commercial Register, Division B, under number 111457.

Funkwerk AG is quoted on the German Stock Market in Frankfurt/Main and is listed in the Prime Standard (WKN: 575 314). It is also quoted on other German stock markets.

The group is divided into the following three strategic business segments:

The Traffic & Control Communication (TCC) segment of Funkwerk provides innovative solutions involving communication technology that is geared to automate and rationalise operations in transport, logistics and the industry and meet ever more stringent security standards. The key focus of this segment is on mobile radio solutions, management systems and information systems for transport services, forwarders and logistics companies, and the industry.

In Automotive Communication (AC), Funkwerk concentrates on new possibilities of secure, interference-free mobile communication and ensuring their accessibility to vehicle users anywhere. Primary emphasis is given to high-quality, simple operation with user-friendly functions and infotainment.

Using special and security-orientated communication systems in the fields of personal and building security, video monitoring and property protection, the Security Communication (SC) segment addresses the target groups of industrial and energy companies, authorities and organisations with security functions (BOS), public transport, railways, airports, transport infrastructure, correctional facilities and forensic institutes.

In addition, there is the Enterprise Communication (EC) segment, which, in the context of the focussing on the core areas, is now no longer defined as a strategic business segment. The aim of EC is to provide customised communication solutions tailored to meet the business communication requirements of its customers efficiently, economically, and reliably. The product portfolio comprises network components, telecommunication systems and products for data security, which are more intensively focused on integrated infrastructure solutions for small and medium-sized data networks.

Under Section 291 (2) of the German Commercial Code (HGB), the companies Hörmann-Funkwerk Kölleda GmbH, Funkwerk Dabendorf GmbH, Funkwerk Enterprise Communications GmbH, Funkwerk Security Communications GmbH and Funkwerk Information Technologies GmbH are exempt from the preparation of consolidated financial statements. In compliance with Section 315a of the HGB, the consolidated financial statements of Funkwerk were drawn up in line with the IFRS; the prerequisites for this are satisfied.

The companies of the Funkwerk group are included in the consolidated financial statements of Hörmann Holding GmbH & Co. KG, Kirchseeon. The consolidated financial statements of the group company Hörmann Holding GmbH & Co. KG, Kirchseeon, are submitted to the electronic version of the Federal Official Gazette.

B. Accounting rules

A) PRINCIPLES FOR APPLYING THE IFRS STANDARDS

Funkwerk's consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) passed and published by the International Accounting Standards Board (IASB), as were endorsed by the European Union at the time of releasing the consolidated financial statements and were mandatory on said date. These contain the IAS and IFRS that were mandatory on the reporting date of 31 December 2011 and their corresponding interpretations (SIC / IFRIC).

The following standards have become applicable for the first time in the 2011 financial year and are relevant for Funkwerk:

- Improvements to IFRS 2010

In the context of the annual improvement project, eleven amendments were made to six standards and also one interpretation. The adaptation of formulations in individual IFRS standards is intended to achieve clarity in the existing regulations. In addition, there are also changes affecting the balance-sheet reporting, the amount reported or the valuation. The standards concerned are: IAS 1, IAS 27 (in connection with IAS 21, 28 and 31), IAS 34, IFRS 1, IFRS 3, IFRS 7 and the interpretation IFRIC 13.

The changes have no significant effect on the consolidated financial statements of Funkwerk AG.

No application was made of the possibility of making early use of new standards, revisions of standards and interpretations, which had already been passed by 31 December 2011 and adopted by the European Union before the release of the consolidated financial statements.

The following amendment published by the IASB and the standard and interpretation passed by the European Union are currently not yet used. Their use would not likely have led to any essential changes in the accounting and valuation principles:

- IFRS 7 Enhanced disclosure requirements in the financial statements for transfer transactions of financial assets

The following amendments, published by the IASB, to standards and interpretations still require adoption by the EU into European law and are currently not yet applied. Their use would not likely have led to any essential changes in the accounting and valuation principles:

- IAS 1 Presentation of items of other comprehensive income
- IAS 19 Supplement to accounting rules and figures in the financial statements for employe benefits
- IAS 28 Guidelines for accounting on associates and regulations on the use of the equity method
- IAS 32 Accounting rules for balancing of financial assets and liabilities
- IFRS 7 Enhanced disclosure requirements in the financial statements for balancing of financial assets and liabilities
- IFRS 7 / IFRS 9 Regulations for the mandatory use of IFRS 9 and for enhanced disclosures in the financial statements during the transitional phase from IAS 39 to IFRS 9
- IFRS 9 Supplement to the regulations for the reporting of financial liabilities
- IFRS 10 Accounting rules for the presentation of consolidated financial statements and explanations on the principle of control
- IFRS 11 Supplement to the regulations for joint arrangements and their reporting
- IFRS 12 Enhanced disclosure of interests in other entities
- IFRS 13 Guidelines and disclosure requirement for fair value measurement

For the application of special IFRS regulations, please refer to the explanations on individual balance sheet items further below in these Notes.

The financial statements were prepared on the basis of historic purchase and production costs, with the exception of certain financial instruments which were reported at the fair market value.

Unless otherwise stated, all figures of the consolidated financial statements are stated in thousands of euro (EUR k).

The balance sheet format follows the provisions of IAS 1.54 to 1.76. Short-term and long-term assets and short-term and long-term liabilities are shown on the balance sheet as separate classifications.

The statement of income and accumulated earnings was prepared with due regard to the provisions of IAS 1.82 to 1.96 and structured using the aggregate cost method. Since the 2009 financial year, the breakdown of the statement of income and accumulated earnings have been expanded to give better comparability. In the transition to the operating result (EBIT), an intermediate result is shown as the operating result before impairment charges and restructuring costs as well as separated expenditure items, impairment charges relating to intangible assets and restructuring costs. Furthermore, for the 2010 financial year, an additional expenditure item was also shown separately: impairment charges from the Algerian project business.

As a result of relinquishing business segments, the balance-sheet, the statement of income and accumulated earnings and the consolidated cash flow statement were drawn up using the regulations of IFRS 5.

B) OTHER

The financial year is the calendar year.

On 26 March 2012, the Executive Board of Funkwerk AG approved the 2011 consolidated financial statements for forwarding to the Supervisory Board. It is incumbent on the Supervisory Board to audit the consolidated financial statements and to state whether it endorses it.

C. The Consolidated Group

1. CONSOLIDATED COMPANIES

The consolidated financial statements of Funkwerk AG include all companies that are controlled directly or indirectly by the parent company. Control is deemed to be acquired if the company is able to determine the financial and business policy of a subsidiary in order to gain benefit from the subsidiary's activity. The results of the subsidiaries bought or sold during the course of the year are reported correspondingly in the statement of income and accumulated earnings as from the actual date of acquisition or until the actual date of sale. As and where necessary, the subsidiaries' annual financial statements have been adjusted in order to match the accounting and valuation principles to suit those used within the consolidated group.

In addition to Funkwerk AG, the following companies are fully consolidated in the consolidated financial statements (Germany, unless otherwise stated):

DIRECT SUBSIDIARIES	REGISTERED OFFICE	VOTING RIGHTS IN %
Hörmann-Funkwerk Kölleda GmbH (HFWK)	Kölleda, Thüringen	100
Funkwerk Dabendorf GmbH (FWD)	Zossen, Brandenburg	100
Funkwerk Enterprise Communications GmbH (FEC)	Nuremberg, Bavaria	100
Funkwerk Information Technologies GmbH (FIT)	Kiel, Schleswig-Holstein	100
Funkwerk Security Communications GmbH (FSC)	Salzgitter, Lower-Saxony	100
FunkTech GmbH	Nuremberg, Bavaria	100

INDIRECT SUBSIDIARIES	REGISTERED OFFICE	VOTING RIGHTS IN %
Funkwerk eurotelematik GmbH	Ulm, Baden-Württemberg	100
Funkwerk Avionics GmbH	Waal, Bavaria	100
Funkwerk Enterprise Communications Iberia S.L.	Madrid, Spain	100
Funkwerk Enterprise Communications France S.A.S.	Gradignan Cedex, France	100
Funkwerk Enterprise Communications Italia S.R.L.	Milan, Italy	100
Funkwerk Aphona GmbH	Vienna, Austria	100
Funkwerk IP-Appliances GmbH	Nuremberg, Bavaria	100
Funkwerk Information Technologies Karlsfeld GmbH (FITK)	Karlsfeld, Bavaria	100
Funkwerk Information Technologies York Limited	York, Great Britain	100
Funkwerk Information Technologies Malmö AB	Malmö, Sweden	100
Funkwerk IT Polska Sp. z o.o.	Warsaw, Poland	100
Microsyst Systemelectronic GmbH	Weiden, Bayern	100
Funkwerk plettac electronic GmbH	Fürth, Bavaria	100
Funkwerk Systems Austria GmbH	Vienna, Austria	100
Funkwerk Akademie GmbH	Beichlingen, Thuringia	100
Funkwerk Statkom GmbH	Kölleda, Thuringia	100
Funkwerk Electronic Services GmbH (FES)	Salzgitter, Lower-Saxony	100
Funkwerk Engineering GmbH	Kiel, Schleswig-Holstein	100

Sold business segments

In the course of the strategic realignment, the Executive Board decided to sell off various companies.

As of the financial accounts of 30 September 2011, as a result of the requirements of IFRS5 that were fulfilled at the end of the third quarter of 2011, all assets and liabilities connected to the planned sale were brought together under one balance-sheet item each or the result of the sold segments was individually indicated in the income statement.

On 9 September 2011 Funkwerk AG sold 100 per cent of its shares in Alpha Mess-Steuer-Regeltechnik GmbH, Neustadt/Weinstraße, (»Alpha« for short). Alpha belonged to the TCC segment, but was not part of its core business. The deconsolidation of Alpha took effect as of September 30, 2011. In the first nine months of the 2011 financial year, the sold company recorded sales revenues of EUR 11,248k and an annual net profit of EUR 122k. In the whole financial year 2010, Alpha was able to record an annual net profit of EUR 842k with sales revenues of EUR 16,663k. On 30 September 2011 Alpha employed 124 personnel. The assets outgoing due to the deconsolidation consisted of EUR 167k in fixed assets and EUR 5,696k in current assets, while the outgoing liabilities consisted of EUR 462k in deferred taxes and EUR 2,855k in short-term liabilities. Taking an outgoing goodwill value of approx. EUR 1.9m into consideration, the deconsolidation had an effect on the result of around EUR 5.1m. This is indicated in the consolidated statement of income and accumulated earnings and, as the current period result, in the »Result from sold business segments (after tax)«.

Funkwerk AG sold all its shares in the wholly-owned subsidiary Funkwerk Enterprise Communications GmbH, Nuremberg, on 18 October 2011. The sale was completed on 13 January 2012. It was subject to the usual reservation of precedent conditions and required the approval of the bank consortium of Funkwerk AG.

The sale not only included Funkwerk Enterprise Communications GmbH but also its subsidiaries Funkwerk IP-Appliances GmbH (Nuremberg), Funkwerk Aphona Communications GmbH (Vienna, Austria), Funkwerk Enterprise Communications France S.A.S. (Gradignan Cedex, France) and Funkwerk Enterprise Communications Italia S.R.L. (Milan, Italy). Not included were the inactive subsidiaries in Germany and Spain and the majority shareholding in Funkwerk ES Iberia S.L. (Majadahonda/Madrid, Spain) held by Funkwerk Enterprise Communications GmbH. The transaction therefore meant the splitting of the entire EC segment and was reported as per IFRS 5 in the consolidated balance sheet (cf. Assets: B.9.; Liabilities: C.9.) and the consolidated statement of income and accumulated earnings (»Result of the sold business segments (after tax)«). The preliminary effect of the deconsolidation on the result is currently running at approx. EUR 1.6 m here.

Funkwerk Avionics GmbH, which belongs to the AC segment, was sold in March 2012. This deconsolidation did not lead to any significant effects on the consolidated statement of income and accumulated earnings 2012.

Furthermore, it is also intended to sell the sports display product line (TCC) in the course of 2012.

The result of the sold business segments (after tax) as per item 21 of the consolidated statement of income and accumulated earnings is calculated as follows:

SOLD BUSINESS SEGMENTS	2011 IN € K	2010 IN € K
Sales revenues	44,056	50,801
Gross performance	46,996	54,865
Expenditure	47,588	52,550
Impairment charge	410	0
Operating result	– 1,002	2,167
Financial result	– 535	– 2,873
Result before tax from sold business segments	– 1,537	– 706
Taxes on income	– 524	– 1,477
Operating result after tax	– 2,061	– 2,183
Result from the sale of sold business segments	5,071	0
Taxes on income on the result from the sale of sold business segments	0	0
Period result	**3,010**	**– 2,183**

The impairment charge for 2011, shown in the table above, results from the goodwill impairment test for CGU Funkwerk Avionics that was conducted immediately before the classification as a sold business segment. In this case the obtainable sum was below the book value, which is why expenditure of EUR 0.4 m was recorded.

As regards the cash flows which are attributable to the sold business segments, use was made of the relevant option in IFRS 5 to present these separately in the financial statements. As a result, the consolidated cash flow statement contains all cash flows attributable to the sold business segments, i.e. it was drawn up as if no business segments were sold.

The share of the sold business segments in the cash flows is as follows: in the cash flow from current business activity it is EUR – 579 k (prev. year: EUR 3,947 k); in the cash flow from investment activity it is EUR 2.616 k (prev. year: EUR – 2,139 k) and in the cash flow from financing activity it is EUR 2,043 k (prev. year: EUR – 1,540 k). The cash flow from financing activity concerns group-internal financing. The cash and cash equivalents at the end of the period that are reported in the consolidated cash flow statement are made up of EUR 17,424 k (prev. year: 10,377) of retained business segments and EUR 527 k (prev. year: EUR 1,679 k) of sold business segments.

For the presentation of the effect on the consolidated balance sheet, please see E.(10).

2. BALANCE SHEET CLOSING DATE

The financial year of Funkwerk AG and its subsidiaries ends each and every year on 31 December.

3. CONSOLIDATION METHODS

The consolidated financial statements include the annual accounts of the company, its majority-owned subsidiaries and its associated companies. All receivables and payables and all transactions between the consolidated companies are eliminated in the consolidated financial statements. Both the receivables and payables, and the expenses and income between the consolidated companies are offset against each other. The group inventories and the fixed assets are adjusted by intermediate results. Consolidation processes affecting net income are subject to the adjustment of deferred taxes, with deferred tax assets and liabilities being balanced if a legal entitlement exists for offsetting the recorded amounts against each other and it is intended either to achieve the balance on a net basis or, simultaneous with the realisation of the asset concerned, to redeem the relevant liability. Non-controlling interests in the net assets (except for goodwill) of the consolidated subsidiaries are reported separately from the equity capital of the group. They consist of the amount of such interests on the date of the original company merger and the non-controlling interest in the changes of equity capital as of the merger date. The share of companies acquired by non-controlling shareholders is reported at their share of contribution to the net current market value of the assets, liabilities and continent liabilities upon their inclusion.

When acquiring the companies that are to be included in the consolidated group, the assets and liabilities are assessed at their respective market value at the time of acquisition. If the acquisition costs are higher than the group share in the thus determined equity of the company, this results in goodwill, which is to be carried as an asset, for the respective planning unit. The disclosed hidden reserves and liabilities are continued within the scope of subsequent consolidations according to the corresponding assets and liabilities. The goodwill accounting is subject to IFRS 3. If, however, the acquisition costs are lower than the group share in the thus calculated equity capital of the company, no deficit amount is carried as a liability. Instead, in accordance with IFRS 3, this difference was immediately recorded, affecting the operating result.

When companies that were included in the consolidated group were sold, the assets (including goodwill) and liabilities were taken off the books at their book value at the time of the loss of control. The fair market value of the return consideration received from the transaction was calculated and the profit/loss transferred from equity capital into the result.

Increases in majority shareholdings are taken into consideration using the equity transaction method.

4. CURRENCY CONVERSION AND TRANSACTIONS

Currency conversion

Funkwerk Information Technologies York Limited, Great Britain, Funkwerk Information Technologies Malmö AB, Sweden, and Funkwerk IT Polska Sp. z.o.o., Poland are not domiciled in the Euro-zone.

The functional currency of all other subsidiaries included in the consolidated financial statements is the euro, since these subsidiaries are exclusively registered in the Euro-zone. Annual accounts prepared in foreign currencies were converted as follows: the equity capital was valued at the historical exchange rates on the date of acquisition, the balance sheet at the mean rates on the closing date, and the items of the statement of income and accumulated earnings at the average rates. The currency differences from this conversion were recorded in the equity capital without affecting the operating result.

In the remaining result of the 2011 financial year, EUR 33 k were due to currency differences (prev. yr.: EUR 86 k).

In the preparation of the financial statements of the individual group companies, any transactions made in currencies other than the working currency of the group company were converted using the exchange rates valid on the day of the transaction.

	HISTORICAL RATE	CUTOFF DATE RATE	AVERAGE RATE
Sweden (in EUR/SEK)	0.10972	0.11221	0.11102
Great Britain (in EUR/GBP)	1.51768	1.19717	1.14676
Poland (in EUR/PLN)	0.25821	0.22432	0.24341

Currency transactions

The company has entered into hedging transactions in order to secure transactions in foreign currencies. These hedging transactions are limited to the period in which the risk exists and minimise the effects of exchange rate fluctuations on the earnings position of the companies. In the 2011 financial year, hedging transactions were effected with regard to the US dollar, Australian dollar, Swiss franc, Hungarian forint and Swedish krona.

5. AFFILIATED COMPANIES

Affiliated companies are defined as companies that are directly or indirectly controlled by the corporation or by Hörmann Holding GmbH & Co. KG.

The corporation is the parent company of all direct and indirect subsidiaries, which consequently are also considered affiliated companies within the meaning of Section 271 (2) of the HGB (German Commercial Code), and in accordance with IAS 24. All direct and indirect subsidiaries, associated companies and key management personnel are considered as affiliates.

Within the meaning of Section 271 (2) in conjunction with Section 290 of the HGB (German Commercial Code), the corporation itself is an affiliated company of Hörmann Holding GmbH & Co. KG, Kirchseeon, and is listed in the consolidated financial statements of that company.

Consequently, the following subsidiaries of Hörmann Holding GmbH & Co. KG, Kirchseeon, are also affiliated companies of Funkwerk AG:

AFFILIATED COMPANIES WITH WHOM BUSINESS RELATIONSHIPS EXIST	REGISTERED OFFICE
Hörmann GmbH	Kirchseeon
Hörmann Kommunikationsnetze GmbH	Kirchseeon

In addition, Hörmann Holding GmbH & Co. KG consolidates other companies with which Funkwerk does not have any business relations..

D. Accounting and valuation principles

1. INTANGIBLE ASSETS AND GOODWILL

Intangible assets acquired for a consideration, primarily software, patents and intangible assets with a determinable useful life are carried as assets at purchase cost and their loss in value calculated on a straight-line basis by planned depreciation throughout their economic life, typically three to four years.

Development costs are carried as assets if the development of a new product (or process) can be clearly defined, is technically feasible and is intended either for own use or for sale. Carrying as assets further requires reasonable certainty that these development costs can be covered by future incoming funds. Development costs carried as assets are depreciated systematically over the expected selling period of the products or useful life of the processes (principally up to five years). Research costs are shown as current expenditure in accordance with IAS 38. The production cost here includes any costs directly attributable to the development process and appropriate shares of the development-related overhead. Where the requirements for carrying as assets are not met, the expenditures are allocated to the year of their accrual affecting net income.

The intangible assets, which are still at the development stage and therefore do not yet undergo planned depreciation, are audited in accordance with IAS 36. If the higher value of the net sales price and the value in use of the asset in question falls below the book value (impairment test), unplanned depreciation is made as and when necessary. For individual development projects, the achievable amount is calculated in the form of the fair market value.

According to IFRS 3, positive goodwill represents the excess between the purchase cost of a company and the acquired, re-valued assets and liabilities including contingent liabilities, which remains after a purchase price allocation and consequently, the identification of all assets and liabilities acquired. Within the scope of this purchase price allocation, the identified assets and liabilities are taken into account not at their previous book values but at their current market values. Goodwill is recognised as an asset and assessed annually at a specific time in the context of impairment tests.

For the purposes of the impairment test, both the goodwill and the development costs are allocated to the appropriate cash generating units (CGU). The CGUs correspond to the independent legal entities of the company. In the SC and TCC segments, legal entities of the company that deviate from this and generate cash independent of each other were each grouped together to form one CGU. The value impairment costs are calculated on the basis of the amounts achievable by each CGU, whereby the latter is calculated on the basis of the value in use. It is refrained from calculating the fair value less cost to sell because there are no indications that this value is higher than the value in use.

The calculations are based on the cash flow projections approved by the Executive Board and submitted to the Supervisory Board for the following three financial years. The planning is drawn up based on figures gained from experience taking current market developments into consideration. The cash flows of the CGUs are primarily driven by the planned sales revenues of the periods, whereby sales increases up until the 2014 financial year were also taken into account at percentages in the higher single-figures for each year.

For any periods exceeding these three years, the cash flows will be adjusted. A sustained growth of 1 per cent, which is typical for the industry, is taken as the basis for this.

The cash flows were discounted at the risk-adjusted pre-tax interest rate in line with the market. The discount rate before tax was calculated in accordance with IAS 36.55. The discount factors at the reporting date were calculated on segment level and applied to the cash flow predictions of the respective CGUs:

SEGMENT	INTEREST RATE IN % (PREV. YR.)
TCC	11.7 (11.4)
AC	12.0 (11.4)
SC	13.0 (12.5)

2. TANGIBLE ASSETS

Tangible assets are valued at purchase cost less accrued depreciations. The tangible assets are depreciated on a straight-line basis over their expected utilisation period. Investment subsidies are always shown as »Deferred investment subsidies«. Production costs are valued on the basis of directly allocable direct costs and pro-rata material and production overhead less depreciations. Maintenance and repair costs are expensed, while replacement and expansion investments extending the expected utilisation period or increasing the capacity are capitalised. The tangible assets were not re-valued based on the option under IAS 16.

The planned depreciations are based on the following utilisation periods:

DESCRIPTION	USEFUL LIFE
Buildings	15 to 50 years
Plant and machinery	3 to 12 years
Other fixtures and fittings, tools and equipment	1 to 10 years

In accordance with IAS 36, unplanned depreciations of tangible assets are effected if the higher value of net sales price and the utilisation value of the asset in question falls below the book value. If the reasons for an unplanned depreciation effected in previous years do not apply, we carry out the appropriate appreciations.

3. OTHER LONG-TERM ASSETS

The other long-term assets include the amounts stated for shareholdings in affiliated companies which, taking into account the principle of materiality, are not shown in the balance sheet in compliance with the provisions of IAS 27, participations, and other investments. These are valued at their net book value less the required depreciation.

4. INVENTORIES

Inventories are valued at the lower amount of purchase and production cost and net sales value. In addition to the direct costs, the purchase/production costs also include appropriate shares of the necessary material and production overhead and production-related depreciations directly attributable to the production process. Administration costs are taken into account where attributable to the production. If the values are lower as at the closing date due to sagging prices on the sales market, these are reflected. The valuation of similar items of inventories is always based on the average cost method. Payments on account for inventories are valued at purchase cost. Depreciations of the inventories are reported under material expenses.

5. RECEIVABLES FROM PROJECTS IN PROGRESS

Sales and profits from long-term production orders are reported following the percentage of completion method in accordance with IAS 11. The degree of completion of the individual orders is determined according to the ratio of total costs estimated as at the cutoff date to costs incurred as at the closing date (cost-to-cost method). Losses from long-term orders are immediately recorded in full in the financial year in which the losses are obvious, irrespective of their degree of completion. Depending on the amount of advance payments requested, long-term orders valued in line with the percentage of completion method are shown under receivables from production orders or carried as advances from customers. These are valued at production cost plus a pro-rata profit corresponding to the degree of completion. Where a reliable estimate is not possible, the zero-profit method is used. The production costs include any costs directly attributable to the order and, where appropriate, shares of the overhead.

6. TRADE ACCOUNTS RECEIVABLE AND OTHER ASSETS

Due to their short-term nature, trade accounts receivable do not bear interest and are reported at their nominal value less value adjustments due to anticipated bad debt losses. Bad debt losses and value adjustments of receivables are reported under other operational expenses. The other assets are valued at net book value. Recognisable risks of non-payment are taken into account by making appropriate value adjustments.

7. TAX REFUND CLAIMS/TAX LIABILITIES

The tax refund claims contain receivables from current taxes on income.

The tax liabilities contain obligations from current taxes on income and from the findings of audits conducted, insofar as these exceed the amounts paid as prepayments before the cutoff date.

8. FINANCIAL ASSETS

Listed under this item are securities classified as current assets (held for trading) and shown at their market value on the cutoff date pursuant to IAS 39.

Also reported under this item are current bank credit balances in Algeria that are either unavailable in the short term or are blocked. These are reported at the nominal value under consideration of the exchange rate on the cutoff date. In addition, loan receivables were reported at nominal value.

9. LIQUID FUNDS

Items under cash and cash equivalents include cheques, cash on hand and on deposit in banking accounts.

10. ASSETS HELD FOR SALE AND SOLD BUSINESS SEGMENTS

Long-term assets that according to IFRS 5 are classified as being available for sale are carried and valued at the lower amount of their original book value and at the current market value less costs of sale. Such a classification is always made whenever the sale is highly probable and the asset is available for immediate sale in its current state.

The assets and the related liabilities that are to be sold in one transaction are grouped together as a sale group.

Long-term assets or sale groups are classified as »held for sale« if the relevant book value is realised predominantly via a sale and not via its continued usage. This is only the case when the sale is highly probable and the asset or the sale group is immediately saleable in its present state. The management must have decided on the sale, which must be expectably completed within a year of the classification as a long-term asset held for sale or as a sale group.

In the income statement for the reporting period and also the comparison period, the income and expenditure from sold business segments are reported separately from the income and expenditure of retained business segments and are separately listed as result after tax from sold business segments.

11. CAPITAL RESERVES

IFRS 2 requires the effects of share-based payments, including the expense for the share options granted to the corporate management and employees, to be shown in the statement of income and accumulated earnings. Where share-based payments are settled by way of equity instruments, they are shown at their current market value.

12. DEFERRED INVESTMENT SUBSIDIES

Some subsidiaries receive subsidies from public funds which are used both for research and development projects and for the acquisition of tangible fixed assets.

According to IAS 20.24, any investment subsidies from public funds received by the corporation must be itemised as a separate liability item. The transfer was made on the basis of the fulfilled statutory entitlement requirements and the appropriated grants for investments effected by the corporation. The release affected the earnings corresponding to the utilisation period of the subsidised fixed assets.

Other public subsidies, which were collected in order to balance out expenses or losses already arisen or for purposes of immediate financial support, were reported affecting the net income in the period in which the need arose.

13. DEFERRED TAXES

The deterred taxes are reported and evaluated as per IAS 12 »Income Taxes«.

Deferred tax assets and liabilities are formed for future tax consequences from the difference of the book values in the IFRS balance sheet and the trade balance sheet and from tax loss carry-forwards.

The accruals and deferrals are effected at the rate of the anticipated tax burden or relief of following financial years on the basis of the tax rate effective at the time of applicability. To determine future rates of taxation, reference is made to the tax legislation and regulations that are valid or announced by the cutoff date. Tax consequences of dividend distributions are only taken into account at the time of the resolution on the disposal of corporate profits. Accruals are only reported when the realisation of future tax advantages seems improbable.

14. PENSIONS ACCRUED

In accordance with IAS 19, these accruals are calculated using the projected unit credit method (PUCM). Here, future liabilities are valued using actuarial procedures with a conservative estimate of the relevant impacting factors.

15. ACCRUED LIABILITIES

According to IAS 37, accrued liabilities are set aside where there is a current obligation towards third parties due to a past event that is expected to lead to an outflow of resources and can be estimated reliably.

Accrued liabilities that will not lead to an outflow of resources in the following year are valued at their settlement amount discounted as at the cutoff date, with the market interest rates forming the basis for the discounting. The settlement amount also covers any increases in costs to be taken into account on the cutoff date. Accrued liabilities in foreign currency are converted using their current rate.

16. LIABILITIES

Liabilities are valued at their amount repayable.

Long-term liabilities not bearing interest are included in the balance sheet at their cash value. Differences between the cash value and the amount repayable are taken into account according to the effective interest rate method.

17. REALISATION OF SALES REVENUES

Sales revenues are shown for existing contractual relations, where delivery has been made, the opportunities and risks have transferred to the buyer, the price has been agreed or can be determined, and the collection of the debt is probable. Sales for products requiring installation at the customer are recognised after delivery and installation at the customer. The sales recognition in regard to production orders is explained under item 5. The revenues are realised after deducting price reductions such as cash discounts, customer bonuses, and rebates.

A reserve for warranties is set up as at the cutoff date for realised sales. The reserve is based on estimates and experience figures. Where specific risks are recognisable, appropriate reserves are formed. For all other sales, a bad-debt provision is established to allow for the general risk of utilisation.

18. DERIVATIVE FINANCIAL INSTRUMENTS

Within the scope of active control of currency management, Funkwerk makes targeted use of derivative financial instruments.

The derivative financial instruments which we use are recorded on conclusion of the contracts. At that time and subsequently, they are valued at their fair market value (reported as on the day of trading). In case of a positive or negative market value, they are either carried as an asset or a liability. The market value of these non-listed derivatives is calculated using recognised actuarial models.

Derivative financial instruments are concluded by Funkwerk exclusively with financial institutes with impeccable financial standing. The market value depends on the respective type of financial instrument.

The derivative financial instruments available as at the cutoff date do not qualify for hedge accounting. Changes in the fair value of these derivatives are directly recorded in the financial results in the statement of income and accumulated earnings. Derivative financial instruments are exclusively used by Funkwerk for hedging purposes.

The market values of the derivative financial instruments available as at the cutoff date were as follows:

	31/12/2011		31/12/2010	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
	€ K	€ K	€ K	€ K
Currency futures dealing	7	259	344	212
Currency options	0	0	39	0
Total	7	259	383	212

The derivates are carried as assets under »other assets« and as liabilities under »other liabilities«.

19. DISCLOSURES PURSUANT TO IFRS 7 – FINANCIAL INSTRUMENTS

A financial instrument is a contractual agreement that leads to the creation of a financial asset in one company while simultaneously leading to a financial liability or an equity instrument with another party. A compound financial instrument is one which contains both an equity and a borrowed capital component.

Financial assets in the sense of IAS 39 are classified into four classes at the time of their initial recognition:

- Financial assets held for trading
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets

Financial liabilities in the sense of IAS 39 are classified as »financial liabilities at fair value through profit or loss« or as »financial liabilities measured at amortised cost using the effective interest method.«

Financial assets and liabilities are recognised as on the day of trading.

The initial measurement is made at fair value. When calculating the initial recognition, directly allocable transaction costs are also included (except for assets and liabilities at fair value through profit or loss). Financial assets and liabilities are only balanced out when a right to set-off exists for the amounts concerned and it is intended to balance on a net basis.

Where the Funkwerk group has extended »Credits and loans« and issued »Financial liabilities« in the sense of IAS 39, these are valued at their amortised cost/net book value always using the effective interest method. This principally concerns the balance sheet's trade accounts receivable and payable as well as liabilities on current account due to banks and loan liabilities.

Non-consolidated holdings are allocated to the category of »Available-for-sale financial assets« and on each balance-sheet cutoff date they are valued at fair value. Unless a sustained decrease in value is to be assumed, changes in value are reported in the equity capital under the »Reserve for time evaluation« item without effect on the operating result, whereby deferred taxes are taken into account. For instruments traded on an organised market, the fair value is calculated with reference to the respective market price.

If realised by disposal or if a lasting drop in the market value below the purchase costs is foreseeable, then the market changes will affect the operating result. Market increases are always reported without effect on the operating result, even if there was a prior devaluation affecting net income.

At every balance sheet closing date, Funkwerk checks the book values of the financial assets measured at fair value through profit or loss to see if there are any substantial indications for a value impairment. If, for the financial assets categorised as »available for sale«, it is found that a lasting impairment does exist, then impairments previously reported in the equity capital without effect on the operating result are removed from the equity capital and transferred to the statement of income and accumulated earnings with effect on the operating result. If the value recovers at a later point in time due to events that arose after the original value impairment, then the impairment must be returned to the respective level.

Value impairments of financial assets of the »available for sale« category that were valued with the purchase costs must not be reversed.

Financial assets are taken off the books when the company loses power of control over them. A financial liability is taken off the books when the obligation on which it was based is fulfilled or cancelled.

Held for Trading covers financial assets that are held for trading as well as financial assets that, at their first ever measurement, are classified at fair market value through profit or loss. This category includes derivative financial instruments concluded by the group as well as securities. Changes to the fair market value are reported in the statements of income and accumulated earnings in the financial results.

The market values of liquid funds, of short-term receivables, of accounts payable and other liabilities correspond to the book values. This is due to the short-term nature of these financial instruments.

Market value of financial assets and liabilities

The financial assets and liabilities can be divided into valuation categories with the following book values and fair values:

	VALUE CATEGORIES AS PER IAS 39	BOOK VALUE 31/12/2011	BOOK VALUE 31/12/2010	NET BOOK VALUE	FAIR VALUE 31/12/2011	FAIR VALUE 31/12/2010
	€ K	€ K	€ K	€ K	€ K	€ K
ASSETS						
Other long-term assets	AfS	4	43	4	4	43
Accounts receivable (trade)	LaR	33,991	27,629	33,991	33,991	27,629
Due from affiliated companies	LaR	52	206	52	52	206
Receivables from work in progress	LaR	4,733	8,017	4,733	4,733	8,017
Financial assets	LaR	8,472	0	8,472	8,472	0
Financial assets	FAHfT	525	969	525	525	969
Other financial assets		3,000	3,000	3,000	3,000	3,000
Liquid funds		17,424	12,056	17,424	17,424	12,056
Derivatives	FAHfT	7	383	7	7	383
		68,208	52,303	68,208	68,208	52,303
LIABILITES						
Long-term financial liabilities	FLAC	0	12	0	0	12
Short-term financial liabilities	FLAC	12,886	422	12,886	12,886	422
Accounts payable (trade)	FLAC	27,939	29,368	27,939	27,939	29,368
Due to affiliated companies	FLAC	390	56	390	390	56
Derivatives	FLHfT	259	212	259	259	212
		41,474	30,070	41,474	41,474	30,070

OF WHICH, AGGREGATED ACCORDING TO VALUATION CATEGORIES AS PER IAS 39:					
Available for Sale (AfS)	4	43	4	4	43
Loans and Receivables (LaR)	47,248	35,852	47,248	47,248	35,852
Financial Assets Held for Trading (FAHfT)	532	1,352	532	532	1,352
Financial Liabilities Measured at Amortised Cost (FLAC)	41,215	29,858	41,215	41,215	29,858
Financial Liabilities Held for Trading (FLHfT)	259	212	259	259	212

Fair value hierarchy

The table shows the financial instruments reported at fair value according to their valuation method. The various methods are defined as follows:

- Stage 1: The prices listed on active markets for identical assets or liabilities (taken over unchanged).
- Stage 2: Input factors that do not concern the listed prices considered in stage 1 but which can be observed for the asset or liability either directly (i.e. as price) or indirectly (i.e. derived from prices).
- Stage 3: Factors for the valuation of the asset or liability that are not based on observable market data (non-observable input factors).

31/12/2011	STAGE 1	STAGE 2	STAGE 3	TOTAL
	€ K	€ K	€ K	€ K
Financial assets at fair value through profit or loss (FAHfT)*	525	–	–	525
Derivative financial assets (FAHfT)	–	7	–	7
Sub total	**525**	**7**	**–**	**532**
Derivative financial liabilities (FAHfT)	–	259	–	259
Total	**525**	**–252**	**–**	**273**
31/12/2010				
Financial assets at fair value through profit or loss (FAHfT)*	969	–	–	969
Derivative financial assets (FAHfT)	–	383	–	383
Sub total	**969**	**383**	**–**	**1,352**
Derivative financial liabilities (FAHfT)	–	212	–	212
Total	**969**	**171**	**–**	**1,140**

* Securities held in connection with the securing of entitlements for partial retirement.

Net earnings from financial instruments

The net earnings from financial instruments were as follows:

	2011	2010
	€ K	€ K
Financial assets and liabilities at fair value through profit or loss (FAHfT/FLHfT)	–60	210
Available-for-sale financial assets (AfS)	–24	0
Receivables (LaR)	–489	–7,261

The net earnings as per IFRS 7 comprise interest, dividends, value adjustments, reinstatements of original values, and earnings from the valuation of financial instruments at fair value.

Maturity analysis for financial liabilities:

The following table shows all contractually agreed (non-discounted) interest and redemption payments of the original financial liabilities and the derivative financial instruments at 31 December 2011:

	2012	2013–2016
	€ K	€ K
Non-derivative financial liabilities		
Short-term financial debt	12,886	0
Accounts payable (trade)	27,939	0
Due to affiliated companies	390	0
Derivative financial liabilities	259	0

Breakdown of the previous years' figures:

	2011	2012–2015
	€ K	€ K
Non-derivative financial liabilities		
Long-term interest-bearing financial debt	0	12
Short-term financial debt	422	0
Accounts payable (trade)	29,355	13
Due to affiliated companies	56	0
Derivative financial liabilities	160	52

Management of financial market risks

Due to the nature of its operations, the group is subject to various financial risks: the market risk (consisting of foreign exchange risk and interest rate risk), the credit risk and the liquidity risk. The comprehensive risk management of the group is prepared for the unpredictability of the development of financial markets and is geared to minimising the potentially negative effects on the financial situation of the corporate group.

The risk management is handled by the group's financial department as specified by the Executive Board. Funkwerk identifies, values and hedges financial risks in close cooperation with the operating units of the group. The Executive Board specifies guidelines for risk management, along with principles for specific areas, such as the handling of foreign exchange risks, interest rate risks and credit risks, for the use of derivative and non-derivative financial instruments, and for the use of liquidity surpluses.

We refer here in particular to the explanations on risk reporting in the Management Report.

Financial risk factors

The companies of the Funkwerk group source the vast majority of their material supplies in foreign currencies, usually on a US-dollar basis, and also in the euro zone. Outgoing invoices are also mainly issued in euros.

Foreign exchange risks particularly relate to the currencies listed below. The rate hedging using currency options and currency futures dealing is handled centrally by Funkwerk AG for the subsidiaries. The volume of US dollars hedged on the balance sheet closing date using currency options and currency futures dealing was zero.

The essential book values of the financial assets reported in the group as well as the liabilities in foreign currencies represent the risk positions on 31 December 2011:

	CHF	DKK	SEK	USD	GBP	DZD
	IN € K	IN € K	IN € K	IN € K	IN € K	IN € K
Financial assets	1,210	362	698	182	1,611	3,000
Financial liabilities	1,002	7	25	1,207	101	0
Foreign currency risk from balance-sheet items	208	355	673	–1,025	1,510	3,000

The foreign currencies SEK, USD, GBP and DZD represent significant risk for the group with regard to financial instruments. A sensitivity analysis as per 31 December 2011 for these financial assets and liabilities is shown below.

	RESULT BEFORE TAXES ON INCOME IN € K	RESERVE FOR CURRENCY CONVERSIONS IN € K	CONSOLIDATED ASSETS IN € K
SEK (10 per cent upvaluation)	67	0	67
SEK (10 per cent devaluation)	– 67	0	– 67
USD (10 per cent upvaluation)	102	0	102
USD (10 per cent devaluation)	– 102	0	– 102
GBP (10 per cent upvaluation)	151	151	0
GBP (10 per cent devaluation)	– 151	– 151	0
DZD (10 per cent upvaluation)	300	0	300
DZD (10 per cent devaluation)	– 300	0	– 300

Delinquency risk or credit risk is understood as the risk of a loss for the group if one contractual party does not honour its contractual obligations. The corporate guidelines stipulate that business relations must only be entered into with creditworthy contractual parties and, if appropriate, taking receipt of collateral to mitigate the risk of loss due to the non-fulfilment of obligations. The maximum delinquency risk is the amount of the book value of the financial assets (without consideration of insurance policies taken out).

There are receivables from goods and services and receivables from work in progress from a large number of customers from different business segments and geographical regions. Credit checks are constantly being conducted on the financial status of the receivables. Bad-debts insurance is taken out where appropriate (cf. E.4.).

A liquidity risk exists in terms of a possible impairment of creditworthiness, which could lead to a withdrawal of the existing consortium financing. Funkwerk sees the short-term probability of this risk arising as low – not least due to the selling of companies. A further risk is the loss of banks as creditors. The latter is limited by the consortium loan. If the covenant is broken, the banks in the consortium basically have special termination rights.

A consortium loan agreement for EUR 75.5 m, dated 24 March 2011 and set for several years, has been agreed with three German commercial banks. The loan is made up of a money market loan on revolving basis of EUR 12.5 m, a current account overdraft facility of EUR 5.0 m and a bank guaranty credit of EUR 58.0 m. Funkwerk AG and its subsidiaries provide collateral for this in the form of blanket assignments of trade receivables of individual subsidiaries, assignment of inventories of all companies of the Funkwerk group as well as land charges on commercial property in Dabendorf and Kölleda. The loan is set to run for three years with the option to extend for a further two years.

As further security for the consortium loan agreement, Funkwerk has obtained for a period of five years an 80 per cent indemnity bond for a EUR 9.0 m cash loan as well as a 60 per cent indemnity bond for a EUR 10.6 m bank guaranty credit from the »Germany fund« federal/Lander program. This carries the condition, usual for state guaranties, that during the loan period the majority owner of Funkwerk AG is obligated to vote for a retention of earnings at the annual shareholders' meeting so that no dividends are paid out.

A further condition agreed in the consortium loan agreement is that the equity ratio of the Funkwerk group must never drop below 35 per cent at any time. Similarly, the adjusted debt-equity ratio of the Funkwerk group must not exceed 7.0 in the period from 30 September 2011 until 30 December 2011, and from 31 December 2011 onwards it must not be more than 3.5.

As for the significant effects of the realignment, Funkwerk AG has informed the bank consortium of a non-compliance of the specified ratios on 30 September 2011 for 31 December 2011 and also for the subsequent quarter of 2012. The bank consortium has tolerated this non-compliance in the context of the realignment on 30 September 2011 and 31 December 2011. For 2012 and following periods, new ratios relating to the changed group structure are defined in the context of the bindingly planned amendment to the consortium agreement. As regards the planned amendment to the existing consortium financing, we refer to section I.10 Events after the reporting period. Until the amendment agreement is finalised, it has been agreed in line with the existing credit agreement that the funds received in 2011 and at the beginning of 2012 from the sale of companies, totalling approx. EUR 18 m, are to be pledged to the bank consortium.

The money market credit of EUR 12,500 k lasted until 16 January 2012 and was extended until 16 April 2012 at the same amount. The current account overdraft facility of EUR 5,000 k remains in place until further notice.

(Bank) guaranty credits were utilized until December 31, 2011, at EUR 29.7 m.

On 31 December 2011 the following collateral existed for the consortium loan: blanket assignment of receivables at EUR 23,651 k; assignment as security of goods inventories at EUR 31,784 k and pledged credit balances etc.

The money market credit is charged variable interest at 3.25 per cent above the Euribor rate p.a. If the current account loan is utilized, the variable interest is 3.95 per cent above the Euribor rate. For bank guaranty credits, the interest is 2.85 per cent p.a. for advance payment bonds or 2.10 per cent p.a. for other guaranties.

Liquidity risks are covered in the group-wide financial planning, which is prepared at three-year intervals. The planning always identifies positive net cash items. Continuous monthly liquidity forecasts are prepared for the short-term sector, while optimising measures are discussed and decided in Board meetings.

Capital management

The group capital is managed and controlled with the aim of maximising the revenues of the company participations through optimisation of the equity and borrowed capital ratio. This ensures that all group companies can operate on the premise of continuation. The capital structure of the group comprises debts, cash and cash equivalents, and the equity capital due to the equity capital providers of the parent company. This is composed of issued shares, the capital reserve, the revenue reserve and the net profit for the year.

The financial security is measured primarily using the equity ratio. Components of this ratio are the balance sheet total of the consolidated financial statements and the equity capital shown in the consolidated balance sheet, which also provides the capital in the Funkwerk group within the meaning of IAS 1. The equity ratio is used with investors, analysts, banks and rating agencies as a key ratio.

The capital structure of Funkwerk can be controlled by way of adjusting dividends, decreasing the capital or emissions of new shares and the issue of financial instruments, which are qualified as equity capital under IFRS. The aim is to achieve a capital structure in line with the business risk.

The equity ratio on 31 December 2011 is calculated as follows:

	2011	2010	VARIANCE IN %
Equity capital (in € k)	48,660	64,459	– 24.5
Balance sheet total (in € k)	157,914	149,692	5.5
Equity ratio according to book values in %	30.8	43.1	

The reduced equity ratio is essentially attributable to the negative annual result in the year under review, which is heavily influenced by impairment charges on intangible assets at EUR 5,278 k and restructuring costs at EUR 4,693 k. In addition, the increased balance sheet total due to the disclosure scheme as per IFRS 5 also contributed to reducing the equity ratio.

20. SIGNIFICANT SCOPE FOR DISCRETION IN ACCOUNTING AND MAIN SOURCES OF ESTIMATION UNCERTAINTY

When applying the group accounting rules with regard to those book values of assets and liabilities that cannot simply be obtained from other sources, the management must consider the facts and circumstances and also make estimations and assumptions. The estimations and the assumptions on which they are based are determined from empirical values from past experience and from other factors deemed as being relevant. The actual values may deviate from the estimates. The assumptions on which the estimations are based are subject to regular scrutiny.

The management views that the most important assumptions pertaining to the future and the main sources of uncertainty in the estimates are as follows: the goodwill impairment test with regard to the planning and the discount rate (cf. D.1.); the share-based remuneration with regard to the valuation parameters entered into the estimation of the current market value (cf. E.11.); the capitalisation of deferred taxes to tax losses carried forward with regard to the future tax planning strategies (cf. E.30.); the pension payments with regard to the parameters entered into the actuarial calculations (cf. E.12.); value adjustments on receivables (cf. E.4.); the probable utilisation of reserves with regard to appraising the facts relevant to the reserves (cf. E.20.) and the development work carried as assets with regard to the estimations on economical and technical feasibility and/or on the level of cash flow expected in future (cf. D.1.).

The estimates regarding the deferred taxes on losses carried forward are largely dependent on the trend of earnings. As a result, the estimates could deviate from figures that actually arise in later periods. Changes to the pertinent assumptions or estimations will be taken into consideration with effect on the result as and when they become known. The estimates are based on the conditions prevailing at the time of drawing up the consolidated financial statements and on the future development of the sector environment as it relates to the expected future performance of the Funkwerk group.

E. Notes to the Consolidated Balance Sheet

— Assets —

(1) FIXED ASSETS

In regard to the composition and movement of the individual fixed assets, please refer to the fixed-asset movement schedule (cf. Notes, last page).

Goodwill, intangible assets

The following breakdown shows the development of goodwill attributable to the individual cash generating units/business segments:

	OPENING BALANCE 01/01/2011	VALUE IMPAIRMENTS 2011	DISPOSAL DECONSOL./ CLASSIFICATION TO IFRS 5	CLOSING BALANCE 31/12/2011
	IN € K	IN € K	IN € K	IN € K
GOODWILL VALUES				
Microsyst Systemelectronic GmbH	2,092	0	0	2,092
Funkwerk Information Technologies Karlsfeld GmbH	2,083	1,600	0	483
Funkwerk Information Technologies GmbH	1,700	0	0	1,700
Funkwerk Information Technologies York Limited	900	150	0	750
ALPHA Mess-Steuer-Regeltechnik GmbH	1,886	0	1,886	0
Traffic & Control Communication segment	**8,661**	**1,750**	**1,886**	**5,025**
Funkwerk eurotelematik GmbH	400	0	0	400
Funkwerk Avionics GmbH *)	100	0	100	0
Geschäftsbereich Automotive Communication	**500**	**0**	**0**	**400**
Total	9,161	1,750	1,986	5,425

* Sold business segment

Value impairments of EUR 1,000 k were made in the 2010 financial year; EUR 500 k of which concerned Microsyst Systemelectronic GmbH and EUR 500 k Funkwerk Information Technologies Karlsfeld GmbH.

The examination of the reported goodwill figures led to a value impairment of EUR 1750 k in the 2011 financial year. All else being equal, an additional devaluation of goodwill of approx. EUR 80 k would be necessary if the cash flows turn out to be 5 per cent lower in the three-year planning period.

Other than goodwill, the company did not have any intangible assets with indeterminable useful lives.

Expenditure on research and development in the financial year was EUR 16,875 k (prev. yr.: EUR 22,274 k), of which EUR 5,634 k (prev. yr.: EUR 7,354 k) were carried as assets.

From the group point of view, the most important development projects are the Alister electronic signal box platform (book value EUR 9,415 k; remaining depreciation period between 8 and 10 years) and the new TETRA radio equipment (book value EUR 1,499 k; remaining depreciation period: 3 years).

In the 2011 financial year, value impairments amounting to EUR 4,276 k were made to development costs carried as assets. The value impairments concern the following business segments:

	31/12/2011
	IN € K
AUTOMOTIVE COMMUNICATION	
Funkwerk Dabendorf GmbH*	3,526
TRAFFIC & CONTROL COMMUNICATION	
Funkwerk Information Technologies Karlsfeld GmbH	750
Summe	4,276

* The value impairments went hand in hand with income from the release of the special balance sheet item for investment grants at EUR 748 k. This is reported under the item »Impairment charges of intangible assets«.

Other long-term assets

The following participating interests are included in the other long-term assets:

	31/12/2011 IN € K	31/12/2010 IN € K
Patil Vossloh Rail IT Systems Private Ltd., India (51 %, prev. yr.: 51 %)	4	4
Funkwerk Beteiligungsgesellschaft mbH, Kölleda (100 %, prev. yr.: 100 %)	0	32
WHSDnet GmbH, Potsdam (25 %, prev. yr.: 25 %)	0	6
Funkwerk ES Iberia S.L., Spain (54 %, prev. yr.: 54 %)	0	1
Total	**4**	**43**

Funkwerk Beteiligungsgesellschaft mbH, Kölleda, was consolidated on 1 November 2011 and now trades under the name Funkwerk Statkom GmbH, Kölleda.

(2) DEFERRED TAXES

The deferred tax assets resulted from the following expected future tax relief:

	31/12/2011 IN € K	31/12/2010 IN € K
Temporary differences between the valuations of the tax balance sheet and of the consolidated financial statements	4,514	7,793
Future tax savings due to losses carried forward	2,927	4,395
Balancing with deferred tax liabilities	–7,441	–12,188
Total	**0**	**0**

For details on the deferred taxes, see also E.14 and E.30.

(3) INVENTORIES

The inventories for 31 December 2011 comprised the following:

	GROSS IN € K	VALUE ADJUSTMENTS IN € K	NET IN € K
Raw materials and supplies	30,521	13,406	17,115
Work in progress	14,610	3,654	10,956
Finished goods and merchandise	9,620	2,518	7,102
Advance payments	438	0	438
Total inventories	**55,189**	**19,578**	**35,611**

The figures for 31 December 2010 were as follows:

	GROSS IN € K	VALUE ADJUSTMENTS IN € K	NET IN € K
Raw materials and supplies	35,240	14,948	20,292
Work in progress	15,022	2,147	12,875
Finished goods and merchandise	12,140	2,999	9,141
Advance payments	1,252	0	1,252
Total inventories	**63,654**	**20,094**	**43,560**

The value impairments for the financial year were EUR 1,032 k.

The inventories reported on the balance sheet at their net sales value on 31 December 2011 were EUR 6,154 k.

(4) TRADE ACCOUNTS RECEIVABLE

The trade accounts receivable consist of the following:

	2011 IN € K	2010 IN € K
Trade accounts receivable	34,861	28,236
Discounts	–870	–607
Trade accounts receivable net, at 31 December	**33,991**	**27,629**

All our subsidiaries grant supplier loans within the scope of their ordinary operations, in individual cases with a term of up to 180 days. The creditworthiness of their customers is verified on a regular basis and discounts entered to cover established risks. The residual maturity of the trade accounts receivable is less than one year. At the end of 2010, the group was involved in real factoring to the amount of approx. EUR 7.5 m with a German commercial bank. As at 31 December 2011, conversely, there was no factoring concerning the business segments carried over.

The value adjustments on receivables are heavily based on estimations and assessments of individual receivables which are in turn based on the creditworthiness of the customer in question, on the current economic trend and on the analysis of historic losses of receivables.

The value adjustments on receivables developed as follows in the reporting period:

	2011 IN € K	2010 IN € K
At 01 January	607	1,577
Transfer	620	336
Release/utilisation	357	1,306
At 31 December	**870**	**607**

On 31 December 2011, gross receivables of EUR 927 k (prev. yr.: EUR 991 k) were assigned with individual value adjustments (specific allowances for bad debts). In compliance with IFRS 7.37 (a), the maturity structure of the accounts receivable not subject to value adjustments is as follows:

	31/12/2011 IN € K	31/12/2010 IN € K
gross receivable not value-adjusted	33,934	27,245
of which not overdue and not value-adjusted	28,062	20,851
Overdue in the following time frames not value-adjusted		
less than 30 day	4,318	4,413
between 31 and 60 days	726	1,062
between 61 and 90 days	215	418
between 91 and 180 days	333	209
between 181 and 360 days	96	73
more than 360 days	184	219

In regard to the neither value-adjusted nor overdue amount of accounts receivable, there was no indication as at the cutoff date to suggest that the debtors would not meet their financial obligations. In addition, relevant bad-debts insurance also exists on trade accounts receivable amounting to EUR 1,080 k (prev. yr.: EUR 2,865 k).

(5) RECEIVABLES FROM PROJECTS IN PROGRESS

Future accounts receivable from production orders develop as follows:

	31/12/2011 IN € K	31/12/2010 IN € K
BALANCE		
Work in progress	6,295	19,581
Advance payments received	–1,562	–11,564
Total	**4,733**	**8,017**
PROFIT & LOSS AC.		
Sales	–4,048	–8,043
Costs	3,818	3,133
Profit share	**–230**	**–4,910**

Production orders with debit balance amounted to EUR 504k.

The contracts on which the receivables are based were fully completed in the 2012 financial year.

In the previous year, value adjustments were made on receivables from projects in progress over EUR 6,056 k. This largely concerned receivables from the Algerian project business.

(6) DUE FROM AFFILIATED COMPANIES

The accounts receivable from affiliated companies totalled EUR 52 k (prev. yr.: EUR 206 k), and were due to sales and services.

(7) TAX REFUND CLAIMS

This item predominantly comprises receivables from tax offices due to excessive advance payments on corporate income tax and commercial income tax during the financial year on account of lower, taxable income in the year of assessment as against the previous year.

(8) OTHER ASSETS

	31/12/2011 IN € K	31/12/2010 IN € K
Prepayments and accrued income	366	731
Receivables from employment office	154	309
Claims from subsidies, grants and investment subsidies	48	379
Security deposits	35	185
Advances to personnel	47	86
Interest receivables	6	6
Refund claims for turnover tax	426	495
Miscellaneous	520	835
Total	**1,602**	**3,026**

(9) FINANCIAL ASSETS AND LIQUID FUNDS

The item Financial assets not only includes securities but also liquid funds that are either unavailable in the short term or are blocked; these amount to EUR 3,000 k and are held in Algerian bank accounts as well as other financial receivables which are paid by the buyer of the sold business segments EC and Funkwerk Avionics in the 1st quarter of 2012, and amount to EUR 8,472 k .

The securities held are allocable exclusively to current assets. They have been invested in money market-related funds.

This item developed as follows:

	2011		2010	
	PURCHASE COST IN € K	CURRENT MARKET VALUE IN € K	PURCHASE COST IN € K	CURRENT MARKET VALUE IN € K
Securities	562	526	930	969

The trend of the liquid funds is shown in the consolidated cash flow statement.

As at 31 December 2011, a total of EUR 9,866 k (including EUR 9,486 k in so-called »pledge accounts« at three German commercial banks) was invested with restricted access.

The fund requirements of the subsidiaries is controlled and monitored centrally via a cash pool. The cash is invested in accordance with the defined investment standards. The investment in shares (excluding own shares) or financial derivatives is explicitly excluded.

(10) ASSETS HELD FOR SALE / LIABILITIES HELD FOR SALE

As a result of classifying certain business segments as »held for sale«, the consolidated balance sheet is subject to re-division. These new divisions are united in the items B.9 and C.9.

The long-term assets held for sale total EUR 14,631 k and are made up as follows: fixed assets at EUR 7,202 k, inventories at EUR 3,631 k, receivables and other assets at EUR 3,271 k and liquid funds at EUR 527 k.

The long-term liabilities held for sale, amounting to EUR 15,658 m, are made up of: short-term liabilities at EUR 14,320 k, long-term liabilities at EUR 59 k and deferred taxes at EUR 1,279 k.

— Liabilities —

(11) EQUITY CAPITAL

The equity capital trend of Funkwerk AG is shown in the Statement of Changes in Shareholders' Equity.

Subscribed capital

The capital stock of Funkwerk AG is shown at its nominal value. The capital stock amounts to EUR 8,101,241.00 and is divided into 8,101,241 shares in the form of bearer shares with a nominal value of EUR 1 each and is fully paid in. The number of shares in circulation remains unchanged at the previous year's figure of 8,059,662.

On the cutoff date, Hörmann Funkwerk Holding GmbH, Kirchseeon, held 52.83 per cent (prev. yr.: 52.83 per cent) of the shares in Funkwerk AG, which corresponds to 4,280,000 shares. Hörmann Funkwerk Holding GmbH is fully owned (100 per cent) by Hörmann Holding GmbH & Co. KG, Kirchseeon.

Approved capital

Based on a decision passed at the annual shareholders' meeting on 28 May 2009, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the capital stock of the company by up to EUR 4,050,000 by 27 May 2014, through a single or repeated issue of new, ordinary bearer shares in the form of non-par shares against contributions in cash or in kind (approved capital for 2009). Furthermore, the Executive Board was also authorised, with the approval of the Supervisory Board, to exclude the legal subscription right of the shareholders

- in order to prevent the subscription right of the shareholders leading to peak amounts,
- if, where capital increases against contributions in kind in the form of companies, parts of companies, participating interests in companies or debt claims against the company are concerned, the shares issued when excluding the subscription right do not exceed 4,050,000 shares in total,
- if, where capital increases against cash contributions are concerned, the amount for which the shares are issued is not significantly lower than the stock exchange price of the shares at the time the Executive Board fixes the said amount and the shares issued when excluding the subscription right do not exceed 810,000 shares in total.

Conditional capital I–III

At the ordinary shareholders' meeting on 18 May 2005, the 2005 Share Option Plan was passed and the conditional capital II was created to service that plan. Following this, a conditional capital of EUR 367,965 and EUR 367,965 option rights were made available to the company. The authorisation to issue share options under the 2005 Share Option Plan was given a time limit of until 18 May 2009. This means that no more share options can be issued from the 2005 Share Option Plan. Since the authorisation expired and a total of 155,375 options were not issued, the conditional capital II of EUR 155,375 was cancelled in 2010. The conditional capital II was renamed as conditional capital I and amounts to EUR 212,590. Individual share certificates have not yet been issued under this Share Option Plan.

The shareholders of Funkwerk AG passed the 2008 Share Option Plan at the ordinary shareholders' meeting on 14 May 2008 and created the conditional capital III to grant that plan. Following this, a conditional capital of EUR 232,525, i.e. 232,525 option rights, was available to the company. In 2010, the conditional capital III was renamed as conditional capital II. Individual share certificates have not yet been issued under this Share Option Plan.

At the ordinary shareholders' meeting on 27 May 2010, the 2010 Share Option Plan was passed and, for this purpose, a conditional capital III of up to EUR 365,000 and 365,000 option rights were created.

This conditional increase of capital stock will be effected only where option rights have been issued and are exercised by the authorised parties. The new shares will share in the profit from the beginning of the financial year in which they come into existence through exercise of the option right. The statutory subscription right of the shareholders is excluded in this respect. The nominal value of the conditional capital decided in compliance with Section 192 (2) no. 3 of the German Stock Corporation Law for the establishment of share option plans must not exceed 10 per cent.

Conditional capital IV

At the annual shareholders' meeting on 27 May 2010, the Executive Board was authorised to issue convertible and/or warrant bonds. With the agreement of the Supervisory Board, the Executive Board can, until the expiry of 26 May 2015, issue once or repeatedly bearer and/or registered convertible and/or warrant bonds for a total nominal amount of up to EUR 30,000,000 and can grant the owners/creditors of these convertible bonds conversion privileges and can grant owners/creditors of these warrant bonds option rights on up to a total of 3,200.000 new bearer shares of the company. The term of the convertible and/or warrant bonds can be up to ten years.

To grant shares to the owners/creditors of convertible and/or warrant bonds, the annual shareholders' meeting passed a resolution to create a new conditional capital IV and, thereby, decided to conditionally increase the capital stock of the company by up to EUR 3,200,000 by issuing up to 3,200,000 new bearer shares. The conditional capital increase is only made to the extent that the owners/creditors of convertible and/or warrant bonds exercise their conversion privileges and option rights and/or fulfil their conversion obligations from such convertible and/or warrant bonds. The new shares bear dividends as of the beginning of the current financial year in which they were issued.

2008 Share Option Plan

The ordinary shareholders' meeting of 14 May 2008 authorised the corporation, inter alia, to issue option rights to a maximum of 232,525 shares once or in several stages to members of the corporate Executive Board, members of the executive management of affiliated companies (Section 15 of the German Stock Corporation Act), executive staff at the second management level of the corporation and affiliated companies, and to other employees of the corporation and of affiliated companies (2008 Share Option Plan – SOP 2008). Instead of lapsed or as yet unexercised option rights, it is possible for new option rights to be given.

The following conditions apply to both issue and exercise:

- Allottees must be members of the Executive Board or staff of the group.
- At the time of issuing, the allottees must be in permanent employment at a company of the Funkwerk group.
- The option rights may be issued to the authorised parties once or several times during a period of ten trading days, beginning twelve trading days after a shareholders' meeting or after the publication of an annual or quarterly report (»issuance period«). The decision as to whether and to what extent option rights are granted to an employee is made at the discretion of the corporate management. There is no legal claim to a future granting of option rights.

The option right has a life of four years, beginning with the end of the applicable issuance period. The option right lapses without compensation on the last day of the life of the option right at the latest.

The option right may be exercised for the first time after a period of two years from the end of the respective issuance period (»waiting period«). After the waiting period, the option right can only be exercised during a period of 10 trading days following the day of the ordinary shareholders' meeting or the publication of a quarterly report of the company (»exercise periods«).

A trading day is defined as any day during which the German Stock Market is open for trading.

The option right may only be exercised by the authorised parties within the exercise period if at any time since the granting of option rights the average closing price of the corporate share in XETRA trading has exceeded the exercise price once by at least 16 per cent (»performance target«). Once the upside target for the option rights has been reached, they can be exercised irrespective of the further price performance of the share during the term of the option right within the exercise periods.

2010 Share Option Plan

The ordinary shareholders' meeting of 27 May 2010 authorised the corporation, inter alia, to issue option rights to a maximum of 365,000 shares once or in several stages to members of the corporate Executive Board, members of the executive management of affiliated companies (Section 15 of the German Stock Corporation Act), executive staff at the second management level of the corporation and affiliated companies, and to other employees of the corporation and of affiliated companies (2010 Share Option Plan – SOP 2010). Instead of lapsed or as yet unexercised option rights, it is possible for new option rights to be given.

The terms and conditions for the options for the SOP 2010 deviate in one instance from the SOP 2008:

Unlike the previous option plan, the option right has a term of six years beginning from the end of the respective issue period. The option right expires without compensation with the expiry of the last day of the term at the latest. In contrast to the previous option plan, the option right can be exercised for the first time after the expiry of four years, beginning with the end of the respective issue period (»waiting period«).

For a further presentation of the terms and conditions for the options, please refer to the 2008 Share Option Plan.

The following breakdown shows the stock development of the shares authorised for subscription and the issue prices in the period under review:

	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE 2011 €	NUMBER OF OPTIONS 2011 €	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE 2010 €	NUMBER OF OPTIONS 2010 €
Outstanding at the start of the reporting period	8.17	423,425	10.23	428,535
Options granted in the reporting period	0	0	6.76	114,385
Options forfeited in the reporting period	6.99	47,585	9.99	22,305
Options lapsed in the reporting period	14.60	99,690	15.01	97,190
Options outstanding at the end of the reporting period	6.04	276,150	8.17	423,425
Options exercisable at the end of the reporting period	5.66	177,990	14.60	104,760

No options could be exercised in the period under review. The weighted average of the remaining contractual period as at 31 December 2011 was 3 years.

The current market value of the options granted in the 2008 to 2010 financial years, which were used to calculate the expenses and the comparative data of the previous year, was determined on the basis of the binomial option price model. The following table shows the valuation premises applied:

	2010	2009	2008
Risk-free interest rate (in %)	4.0	2.23	2.7
Term in years	6	4	4
Expected volatility	44	55	50
Expected dividend yield	0	2.19	4.0
Curr. mkt. value of options (in EUR)	1.68	2.19	0.97
Share price at issue (in EUR)	6.46	5.80	4.05

The calculation of the expected volatility was estimated by Funkwerk AG based on the historical share price figures of a six year period (prev. yr.: four). The fluctuation was set at 5 per cent.

Capital reserves

The capital reserves include the revenue generated from the issue of shares (premium) that exceeds the par value per share of EUR 1. It rose by EUR 107k in 2011 (prev. yr.: EUR 152k) due to the recorded personnel expenditure for share options. Since no share options could be exercised in the context of the share option plan in the period under review, there was no additional change to the capital reserve above and beyond this. Since the introduction of the share option plans, the capital reserves have increased by EUR 2,287k in total due to exercised options, and by EUR 3,496k when applying IFRS 2. The capital reserves serve to finance the further growth of Funkwerk.

Earnings per share

The earnings per share are calculated as follows:

	31/12/2011	31/12/2010
Earnings of the shareholders of Funkwerk AG in € k	−15,939	−24,880
Earnings per share (undiluted and diluted) in €	−1.98	−3.08
Earnings of the shareholders of Funkwerk AG in € k (retained business segments)	−18,949	−22,697
Earnings per share (undiluted and diluted) in € (retained business segments)	−2.35	−2.82

The weighted average number of ordinary shares, which was used for calculating the undiluted and diluted earnings per share, can be derived as follows:

	2011 × 1000	2010 × 1000
Issued shares, 1 Jan/31 Dec	8,101	8,101
Own shares, 1 Jan/31 Dec	−41	−41
Weighted, average number of ordinary shares used for calculating the undiluted earnings per share	**8,060**	**8,060**

The potential ordinary shares with dilution effect should not be considered for the financial year because they would reduce the loss per share for the period.

Retained earnings (revenue reserve)
The revenue reserve includes the retained prior-year results.

Own shares
By resolution passed at the shareholders' meeting on 27 May 2010, the company was authorised to acquire its own stock up to a share of 10 per cent of the current capital stock by the end of 26 May 2015. At no point in time may the acquired shares together with other own shares in the possession of the company or assigned to the company according to Sections 71a ff. of the German Stock Corporation Law (§§71a ff. AktG) account for more than 10 per cent of the capital stock. The time limit only applies to the acquisition, not to ownership of the shares.

The countervalue for the acquisition of these shares must not exceed the unweighted average of the share price in the closing auction in the XETRA trading system (or a commensurate successor system) at the Frankfurt Stock Market on the previous five stock trading days by more than 10 per cent or fall below this price by more than 10 per cent. If the company share price is not established in the closing auction in the XETRA trading system (or a commensurate successor system) at the Frankfurt Stock Market on one or more trading days, then the relevant company share price in the closing auction in the floor trading at the Frankfurt Stock Market will take its place.

If the acquisition is made using a public bid or using a public invitation to submit a bid, then the bid offered or the limit value of the purchase price range per share (without additional acquisition costs) must not exceed by more than 10 per cent the unweighted average of the company share price in the closing auction in the XETRA trading system (or a commensurate successor system) at the Frankfurt Stock Market on the five stock-market trading days before the day of publishing the bid or of public invitation to submit a bid, or fall below this figure by more than 10 per cent. If, after the publication of a bid and/or after the public invitation to submit a bid, considerable deviations exist to the authoritative price, then the bid or the invitation to submit one such bid, can be adjusted. In this case, the average price of the three stock market trading days before the publication of a possible adjustment will be used. The bid or the invitation to submit one such bid can stipulate further conditions. If the bid is over-subscribed or, in the case of an invitation to submit a bid from several equivalent bids, they are not all accepted, then the acceptance must be made using quotas. A preferential acceptance of low quantities of up to 100 for the acquisition of offered shares per shareholder can be stipulated.

The company is authorised to sell its own shares by methods other than through the stock market or through offers to all shareholders, so as to be able to offer shares of the company to third parties within the scope of mergers with companies or the acquisition of, or investments in, companies. The subscription right of the shareholders is excluded where own shares acquired by the company are used in order to offer shares of the company to third parties within the scope of mergers with companies or the acquisition of, or investments in, companies. This authorisation can be exercised fully or in part amounts, once or on several occasions, in pursuit of one or several of the specified purposes. Finally, the Executive Board is authorised to redeem either entirely or in part the own shares of the company bought on the basis of its authorisation, without the requirement of a further resolution passed by the shareholders' meeting for the redemption.

Funkwerk AG, Kölleda, did not acquire any own shares in the year under review. On the cutoff date, the stock remains unchanged at 41,579 shares and has a value of EUR 1,062k. The own shares are split between securities accounts at three banks. The own shares are shown as a separate item of the equity capital.

(12) PENSION OBLIGATIONS

The pension accruals reported on the balance sheet are the result of commitments made to the employees of Funkwerk Security Communications GmbH (FSC), Salzgitter, Funkwerk Electronic Services GmbH, (FES), Salzgitter, and Funkwerk Information Technologies Karlsfeld GmbH (FITK). This concerns assurances from performance-orientated pension schemes based on company agreements and other agreements. The pension accruals are calculated based on independent actuarial opinions. The scope and level of the pension are essentially governed by the number of years in service.

All pension schemes have been closed.

The valuation assumptions and methods at the beginning and the end of the year under review can be summarised as follows:

	BEGINNING OF YEAR UNDER REVIEW FSC / FES	END OF YEAR UNDER REVIEW FSC / FES	BEGINNING / END OF YEAR UNDER REVIEW FITK
Accounting standards applied	IAS 19		
Valuation standards applied	Projected Unit Credit Method		
Assumptions on mortality	2005 G K. Heubeck reference tables		
Assumed rate of interest p.a.	4.65 %	4.60 %	4.20 % / 4.70 %
Expected annual increase of the income threshold	3.00 %	3.00 %	2.50 % / 2.50 %
Expected annual increase in income	3.00 %	3.00 %	2.50 % / 2.50 %
Expected annual increase in pensions	2.00 %	2.00 %	2.00 % / 2.00 %
Average fluctuation	<=1 %	<=1 %	1.50 % / 1.50 %
Average remaining employment period	7.88 / 9.78	6.90 / 9.10	9 / 12

The actuarial profits and losses are recorded using the method in accordance with IAS 19.92 – 93 (»corridor method«).

The expenditure for adjustment of the pension obligation was recorded in personnel expenses, the interest paid for the obligations was shown in the other financial results.

1. Development of the defined benefit obligation (IAS 19.120 A (c))

	FEC IN € K	FSC IN € K	FES IN € K	FITK IN € K	TOTAL IN € K
At 31 December 2010	**0**	**6,304**	**2,246**	**4,899**	**13,449**
Service cost	0	77	52	114	243
Interest cost	0	300	106	204	610
Actuarial profits/losses	0	– 2	– 14	– 531	– 547
Benefits paid	0	– 301	– 94	– 83	– 478
Transfer payments	0	– 156	156	0	0
At 31 December 2011	**0**	**6,222**	**2,452**	**4,603**	**13,277**
At 31 December 2009	**30**	**5,928**	**2,075**	**3,729**	**11,762**
Service cost	0	78	64	99	241
Interest cost	0	304	106	203	613
Actuarial profits/losses	0	259	145	946	1.350
Benefits paid	– 30	– 290	– 144	– 78	– 542
Transfer payments	0	25	0	0	25
At 31 December 2010	**0**	**6,304**	**2,246**	**4,899**	**13,449**

2. Analysis of the Defined Benefit Obligation (IAS 19.120 A (d))

The plans were not financed via a fund.

3. Planned assets

The consolidated group does not have any reimbursement rights or planned assets.

4. Reconciliation to the balance sheet item (IAS 19.120 A (f))

	FSC IN € K	FES IN € K	FITK IN € K	GESAMT IN € K
Defined Benefit Obligation as at 31 December 2011	**6,222**	**2,452**	**4,603**	**13,277**
Actuarial profits/losses not yet recognised	–840	304	56	–480
Defined Benefit Liability as at 31 December 2011	5,382	2,756	4,659	12,797
Defined Benefit Obligation as at 31 December 2010	**6,304**	**2,246**	**4,899**	**13,449**
Actuarial profits/losses not yet recognised	–842	319	–475	–998
Defined Benefit Liability as at 31 December 2010	5,462	2,565	4,424	12,451

In addition to the pension obligations carried as liabilities, there are also provisions for similar obligations, amounting to EUR 25k (prev. yr.: EUR 74k).

5. Expense components (IAS 19.120 A (g))

2011	FSC IN € K	FES IN € K	FITK IN € K	TOTAL IN € K
A. IN PERSONNEL EXPENSES				
Current service cost	77	52	114	243
Actuarial profits/losses	0	–30	0	–30
Total personnel expenses	**77**	**22**	**114**	**213**
B. IN FINANCIAL RESULTS				
Interest cost	300	106	204	610
Total financial results	**300**	**106**	**204**	**610**
Grand Total	377	128	318	823
2010				
A. IN PERSONNEL EXPENSES				
Current service cost	78	64	99	241
Actuarial profits/losses	0	–28	–11	–39
Total personnel expenses	78	36	88	202
B.IN FINANCIAL RESULTS				
Interest cost	304	106	203	613
Total financial results	**304**	**106**	**203**	**613**
Grand Total	382	142	291	815

The components of the expenses (IAS 19.120 A (q) expected for the 2012 financial year are EUR 253k (personnel expenditure) and/or EUR 605k (financial results).

6. Amounts for the current reporting period and the previous four reporting periods (IAS 19.120 A (p))

	31/12/2011 IN € K	31/12/2010 IN € K	31/12/2009 IN € K	31/12/2008 IN € K	31/12/2007 IN € K
Defined Benefit Obligation	13,277	13,449	11,762	11,338	11,192
Deficit in the plan	13,277	13,449	11,762	11,338	11,192

The expenses for defined contribution pension schemes (direct insurance schemes, statutory social security) amount to EUR 4,477k (prev. yr.: EUR 4,517k).

(13) DEFERRED INVESTMENT SUBSIDIES

The prepaid expenses item developed as follows in the period under review:

	2011 IN € K	2010 IN € K
At 1 January	**1,012**	**1,151**
Transfer	671	96
Release	–1,079	–235
At 31 December	604	1,012

In the statement of income and accumulated earnings, the income from the release of the prepaid expenses item is divided up between the items: Other operating income (EUR 331k) and Impairment charges of intangible assets (EUR 748k).

The breakdown into investment subsidies and allowances is shown in the following table:

	INVESTMENT SUBSIDY IN € K	INVESTMENT ALLOWANCE IN € K
At 1 January 2010	**784**	**367**
Transfer	–18	114
Release	–158	–77
At 31 December 2010	**608**	**404**
Transfer	14	657
Release	–133	–946
At 31 December 2011	489	115

The prepaid expenses item has the following maturities:

Up to 1 years	EUR 87k (prev. yr.: EUR 138k)
1 to 5 years	EUR 149k (prev. yr.: EUR 482k)
Over 5 years	EUR 368k (prev. yr.: EUR 392k)

The granting of subsidies is fundamentally linked to the observance of certain constraints and/or conditions, some of which may cover several years and extend into the future. On any non-fulfilment, the Funkwerk group could be threatened with an obligation to repay the received subsidies in whole or in part, which would have a lasting effect on the economic position of the company. Regular checks of the granted subsidies have shown no cause for complaint to date.

(14) DEFERRED TAXES

The deferred taxes result from deviations between the tax balance sheet and the trade balance sheet II according to IFRS. These were calculated with the respective rates for taxes on income. For domestic (German) companies, the corporate income tax rate in the 2011 financial year was 15 per cent (in prev. yr.: 15 per cent) plus the solidarity tax of 5.5 per cent (in prev. yr.: 5.5 per cent). Taking the trade tax rate into consideration, this gives an effective taxation rate of 26 per cent (in prev. yr.: 26 per cent). Consolidation measures affecting net income and, consequently, deferred taxes were taken into account. We refer here to F.30.

(15) FINANCIAL LIABILITIES

The sharp increase in financial liabilities comes as a result of utilising the money market loan at the level of EUR 12,500k (prev. yr.: EUR 0k). The loan period was initially set to run until January 2012 and has since already been extended for a further quarter year. The money market loan is charged variable interest at 3.25 per cent above the Euribor rate p.a.

As regard the collateral, we refer to D.19.

(16) TRADE ACCOUNTS PAYABLE

The remaining maturities are short term. We refer here to item D.19.

(17) ADVANCE PAYMENTS RECEIVED ON ORDERS

This item includes advances from customers where no chargeable service has as yet been rendered.

(18) DUE TO AFFILIATED COMPANIES

On the cutoff date of 31 December 2011, there were liabilities due to the majority shareholder, Hörmann Funkwerk Holding GmbH, or Hörmann Holding GmbH & Co. KG amounting to EUR 390k (prev. yr.: EUR 0k). On 31 December 2010, the liabilities related solely to unconsolidated own companies and/or affiliated companies (EUR 56k).

(19) TAX LIABILITIES

Taxes and fiscal charges incurred as at the closing date, whose amount has not yet been determined, are covered by the »tax liabilities« item. Typically, Funkwerk is subject to two types of tax on income, i.e. trade tax and corporate income tax. The corporate income tax was subject to a uniform tax rate of 15 per cent plus 5.5 per cent solidarity surcharge, the trade tax on average amounting to 10 per cent.

(20) ACCRUED LIABILITIES

The trend of accrued liabilities in the year under review is shown in the following table:

	01/01/2011 IN € K	UTILISATION IN € K	RELEASE IN € K	ALLOCATION IN € K	DECON-SOLIDATION / REDIVISION AS PER IFRS 5 IN € K	31/12/2011 IN € K
Warranties	6,444	2,820	355	2,011	682	4,598
Usage fee	3,582	25	1,775	250	0	2,032
Personnel accruals	1,816	669	31	927	0	2,043
Impending losses	461	281	10	313	26	457
Other accrued liabilities	2,020	1,178	49	1,750	141	2,402
Total	14,323	4,973	2,220	5,251	849	11,532

The accrued liabilities have durations of less than a year.

The accrued liabilities for usage fee were carried as liabilities on the balance sheet under fees and licence fees for the use of know-how. It was possible here within the AC business segment to implement a release affecting the earnings at the level of EUR 1,775k.

The personnel accruals essentially contain planned severance payments.

The remaining accrued liabilities essentially contain provisions for penalties and litigation expenses.

(21) OTHER LIABILITIES

The other short-term liabilities are composed of the following:

	31/12/2011 IN € K	31/12/2010 IN € K
Other taxes	2,336	3,987
Social security liabilities	75	228
Outstanding holiday entitlements	764	1,238
Overtime claims	489	652
Partial retirement	911	1,437
Profit-sharing bonus	1,731	1,910
Other personnel liabilities	2,805	1,895
Miscellaneous	2,568	2,495
Total	11,679	13,842

F. Statement of Income and Accumulated Earnings

(22) SALES REVENUES

In the 2011 financial year, Funkwerk generated sales totalling EUR 164,569k. Sales revenues are recorded as net sales after deduction of discounts, rebates, and allowances. The sales revenues are divided by corporate segments and regions.

Breakdown into geographic markets

2011	TRAFFIC & CONTROL COMMUNICATION		AUTOMOTIVE COMMUNICATION		ENTERPRISE COMMUNICATION		SECURITY COMMUNICATION		TOTAL SALES REVENUES	TRANSITION AS PER IFRS 5*	SALES REV. OF RETAINED SEGMENT	
	IN € K	IN %	IN € K	IN %	IN € K	IN %	IN € K	IN %	IN € K	IN € K	IN € K	IN %
Domestic	57,963	58.4	19,478	76.2	21,357	76.9	34,677	73.6	133,475	–25,887	107,588	65.4
EU	30,836	31.1	5,777	22.6	6,154	22.2	11,139	23.6	53,906	–8,002	45,904	27.9
Other foreign countries	10,423	10.5	320	1.2	254	0.9	1,297	2.8	12,294	–1,217	11,077	6.7
Total	99,222	100.0	25,575	100.0	27,765	100.0	47,113	100.0	199,675	–35,106	164,569	100.0

2010	TRAFFIC & CONTROL COMMUNICATION		AUTOMOTIVE COMMUNICATION		ENTERPRISE COMMUNICATION		SECURITY COMMUNICATION		TOTAL SALES REVENUES	TRANSITION AS PER IFRS 5*	SALES REV. OF RETAINED SEGMENT	
	IN € K	IN %	IN € K	IN %	IN € K	IN %	IN € K	IN %	IN € K	IN € K	IN € K	IN %
Domestic	56,838	55.4	25,173	82.4	21,020	74.2	33,244	67.2	136,275	–33,178	103,097	61.1
EU	33,605	32.7	4,849	15.9	6,675	23.6	12,724	25.7	57,853	–8,250	49,603	29.4
Other foreign countries	12,207	11.9	515	1.7	618	2.2	3,500	7.1	16,840	–902	15,938	9.5
Total	102,650	100.0	30,537	100.0	28,313	100.0	49,468	100.0	210,968	–42,330	168,638	100.0

* We refer here to the presentation of the transition under section H.

13.4 per cent of the total sales revenues of the retained segments of the Funkwerk group were realised with a single customer (corresponds to EUR 22,043k, segments TCC and SC).

(23) COST OF MATERIALS

In the financial year, the cost of materials consists of expenditure for raw materials and supplies at EUR 74,821k (prev. yr.: EUR 80,166k) and expenditure for services received at EUR 21,961k (prev. yr.: EUR 26,927k). The cost of materials of the business segments that were given up was EUR 12,962k (prev. yr.: EUR 16,840k).

(24) PERSONNEL EXPENSES

The personnel expenses concern expenditure for wages and salaries at EUR 66,429k (prev. yr.: EUR 68,375k) and social security contributions, expenditure for retirement pension and benefits at EUR 12,161k (prev. yr.: EUR 12,803k).

The personnel expenses of the business segments that were given up was EUR 16,102k (prev. yr.: EUR 17,815k).

(25) OTHER OPERATING INCOME

	2011 IN € K	2010 IN € K
Income from release of accrued liabilities	2,220	760
Income from release of liabilities	465	1,128
Income from release of prepaid expenses item for investment subsidies and allowances	331	235
Expense subsidies	623	1,642
Remuneration in kind	464	508
Earnings from the retirement of fixed assets	10	2
Gains on exchange	328	1,319
Release of value impairments	67	311
Miscellaneous	2,147	939
Total	6,655	6,844

In regard to the release of special items for investment subsidies and allowances, please refer to the explanations under item F. 13. The expense subsidies relate to supported projects, for example within the scope of research activities, training activities for junior staff (»education and research«), and personnel expense allowances.

The income from the release of accrued liabilities were recognised where the future outflow of resources is no longer probable.

(26) OTHER OPERATING EXPENSES

	2011 IN € K	2010 IN € K
Space and building expenses	4,452	4,715
Administrative expenses	6,467	6,232
Selling expenses	4,821	5,103
Allocation to reserve for warranties	1,289	1,231
Operating expenses	2,338	2,678
Current-asset valuation adjustments	553	381
Vehicle expenses	2,072	2,078
Losses on exchange	382	432
Miscellaneous	1,598	1,433
Total	23,972	24,283

(27) IMPAIRMENT AND OTHER EXPENSES FROM THE ALGERIAN PROJECT BUSINESS AND IMPAIRMENT CHARGES OF INTANGIBLE ASSETS

For information on impairment charges for intangible assets, we refer to the information given in section E.1 of the Notes to the Consolidated Financial Statements and to the consolidated fixed-asset movement schedule.

The value impairments shown in the previous year from the Algerian project business essentially concerned value adjustments on receivables from projects in progress amounting to EUR 6,056k, allocations to reserves totalling EUR 900k and elimination of the receivables to the amount of EUR 570k.

(28) RESTRUCTURING COSTS

The restructuring costs in the 2011 financial year essentially concern settlements and expenses for transitional companies totalling EUR 3,546k (prev. yr.: EUR 1,884k).

(29) FINANCIAL RESULTS

	2011 € K	2010 € K
Profit from currency futures dealing / currency options	7	383
Interest and similar revenue	221	91
Write-up of investment classified as current assets	0	8
	228	**482**
Interest and similar expenses	– 1,552	– 472
Interest cost for pension obligations	– 610	– 613
Write-down of financial assets	0	– 858
Write-down of participating interests	– 24	0
Loss from currency futures dealing / currency options	– 259	– 212
	– 2,445	– 2,155
Financial results	– 2,217	– 1,673
	– 2,445	**– 2,155**
Summe	– 2,217	– 1,673

The depreciation on financial assets made in the previous year related to a partial depreciation on the credit balance in Algeria which is not available in the short term or blocked.

(30) TAXES ON INCOME

Composition of the tax expenditure:

	2011 € K	2010 € K
Actual tax expenditure	2,335	3,864
Deferred tax expenditure	1,274	2,225
Taxes on income	3,609	6,089

The taxes on income include a tax expense of EUR 1,895k that is unrelated to the accounting period.

The following deferred tax accruals and liabilities shown in the balance sheet were attributable to differences in methodology and valuation in regard to the individual balance sheet items and to tax losses carried forward:

	31/12/2011		31/12/2010	
	DEFERRED TAX ACCRUALS	DEFERRED TAX LIABILITIES	DEFERRED TAX ACCRUALS	DEFERRED TAX LIABILITIES
Intangible assets	512	6,190	511	6,155
Tangible assets	22	358	7	335
Financial assets	738	713	737	713
Inventories	1,757	216	4,625	92
Accounts receivable and other assets	25	510	20	3,232
Pension accruals	682	0	484	0
Provisions	374	0	641	0
Liabilities	372	26	671	28
Deferred investment subsidies	32	0	97	0
Tax losses carried forward	2,927	0	4,395	0
Balancing out	– 7,441	– 7,441	– 12,188	– 12,188
Total	**0**	**2,345**	**0**	**1,071**
Of which, accounted for by sold business segments	**0**	**1,279**	**0**	**0**
Balance sheet figure	0	1,066	0	1,071

Transition from the anticipated income tax revenue to the reported income tax expenditure

	2011 IN € K	2010 IN € K
Result of retained business segments before taxes on income	–15,340	–16,608
Result of sold business segments before taxes on income	3,534	–706
Result before taxes on income	**–11,806**	**–17,314**
Rate of taxation of Funkwerk group	**26.00%**	**26.00%**
Anticipated income tax expenditure	**–3,070**	**–4,502**
TRANSITION		
Tax rate variances		
a) Effects of tax rate changes/differences	–64	–702
b) Effects from tax rate differences of foreign fiscal regions	–36	–2
Tax effects from variances in the basis of assessment		
a) Tax-free foreign plant income as per double taxation agreement	552	2,783
b) Tax-free income from investments and gain on disposal or other transfer	–1,220	0
c) Disposal losses not recognised for tax purposes	0	868
d) Non-deductible expenditure	319	257
e) Other tax-free income	–96	0
f) Corporate income tax increases or decreases	138	106
Valuation of deferred tax assets		
a) Non-recognition of deferred tax assets	5,469	6,442
b) Utilisation of tax losses carried forward that have not yet accrued deferred tax assets	–300	–185
c) Deferral of tax losses carried forward that have not yet accrued deferred tax assets	–100	–272
d) Lapse of tax losses carried forward that have not yet accrued deferred tax assets	0	16
e) Lapse of tax losses carried forward, which arose in the current year	243	
Effects not identified with the specified period		
a) Current and deferred taxes, previous years	1,884	2,421
Tax effects on consolidation level		
a) Depreciation of goodwill	481	262
Other	–67	74
Income tax expenditure	**4,133**	**7,566**
Of which, income tax from sold business segments	**–524**	**–1,477**
Of which, income tax from retained business segments	**3,609**	**6,089**
Group tax load ratio (retained business segments)	**–23.53%**	**–36.66%**

The domestic group companies did not report any deferred tax claims on the tax losses carried forward that totalled EUR 47,641k (in prev. yr.: EUR 34,851k).

G. Cash Flow Statement

(31) CASH FLOWS FROM OPERATING ACTIVITIES

The cash flow from operating activities is an indicator of the extent to which the company managed to generate cash surplus through its operative business.

The item »Other non-cash expenditure and income« particularly includes the income from the sale of Alpha Mess-Steuer-Regeltechnik GmbH for EUR 5,071k. On the other side, expenditure includes expenses incurred in the context of reporting the share options as per IFRS 2 totalling EUR 107k (prev. yr.: EUR 152k).

(32) CASH FLOWS FROM INVESTING ACTIVITIES

This cash flow shows the extent to which expenses for resources were incurred that are to generate future income and cash flows.

(33) PAYMENTS FROM THE SALE OF PARTICIPATING INTERESTS OF CONSOLIDATED COMPANIES

The payments result from the sale of the consolidated subsidiary Alpha Mess-Steuer-Regeltechnik GmbH and represent the difference of the purchase price less transaction costs and outgoing liquid funds (EUR 15k).

(34) FREE CASH FLOW

The free cash flow serves as an indicator for company-internal control.

(35) CASH FLOWS FROM FINANCING ACTIVITIES

The cash flow from financing activities goes hand in hand with the completion of a consortium financing scheme which took place in the year under review. The credit line actually used at the cutoff date was EUR 12,500k.

(36) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD

The cash and cash equivalents at the end of the period reported in the consolidated cash flow statement consist of: EUR 17,424k (prev. yr.: 10,377k) for the retained business segments and EUR 527k (prev. yr.: EUR 1,679k) for the sold business segments.

As at 31 December 2011 a total of EUR 9,486k is invested with restricted access in so-called »pledge accounts« at three German commercial banks.

The cash and cash equivalents do not contain restricted-access bank credit balances in Algeria totalling EUR 3,000k (prev. yr.: EUR 3,000k), since these are included in the balance-sheet item Financial assets. We refer here to the details in the Consolidated Management Report, section 7, Risk report and risk management, risks from the Algerian business.

As regards the net cash flows of the sold business segments, we refer to section C.2 of the Consolidated Financial Statements.

H. Segment Reporting

Funkwerk structures its business in clearly separated business segments: Traffic & Control Communication (abbr.: TCC), Automotive Communication (abbr.: AC), Enterprise Communication (abbr.: EC [sold business segment]), Security Communication (abbr.: SC).

In 2011, the Executive Board of Funkwerk decided that the EC segment would no longer be of strategic interest in future. The internal reporting in 2011 contained the three strategic segments plus the EC sales segment.

Consequently, the segment reporting complies with IFRS 8.

	JAHR	TCC	AC	EC	SC	NON-ALLOCATED ITEMS	GROUP
		€ K	€ K	€ K	€ K	€ K	€ K
Intangible and tangible assets	2011	21,293	6,374	0	9,192	0	36,859
	2010	26,270	9,327	5,763	8,522	0	49,882
Investment in intangible and tangible assets	2011	2,367	3,457	2,198	3,270	0	11,292
	2010	3,562	2,778	2,494	3,226	0	12,060
Inventories	2011	19,418	4,185	0	12,008	0	35,611
		21,709	5,878	2,936	13,037	0	43,560
Trade accounts receivable and from work in progress	2011	20,834	3,545	0	14,345	0	38,724
	2010	21,173	2,212	1,812	10,449	0	35,646
Other current assets	2011	0	0	0	0	32,085	32,085
	2010	0	0	0	0	20,561	20,561
Segment assets	**2011**	**61,545**	**14,104**	**0**	**35,603**	**32,085**	**143,279**
	2010	**69,152**	**17,417**	**10,511**	**32,008**	**20,561**	**149,649**
Other long-term assets	2011	4	0	0	0	0	4
	2010	4	7	0	32	0	43
Assets held for sale	2011	0	0	0	0	14,631	14,631
	2010	0	0	0	0	0	0
Total assets	**2011**	**61,549**	**13,887**	**0**	**34,312**	**48,166**	**157,914**
	2010	**69,156**	**17,424**	**10,511**	**32,040**	**20,561**	**149,692**
Pension obligations	2011	4,659	0	0	8,163	0	12,822
	2010	4,424	0	48	8,053	0	12.,525
Advance payments received	2011	6,536	169	0	2,299	0	9,004
	2010	6,644	0	7	2,084	0	8,735
Trade accounts payable	2011	16,681	2,892	0	8,366	0	27,939
	2010	16,785	3,658	1,194	7,731	0	29,368
Accrued liabilities	2011	8,907	969	0	1,656	0	11,532
	2010	8,906	2,125	620	2,672	0	14,323
Other debts	2011	0	0	0	0	32,299	32,299
	2010	0	0	0	0	20,282	20,282
Segment liabilities	**2011**	**36,783**	**4,030**	**0**	**20,484**	**32,299**	**93,596**
	2010	**36,759**	**5,783**	**1,869**	**20,540**	**20,282**	**85,233**
Liabilities held for sale	2011	0	0	0	0	15,658	15,658
	2010	0	0	0	0	0	0
Total liabilities	**2011**	**36,783**	**4,030**	**0**	**20,484**	**47,957**	**109,254**
	2010	**36,759**	**5,783**	**1,869**	**20,540**	**20,282**	**85,233**

The long-term assets related to the foreign companies of the group amount to EUR 2,480 k (prev. yr.: EUR 2,689 k) and relate to the TCC segment (in prev. yr.: TCC with EUR 2,648 k and EC with EUR 41 k).

CALCULATION OF EBIT AND RECONCILIATION TO THE SHAREHOLDERS' RESULTS

	YEAR	TCC	AC	EC	SC	GROUP	SOLD BUS. SEG-MENTS	CORR. CONS.	RETAINED BUS. SEGS
		€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K
Total sales revenues	2011	99,228	25,613	27,925	55,689	208,455			
		102,682	30,811	28,494	57,508	219,495			
Sales revenues with other	2011	5	38	160	8,577	8,780			
business segm.*	2010	32	274	181	8,040	8,527			
External sales revenues	2011	99,223	25,575	27,765	47,112	199,675	–44,056	8,950	164,569
		102,650	30,537	28,313	49,468	210,968	–50,801	8,471	168,638
Other operating income	2011	7,558	3,491	500	645	12,194	–6,269	730	6,655
	2010	3,790	1,713	1,127	1,389	8,019	–2,027	852	6,844
Segment revenues	**2011**	**106,781**	**29,066**	**28,265**	**47,757**	**211,869**	**–50,325**	**9,680**	**171,224**
	2010	**106,440**	**32,250**	**29,440**	**50,857**	**218,987**	**–52,828**	**9,323**	**175,482**
Inventory changes of finished	2011	–2,403	–19	0	478	–1,944	8	0	–1,936
goods and work in progress	2010	–585	–61	0	1,036	390	48	0	438
Own work capitalised	2011	1,444	2,334	1,749	1,864	7,391	–1,750	0	5,641
(development)	2010	2,663	2,167	2,085	2,524	9,439	–2,085	0	7,354
Cost of materials	2011	43,570	16,143	13,871	23,198	96,782	–21,912	8,950	83,820
	2010	49,033	18,919	13,917	25,224	107,093	–25,311	8,471	90,253
Personnel expenses	2011	37,136	11,071	9,685	20,698	78,590	–16,102	0	62,488
	2010	39,339	10,575	9,769	21,495	81,178	–17,815	0	63,363
Planned depreciation of	2011	1,842	1,627	312	1,476	5,257	–726	0	4,531
fixed assets	2010	2,565	1,419	1,030	1,382	6,396	–1,268	0	5,128
Planned depreciation of	2011	831	1,292	530	1,147	3,800	–530	0	3,270
development work	2010	336	549	192	1,045	2,122	–192	0	1,930
Other operating expenses	2011	13,050	4,075	6,669	8,060	31,854	–8,612	730	23,972
	2010	12,466	3,872	5,929	9,128	31,395	–7,964	852	24,283
Operating result before impairment	**2011**	**9,393**	**–2,827**	**–1,053**	**–4,480**	**1,033**	**–4,185**	**0**	**–3,152**
charges and restructuring costs	**2010**	**4,779**	**–978**	**688**	**–3,857**	**632**	**–2,315**	**0**	**–1,683**
Impairment charges for Algeria	2011	0	0	0	0	0	0	0	0
	2010	0	0	0	7,816	7,816	0	0	7,816
Impairment charges on	2011	2,500	2,778	0	0	5,278	0	0	5,278
intangible assets	2010	1,301	936	0	1,195	3,432	0	0	3,432
Restructuring costs	2011	1,557	1,458	116	1,678	4,809	–116	0	4,693
	2010	1,129	0	148	875	2,152	–148	0	2,004
Operating result = Segment result	**2011**	**5,336**	**–7,063**	**–1,169**	**–6,158**	**–9,054**	**–4,069**	**0**	**–13,123**
	2010	**2,349**	**–1,914**	**540**	**–13,743**	**–12,768**	**–2,167**	**0**	**–14,935**

* The sales revenues with other business segments are eliminated in the consolidated financial statements.

	YEAR	TCC	AC	EC	SC	GROUP	SOLD BUS. SEGMENTS	CORR. CONS.	RETAINED BUS. SEGS
		€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K
Financial results	2011					–2,752	535	0	–2,217
	2010					–4,546	2,873	0	–1,673
Results from ordinary activities	**2011**					**–11,806**	**–3,534**	**0**	**–15,340**
	2010					**–17,314**	**706**	**0**	**–16,608**
Taxes on income	2011					–4,133	524	0	–3,609
	2010					–7,566	1,477	0	–6,089
Shareholders' results	**2011**					**–15,939**	**–3,010**	**0**	**–18,949**
	2010					**–24,880**	**2,183**	**0**	**–22,697**

TRANSITION OF SEGMENT REPORTING FOR SALES REVENUES, OPERATING RESULT BEFORE IMPAIRMENT CHARGES AND BEFORE RESTRUCTURING COSTS AND OPERATING RESULT OF RETAINED BUSINESS SEGMENTS

Sales revenues of retained business segments

	YEAR	TCC	AC	EC	SC	GROUP
		€ K	€ K	€ K	€ K	€ K
Sales revenues for the segment	2011	99,228	25,613	27,925	55,689	208,455
	2010	102,682	30,811	28,494	57,508	219,495
Sales revenues with other business segm.*	2011	–5	–38	–160	–8,577	–8,780
	2010	–32	–274	–181	–8,040	–8,527
Reduction of sales revenues of sold business segments	2011	–12,777	–3,353	–27,765	0	–43,895
	2010	–19,025	–3,286	–28,313	0	–50,624
Sales revenues of segments, which are continued with sold business segments	2011	0	386	0	8,403	8,789
	2010	0	328	0	7,966	8,294
Sales revenues of retained business segments	**2011**	**86,446**	**22,608**	**0**	**55,515**	**164,569**
	2010	**83,625**	**27,579**	**0**	**57,434**	**168,638**

* The sales revenues with other business segments are eliminated in the consolidated financial statements.

Operating result before impairment charges and restructuring costs of the retained business segments

	YEAR	TCC	AC	EC	SC	NON-ALLOCATED EXPENDITURE	GROUP
		€ K	€ K	€ K	€ K	€ K	€ K
Operating result before impairment charges and restructuring costs	2011	9,393	–2,827	–1,053	–4,480		1,033
	2010	4,779	–978	688	–3,857		632
Operating result before impairment charges and restructuring costs of the sold business segments	2011	–4,941	163	1,053	0	–460	–4,185
	2010	–1,224	–162	–688	0	–241	–2,315
Operating result before impairment charges and restructuring costs of the retained business segments	**2011**	**4,452**	**–2,664**	**0**	**–4,480**	**–460**	**–3,152**
	2010	**3,555**	**–1,140**	**0**	**–3,857**	**–241**	**–1,683**

Operating result of the retained business segments

	YEAR	TCC	AC	EC	SC	NON-ALLOCATED EXPENDITURE	GROUP
		€ K	€ K	€ K	€ K	€ K	€ K
Operating result	2011	5,336	–7,063	–1,169	–6,158		–9,054
	2010	2,349	–1,914	540	–13,743		–12,768
Operating result of the sold business segments	2011	–4,941	163	1,169	0	–460	–4,069
	2010	–1,224	–162	–540	0	–241	–2,167
Operating result of the retained business segments	**2011**	**395**	**–6,900**	**0**	**–6,158**	**–460**	**–13,123**
	2010	**1,125**	**–2,076**	**0**	**–13,743**	**–241**	**–14,935**

The exchange of payments between the segments is made at normal market terms and conditions, as with external third parties.

The presentation of the financial result corresponds to the management approach of IFRS 8.

For a distribution of sales revenues according to geographically organised markets, please see section E.

I. Other Disclosures

1. GUARANTEES

As at the cutoff date, the Funkwerk group had guarantees for the benefit of customers and suppliers and bank guarantees totalling EUR 29,721k (prev. yr.: EUR 39,312k). These essentially comprised guarantees for contractual fulfilments amounting to EUR 16,645k (prev. yr.: EUR 16,488k) and advance payments amounting to EUR 9,256k (prev. yr.: EUR 18,376k). In addition, in the previous year there were also debt assumption agreements of the subsidiary Funkwerk Security Communications GmbH to the amount of EUR 690k and also of Funkwerk Information Technologies York Ltd. (indirect subsidiary) to the amount of EUR 344k.

2. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS AND FINANCIAL LEASING AS LESSOR

Other financial obligations exist for:

	UP TO 1 YEAR	UP TO 5 YEARS	TERM TOTAL
	€ K	€ K	€ K
Long-term rental and lease agreements	3,235	2,697	5,932
Long-term leasing agreements	1,277	1,674	2,951
Other financial obligations	34	105	139
	4,546	4,476	9,022
Of which, retained business segments	3,692	3,800	7,492

The rental and leasing expenses of the financial year are EUR 3,766k (prev. yr.: 5,907k).

Financial leasing as lessor

		TERM	
	31/12/2011	UP TO 1 YEAR	UP TO 5 YEARS
	€ K	€ K	€ K
Gross investment	235	64	155
Cash value of minimum leasing payments	219		
Not yet realised financial yield	16		

This concerns a leasing agreement for LED bands over a total lease period of 60 months.

3. AVERAGE NUMBER OF EMPLOYEES BY CATEGORY DURING THE FINANCIAL YEAR

	2011	2010
Executive Board	2	2
Management	23	23
Administration	88	96
Development	284	292
Sales/project management	282	300
Production	557	586
Other	8	6
	1,244	**1,305**
Trainees	60	67
	1,304	1,372

4. RELATIONSHIPS WITH RELATED PARTIES

Related parties in the sense of IAS 24 are the Executive Board and the Supervisory Board, cf. I.8.

Relationships with related parties in the sense of IAS 24 exist with affiliated companies which are not included in the consolidated financial statements and belong to the majority shareholder, Hörmann Funkwerk Holding GmbH, or Hörmann Holding GmbH & Co. KG (HHKG).

The business relationship of Funkwerk AG to HHKG was limited to passing on insurance expenses amounting to EUR 1k (prev. yr.: EUR 0k) and other advanced costs of EUR 109k (prev. yr.: EUR 29k). The business relationships of the subsidiaries of Funkwerk AG to HHKG also relate to insurance expenses together with legal and consultancy fees and reach a total of EUR 30k (prev. yr.: EUR 31k). On 31 December 2011 the liabilities were EUR 104k (prev. yr.: EUR 0k).

The subsidiaries of Funkwerk AG recorded sales revenues amounting to EUR 1k (prev. yr.: EUR 2k) with companies that are affiliates of HHKG. The deliveries were invoiced at market prices or at cost plus an appropriate profit mark-up. The terms of payment granted are those that are usual for the market. As in the previous year, there were no trade accounts receivable from this at the reporting date.

A subsidiary of Funkwerk AG signed a development contract with Hörmann GmbH in 2009 and rendered developmental services for this at EUR 335k in 2009. This development contract was rescinded in the 2011 financial year. Hörmann GmbH has invoiced EUR 240k for the return transfer of the product rights to the company. On 31 December 2011 the liabilities were EUR 285k (prev. yr.: EUR 0k).

The subsidiaries of Funkwerk AG have not obtained any further goods and services from affiliated companies of HHKG (prev. yr.: EUR 15k) in the 2011 financial year.

A rental agreement amounting to EUR 78k per year existed between Microsyst Systemelectronic GmbH and Grundner Industrie und Beteiligungen GmbH, Kirchseeon until 31 December 2011. In addition, there was also a rental agreement between Funkwerk plettac electronic GmbH and the wife of Dr. Grundner, totalling EUR 10k per year, which was rescinded in the year under review.

In addition, a lease agreement existed between Funkwerk Akademie GmbH and Schloss Beichlingen GbR, in which Mr. Hörmann holds a majority interest, amounting to EUR 36k p.a. This lease agreement was terminated on 31 October 2011.

A business relationship providing goods and services exists with the participating interest Funkwerk ES Iberia S.L. As a result, this subsidiary provided goods and services totalling EUR 812k (prev. yr.: EUR 733k). It received services amounting to EUR 0k (prev. yr.: EUR 70k). At the reporting date, the resultant trade accounts receivable for the Funkwerk group were EUR 126k (prev. yr.: EUR 0k) and the trade accounts payable were EUR 0k (prev. yr.: EUR 48k).

5. MAJOR RISKS AND UNCERTAINTIES

In principle, legal risks are taken into account by setting up reserves to the amount of the expected burden. Besides the risks sufficiently covered by reserves, no other risks or uncertainties are recognisable to date.

6. DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE IN CONFORMITY WITH SECTION 161 AKTG

In conformity with Section 161 of the German Stock Corporation Act, the Executive Board and the Supervisory Board have made the required declaration concerning the current and future compliance with the recommendations of the »Government Commission on the German Corporate Governance Code« published by the Federal Ministry of Justice in the official section of the Electronic Federal Gazette, and have made this declaration available to the shareholders on the website at http://www.funkwerk.com.

7. EXEMPTIONS UNDER SECTION 264 (3) OF THE GERMAN COMMERCIAL CODE (HGB)

The subsidiaries Hörmann-Funkwerk Kölleda GmbH and Funkwerk Dabendorf GmbH exercise the exemption from disclosure of their annual accounts and also from drawing up the Management Reports under Section 264 (3) of the German Commercial Code.

8. DETAILS ON THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

Officiating members of the Executive Board

- Johann M. Schmid-Davis, Masters in Bus. Econ., Zorneding
  Controlling, finance and accounting, taxation, auditing, legal and contracts, IT, human resources and personnel, investor relations, coordination of group purchasing
- Mr. Carsten Ahrens, MEng., Kaarst
  Coordination of technology and product planning, development of business segments, further developments of management tools, mergers and acquisitions
- Dr. Ing. Hans Grundner, Anzing, (until 19.05.2011)

Remuneration

The remuneration of the Executive Board members features both a non-performance-based and a performance-based component; its level and structure is determined by the Supervisory Board of Funkwerk AG.

The component which is not related to performance is made up of a fixed salary plus fringe benefits and pension commitments and is not dependent on certain targets being reached; it is paid monthly. In addition to the monthly fixed salary, all board members also receive fringe benefits, which include the private use of the company car and insurance premiums. All Executive Board members are entitled to these remuneration components and each must tax them as appropriate.

For a detailed breakdown of the remuneration components of the Executive Board members, please see the Management Report for the financial year.

Executive Board pay

The payments due in the short term in the financial year are as follows:

	NON-PERFORMANCE-RELATED PAY		PERFORMANCE-RELATED PAY		PENSION COMMITMENTS		SHARE-BASED REMUNERATION		TOTAL REMUNERATION	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	€	€	€	€	€	€	€	€	€	€
J. Schmid-Davis	165,005	184,731	40,000	0	15,000	15,000	0	10,080	220,005	209,811
C. Ahrens	228,300	53,315	0	0	3,750	0	0	10,080	232,050	63,395
Dr. H. Grundner	111,795	231,636	0	0	10,000	24,000	0	10,080	121,795	265,716
Total	**505,100**	**469,682**	**40,000**	**0**	**28,750**	**39,000**	**0**	**30,240**	**573,850**	**538,922**

The board members did not exercise any share options in the 2011 financial year.

Supervisory Board

- Mr. Alfons Hörmann, Wertingen,
  CEO of Hörmann Holding & Co. KG, Kirchseeon
  Vice Chaiman until March 18, 2011; Chairman since 18 March 2011
- Mr. Prof. Dr. Gerhard P. Fettweis, Dresden,
  University Lecturer,
  Vice Chairman since March 18, 2011
- Mr. Dr.-Ing. Manfred Egner, Aidlingen,
  Fully Authorised Representative/Non-Executive Director of Freudenberg & Co.KG Weinheim; member since 19 May 20111
- Mr. Maximilian Ardelt, Starnberg,
  entrepreneur,
  Chairman until 18 March 2011; member until 19 May 2011

In the period under review, Mr. Alfons Hörmann was a member of the following Supervisory Boards:

- Schöck AG, Baden-Baden (Chairman of the Supervisory Board)
- Wilhelm Geiger GmbH & Co. KG, Oberstdorf (Chairman of the Advisory Board)
- Scaltel AG, Waltenhofen (Chairman of the Supervisory Board)
- Hörmann Automotive Gustavsburg GmbH, Gustavsburg (Chairman of the Supervisory Board as of 1 December 2011)
- Hörmann Automotive Penzberg GmbH, Penzberg (Chairman of the Supervisory Board as of 30 November 2011)
- DSV Leistungssport GmbH, Planegg (Chairman of the Supervisory Board) (honorary)
- DSV Marketing GmbH, Planegg (Chairman of the Supervisory Board) (honorary)

In the period under review, Prof. Dr. Gerhard P. Fettweis was a member of the following Supervisory Boards:

- Qualitpe AG, Dresden (Chairman of the Supervisory Board)
- DEWB AG, Jena (Vice Chairman of the Supervisory Board)
- ZMDI AG, Dresden (Vice Chairman of the Supervisory Board)
- Signalion GmbH, Dresden (Member of the Advisory Board)

In the period under review, Dr. Ing. Manfred Egner was a member of the following Supervisory Boards:

- Freudenberg Sealing Technologies GmbH & Co. KG (Member of the Supervisory Board)

Mr. Maximilian Ardelt was a member of the following Supervisory Boards in the period under review up until his departure:

- TechData Corporation, Clearwater/Florida (Member of the Board of Directors)
- Tiburon Partners AG, Munich (Vice Chairman of the Supervisory Board)
- Ecommerce Alliance AG (previously Getmobile Europe PLC), Munich (Chairman of the Supervisory Board)
- Stulz Holding GmbH, Hamburg (Member of the Supervisory Board)
- Mannstaedt GmbH, Troisdorf (Chairman of the Supervisory Board)
- Graz University of technology, Graz, Austria (Vice Chairman of the University Board)
- Neumüller CeWe Color Stiftung (Member of the Board of Trustees)

Remuneration

The remuneration of the Supervisory Board is governed in Section 12 of the Articles of Incorporation of Funkwerk AG and is divided into a fixed and a variable component plus an attendance fee. Concerning the level of payments, a distinction is made between the Chairman and the remaining members.

Pay of Supervisory Board members

	FIXED REMUNERATION		ATTENDANCE FEE		VARIABLE REMUNERATION		TOTAL REMUNERATION	
	2011	2010	2011	2010	2011	2010	2011	2010
	€	€	€	€	€	€	€	€
Alfons Hörmann	9,458	4,437	14,300	9,750	0	0	23,758	14,187
Prof. Dr. Gerhard Fettweis	6,958	2,958	10,400	5,200	0	0	17,358	8,158
Dr. Manfred Egner	3,069	0	5,200	0	0	0	8,269	0
Maximilian Ardelt	2,167	8,979	5,200	14,950	0	0	7,367	23,929
Christian A. Hufnagl	0	4,083	0	2,600	0	0	0	6,683
Niels L. Chrestensen	0	2,042	0	1,300	0	0	0	3,342
Total	**21,652**	**22,499**	**35,100**	**33,800**	**0**	**0**	**56,752**	**56,299**

9. AUDITOR'S FEES – DISCLOSURE AS PER SECTION 314 (1) NO. 9 GERMAN COMMERCIAL CODE (§ 314 ABS. 1 NR. 9 HGB)

In the current financial year, the following fees were recorded for the auditor as defined by Section 319 (1) of the German Commercial Code, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, and companies affiliated to it:

	2011
	€ K
Audit of financial statements	427
Other certification and appraisal services	63
Tax consulting	31
Other services	123
	644

10. EVENTS AFTER THE REPORTING PERIOD

The sale of Funkwerk Enterprise Communications GmbH together with the subsidiaries belonging to the former business segment EC was successfully concluded on 13 January 2012. The companies were transferred to the Spanish group Teldat, Madrid, by signing a notarized agreement. As expected, the transaction resulted in liquid funds of around EUR 8.5 m going to Funkwerk AG.

By way of a notarized purchase agreement dated 21 March 2012, all shares in Funkwerk Avionics GmbH, the existing shareholder loan plus other receivables were sold to a German holding company. Funkwerk AG is set to receive around EUR 1.0 m in liquid funds from the sale by the end of March 2012.

Binding assurance was given on the part of the existing loan consortium under the management of Commerzbank AG on 26 March that – as a result of restructuring the corporate group and because of the funds received from the sales – the consortium loan agreement, which has been in existence since March 2011, is to be adjusted by way of an addendum agreement. The central focus of this addendum agreement is the reduction of the borrowed funds from EUR 75.5 m to EUR 50.0 m, divided between a cash overdraft of EUR 10 m and a bank guaranty credit of EUR 40 m. In this context, the proceeds from the sales, totalling around EUR 18 m, are to be made freely available to Funkwerk AG. It was further agreed that the existing indemnity bonds from the »Germany fund« federal/Laender program, on the part of the lenders, are to be returned again and, therefore, that the condition that the majority owners of Funkwerk AG must vote for a retention of earnings at the annual shareholders' meeting is to be lifted again as of the 2012 financial year. It is expected that the addendum agreement be implemented contractually by mid-2012.

No other important events of particular significance, which have not already been reported in the Notes or the Management Report, have occurred so far since the conclusion of the financial year.

Statement of Changes in Consolidated Assets FOR THE 2011 FINANCIAL YEAR (GROSS PRESENTATION)

FIXED ASSETS 2011	PURCHASE AND PRODUCTION COSTS							DEPRECIATION AND VALUE IMPAIRMENT									BOOK VALUE	
	AT 01/01/2011	ADDITIONS	DISPOSALS	DISPOSALS DECONSOLI-DATION AND CLASSIFICA-TION IFRS 5*	BOOK TRANSFERS	FOREIGN CURR. ITEMS	AT 31/12/2011	AT 01/01/2011	ADDITIONS DEPRECIA-TIONS	ADDITIONS VALUE IMPAIR-MENTS IFRS 5	ADDITIONS VALUE IMPAIR-MENTS**	DISPOSALS	DISPOSALS DECONSOLI-DATION AND CLASSIFICA-TION IFRS 5*	BOOK TRANSFERS	FOREIGN CURR. ITEMS	AT 31/12/2011	AT 31/12/2011	AT 31/12/2010
	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K
I. INTANGIBLE ASSETS																		
1. Industrial property rights and similar rights and values, as well as licences thereto	17,677	1,192	(122)	(5,236)	717	8	14,236	14,364	1,432	72	0	(110)	(4,410)	52	8	11,408	2,828	3,313
2. Goodwill	19,265	0	0	(4,121)	0	0	15,144	10,104		100	1,750	0	(2,235)	0	0	9,719	5,425	9,161
3. Development costs	61,821	7,384	0	(12,427)	(717)	20	56,081	38,637	3,801	0	4,276	0	(6,938)	(52)	3	39,727	16,354	23,184
	98,763	**8,576**	**(122)**	**(21,784)**	**0**	**28**	**85,461**	**63,105**	**5,233**	**172**	**6,026**	**(110)**	**(13,583)**	**0**	**11**	**60,854**	**24,607**	**35,658**
II. TANGIBLE ASSETS																		
1. Land and leasehold rights and buildings, including buildings on third-party land	10,890	39	0	(41)	0	0	10,888	4,115	408	0	0	(79)	(18)	0	0	4,426	6,462	6,775
2. Plant and machinery	29,257	604	(31)	(510)	43	6	29,369	25,580	1,620	0	0	(24)	(493)	0	5	26,688	2,681	3,677
3. Other fixtures and fittings, tools and equipment	21,307	1,349	(557)	(5,049)	59	4	17,113	17,651	1,557	67	0	(500)	(4,080)	0	3	14,698	2,415	3,656
4. Plant under construction	116	724	0	(44)	(102)	0	694	0	0	0	0	0	0	0	0	0	694	116
	61,570	**2,716**	**(588)**	**(5,644)**	**0**	**10**	**58,064**	**47,346**	**3,585**	**67**		**(603)**	**(4,591)**	**0**	**8**	**45,812**	**12,252**	**14,224**
	160,333	**11,292**	**(710)**	**(27,428)**	**0**	**38**	**143,525**	**110,451**	**8,818**	**239**	**6,026**	**(713)**	**(18,174)**	**0**	**19**	**106,666**	**36,859**	**49,882**

* Disposals relate to operations deconsolidated in the financial year and transfers on grounds of classification as assets held for sale.

** The additions to impairments constitute the difference between impairment costs for intangible assets and the income from writing back the special item for investment subsidies.

Statement of Changes in Consolidated Assets FOR THE 2010 FINANCIAL YEAR (GROSS PRESENTATION)

FIXED ASSETS 2010	PURCHASE AND PRODUCTION COSTS							DEPRECIATION AND VALUE IMPAIRMENT							BOOK VALUE	
	AT 01/01/2010 € K	ADDITIONS € K	DISPOSALS € K	DISPOSALS DECONSOLI-DATION € K	BOOK TRANSFERS € K	FOREIGN CURR. ITEMS € K	AT 31/12/2010 € K	AT 01/01/2010 € K	ADDITIONS DEPRECIA-TIONS* € K	ADDITIONS VALUE IMPAIRMENTS € K	DISPOSALS € K	DISPOSALS DECONSOLI-DATION € K	FOREIGN CURR. ITEMS € K	AT 31/12/2010 € K	AT 31/12/2010 € K	AT 31/12/2009 € K
I. INTANGIBLE ASSETS																
1. Industrial property rights and similar rights and values, as well as licences thereto	17,825	847	–285	–143	–651	84	17,677	12,586	2,124	0	–282	–143	79	14,364	3,313	5,239
2. Goodwill	19,265	0	0	0	0	0	19,265	9,104	0	1,000	0	0	0	10,104	9,161	10,161
3. Development costs	51,831	9,438	0	–247	638	161	61,821	34,344	2,122	2,432	0	–247	–14	38,637	23,184	17,487
	88,921	**10,285**	**–285**	**–390**	**–13**	**245**	**98,763**	**56,034**	**4,246**	**3,432**	**–282**	**–390**	**65**	**63,105**	**35,658**	**32,887**
II. TANGIBLE ASSETS																
1. Land and leasehold rights and buildings, including buildings on third-party land	11,590	64	–599	–165	0	0	10,980	4,406	472	0	–598	–165	0	4,115	6,775	7,184
2. Plant and machinery	28,851	635	–181	–94	34	12	29,257	24,018	1,820	0	–174	–94	10	25,580	3,677	4,833
3. Other fixtures and fittings, tools and equipment	21,310	964	–770	–271	58	16	21,307	16,611	2,054	0	–754	–271	11	17,651	3,656	4,699
4. Plant under construction	119	112	–36	0	–79	0	116	31	5	0	–36	0	0	0	116	88
	61,870	**1,775**	**–1,586**	**–530**	**13**	**28**	**61,570**	**45,066**	**4,351**	**0**	**–1,562**	**–530**	**21**	**47,346**	**14,224**	**16,804**
	150,791	12,060	–1,871	–920	0	273	160,333	101,100	8,597	3,432	–1,844	–920	86	110,451	49,882	49,691

* The additions to depreciation are included in planned depreciation (EUR 8,518k) and restructuring costs (EUR 79k) in the statement of income and accumulated earnings.

Kölleda, 26 March 2012
— The Executive Board —

Johann M. Schmid-Davis

Carsten Ahrens

Auditor's Report

We have audited the consolidated financial statements prepared by the Funkwerk AG, Kölleda, comprising the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to §315a Abs. 1 HGB (Handelsgesetzbuch »German Commercial Code«) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with §317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to §315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Leipzig, 26 March 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Huber
Wirtschaftsprüfer

Dr. Flascha
Wirtschaftsprüfer

Financial Calendar

Annual Results Press Conference	March 29, 2012
Disclosure of quarterly report	May 15, 2012
Shareholder's meeting	June 22, 2012
Disclosure of half-yearly report	August 14, 2012
Capital Markets Day	September 2012
Disclosure of nine-monthly report	November 13, 2012

Contacts Investor Relations

Jörg Reichenbach
Im Funkwerk 5
99625 Kölleda / Thuringia
Germany
Phone: +49 (0) 3635 600 – 346
Fax: +49 (0) 3635 600 – 507
E-mail: ir@funkwerk.com
www.funkwerk.com

Further information on the financial communication as well as on actual information can be found in the internet. This annual report is published in German too. The date of publishing is April 5, 2012.

IMPRINT
Editing: Funkwerk AG, Kölleda
Concept, Design ans Typesetting: Studio Delhi, Mainz
Text: TIK, Text, Information & Kommunikation GmbH, Nürnberg
Image editing: Vera Rücker Bildbearbeitung, Frankfurt
Printing:

PICTURE CREDITS
Pictures page 3 und 58: Ralf Blechschmidt, Grafing; picture page 22: Kurt Fuchs, Erlangen; pictures page 10 top, page 10/11 bottom, page 18 top, page 18/19 bottom, page 24/25: Flonline; pictures page 16/17 and page 23 bottom: Fotolia; picture page 12/13: GettyImages; pictures page 14/15 top, page 14 bottom, page 15 top, page 23 top, page 26 top, page 27 top: Fotofinder; pictures page 8/9 and page 11 top: Markus Steur;

Funkwerk AG
Im Funkwerk 5
99625 Kölleda/Thuringia
www.funkwerk.com

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