

$$i(t) = a(t)e$$

$$y_n = \frac{1}{N} \sum_{k=0}^{N-1} \hat{x}_k e^{2\pi i \frac{kn}{N}}$$

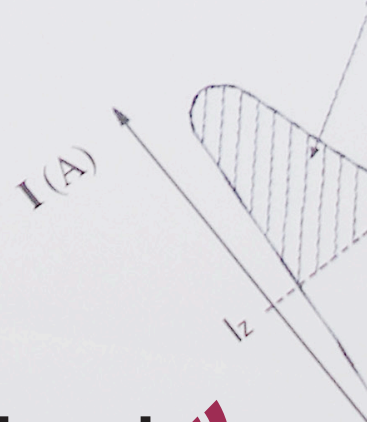
## INTERIM REPORT 2/2011

gewinn und somit  
erger Koppelkam  
ien.

Übergangsenergie bei einer Funkenprüfung  
in einer Explosionsfähige Atmosphäre

$$E_u = \int_{t_1}^{t_2} V(t) \times (I(t) - I_z) dt$$

$I_z$  : max zulässiger Strom bei der  
Funkenprüfung  
Beispiel für Spannungsquelle



## KEY FIGURES

	Q1 – Q2 2011	Q1 – Q2 2010
	€ M	€ M
<b>Results of operations</b>		
Revenues	94.3	100.7
Gross yield	48.9	50.4
Gross profit margin in %	51.5	49.1
Operating profit*	0.2	2.2
Operating result*	– 4.0	– 2.1
Operating result/EBIT	– 4.2	– 2.8
Earnings per share in EUR	– 0.79	– 0.44
Receipt of order	104.2	113.7
Order volume	111.7	107.4
<b>Net assets and financial position</b>		
Operating Cash Flow	– 11.3	– 12.2
Working Capital	46.7	61.6
Shareholder's Equity	58.1	85.7
Equity ratio in %	39.2	54.2
Balance sheet total	148.4	158.3
Employees (annual average)	1,356	1,384

\*result before impairment charges and restructuring costs

## FUNKWERK AG

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

### TRAFFIC & CONTROL COMMUNICATION

- Communication systems
- Management systems
- Information systems

### AUTOMOTIVE COMMUNICATION

- Communication systems (OEM)
- Communication systems (ASM)
- Telematik
- Avionics

### ENTERPRISE COMMUNICATION

- Networks
- Voice
- Data security

### SECURITY COMMUNICATION

- Video systems
- Property protection
- Personal security systems
- Radio equipment for security functions

# GROUP MANAGEMENT REPORT

*Dear ladies and gentlemen, dear shareholders,*

Funkwerk AG is currently undergoing a phase in which crucial decisions are made on the future direction of the company. We have initiated a fundamental reorientation of our company to focus very specifically on our core areas. This step was inevitable, as the group currently is very much diversified, serving very different customers and markets in its four business segments. These adjustments will help us save resources and invest necessary funds more specifically in development and technologies. As a result, we will be in a position to address the market with greater efficiency and market our products more systematically in growth regions. We have therefore decided to focus on our three segments Traffic & Control Communication (TCC), Security Communication (SC) and Automotive Communication (AC). Within these segments, we will limit ourselves to growth fields with strong margins and split off more peripheral activities. Appropriate sell-offs are currently evaluated and in preparation. As a result of our reorientation, we aim specifically to eliminate loss-makers and restructure our remaining segments. This will produce synergies and leave us with a more powerful, result-oriented segment organisation that will have a much clearer direction.

The changes happening in our company are also reflected at management level. Dr Hans Grundner, for many years chairman of our Executive Board, retired from his office on 19 May 2011. His duties have since been taken over by two existing members of the Executive Board, Johann Schmid-Davis and Carsten Ahrens, who are now heading the company on an equal footing. They are jointly overseeing the reorientation of Funkwerk AG which is necessary if we want to see revenues grow again in the long term.

## GENERAL ECONOMIC SETTING

Over the first six months of 2011, the global economy lost somewhat in momentum, but according to the International Monetary Fund, IMF, develop positively on the whole. The global risks have increased though. Early in the year, this most notably included the social and political upheaval in North Africa and the nuclear catastrophe in Japan, joined in the second quarter by the debt crisis in a number of euro zone countries. Added to that, the economic trend in the world's largest economy, the USA, proved surprisingly cautious. The continuing concern over the economic trend and primarily the downgrading of the US credit rating by a rating agency recently led to major turbulences in the financial markets. Emerging and developing countries, specifically the BRIC states, on the other hand, continued to report impressive growth rates. A further positive surprise was the economic development in Germany, where the gross domestic product by the end of March had gained 5.2 per cent on the prior-year figure for the same period.

Even more significant for Funkwerk as a supplier of equipment and infrastructures is the development of gross fixed capital formation. In Germany, the noticeable revival in the last quarter of 2010 failed to carry over here. Significantly higher investments in the current year were made only in the BRIC states. The restraint shown in most of the industrialised nations primarily resulted from the necessary consolidation of budgets, which took priority over investments in equipment and infrastructure. Both the public sector and our other customers, specifically international railway operators, postponed many projects in the first half of 2011. From the railway sector, investments in Germany amounting to around EUR 1,654m flowed to railway infrastructure companies. This corresponds to a mere third of the funds earmarked for the entire financial year. The markets for communication and information systems were also affected by this investment restraint. While the economic stimulus packages led to numerous new tenders, here too, infrastructure projects and placement decisions were postponed.

#### BUSINESS TREND AT FUNKWERK-GROUP AT A GLANCE

The hesitation of global railway operators and public authorities to invest has also affected business at Funkwerk AG. Furthermore, the first half of 2011, and specifically the second quarter, was very much defined by the start of restructuring measures. On the whole, the group's sales volume reduced by around 6 per cent on the corresponding prior-year period, down to EUR 94.3m. Incoming business in the first six months came to EUR 104.2m, after EUR 113.7m in the same period last year, which, however, had been dominated by considerable catch-up effects. The order level increased by over EUR 4m to EUR 111.7m.

As a result, we managed to compensate for the poor volume of business only proportionally through the efficiency increases initiated since 2010. Moreover, the other operating income of EUR 1.9m was significantly lower than in the previous year (EUR 3.8m). The operating EBITDA amounted to EUR 0.2m, thus remaining some EUR 2m below the previous year. Before restructuring and impairments, the operating result totalled EUR -4.0m (2010: EUR -2.1m). Allowing for the restructuring costs, the EBIT amounted to EUR -4.2m, after EUR -2.8m in the previous year. Our financial situation, however, has improved. In the first quarter, we signed a multiyear syndicated loan agreement of EUR 75.5m with three German commercial banks, which was extended in mid-July 2011.

### Segment reporting

#### TRAFFIC AND CONTROL COMMUNICATION (TCC)

Within the framework of our initiated focusing strategy, our largest segment, TCC, is rigorously being centred on train and rail transport. We plan to capitalise on our excellent market position here to generate further growth. TCC, however, is not a rapidly expanding segment; rather, it is defined by long-term decisions and contract periods. In the first half of 2011, TCC generated sales of EUR 45.2m, after EUR 48.6m in 2010. Along with postponed communication system projects, the result was marked by significant advance performances for contracts that have not as yet yielded appropriate revenues. Consequently, the EBIT totalled around EUR 0.2m, remaining quite notably below the appropriate benchmark figure of EUR 1.0m in the previous year.

We enjoy a dominant market position in such sectors as mobile communication systems, and specifically GSM-R. To secure these in the long term, we ensured further development of our range and introduced a new generation of hand-held devices, which is now ready for the market. Known as FocX-devices, they can be used for radio communication both in trains and for shunting operations. We managed to gain a foothold in the rapidly growing Indian market with a contract for initial delivery of around 200 GSM-R mobile radio devices. In our stationary communication systems product group, we commenced with the replacement of the public address system for trains in Sweden. The first of these specially adapted devices were delivered in June, more will be supplied in the third quarter and in 2012.

In information systems, a contract from Deutsche Bahn was among our most notable reorders in the period under review. As part of its quality drive to improve passenger information, the company commissioned us with the extension and upgrading of its information systems. The project involves almost half of all railway stations in Germany. Worth mentioning is also the delivery of LED-displays for logistics warehouses and factories of various industrial customers, primarily in the automobile sector. Due to numerous enquiries, we expect further new contracts to materialise here.



In terms of our electronic interlocking system Alister in the management systems product line, which required significant advance payments over the last few years, we are now clearly turning our focus on the region of Germany and Europe. Alister Cargo for marshalling yards and depots was able to establish itself throughout Europe with 40 installations. The second quarter also saw a number of startups. In Austria, for instance, where we handed over the fifth and sixth interlocking system under a long-term agreement. The depot control system in the Danish town of Fredericia was signed off, initial operation is scheduled for August. Together with a further system, which will also start operating in 2011, Funkwerk will then equip a total of eleven railway control centres in Denmark. Our system is also used at the Gotthard Base Tunnel, the longest railway tunnel in the world. Our industrial management systems product group received major orders from customers in the German energy industry, but we will also equip a water treatment plant Kazakhstan and a gas pressure regulating station in Dorsten with our instrumentation and control systems.

#### SECURITY COMMUNICATION (SC)

Our SC segment focuses on the one hand on emergency call systems used for personal security, but also on video monitoring and surveillance systems for property protection and building security. This market is defined by rapid expansion in which we plan to be firmly involved – through adaptation of our structures into a uniform segment organisation and modernising our product portfolio. From January to June 2011, SC generated sales of around EUR 22.6m and so almost remained steady at prior-year level. The segment's EBIT of EUR – 2.5m notably improved on the prior-year figure of EUR – 4.2m, but remained negative.

In the personal security systems sector, our innovative DECT- and TETRA-technologies with special applications, a rather rapidly growing sector, have helped us gain an excellent market position. This is evident from our volume of business for forensic and correctional facilities. Of the total 325 facilities in Germany, almost half are already using Funkwerk's technology. We also achieved initial sales successes with our new TETRA-FT4 hand-held devices in the top ATEX-protection class, for which we were licensed in the second quarter. In addition, we successfully completed seven projects in correctional and forensic facilities, in hospitals and in the industry, and won twelve tenders.

In our video systems product sector, we received a major contract in the reporting period for a complete, digital surveillance system for a major bank in Frankfurt/Main. In addition, the Fuhlsbüttel correctional facility ordered highly precise pan-tilt cameras as replacement equipment for the facility. For the underground system in Nuremberg, we delivered systems that will help improve security in the storage sidings and counteract increasing vandalism. Furthermore, we provided equipment for WLAN transmission of video images in real time in two new Nuremberg underground stations and the tunnels.

#### AUTOMOTIVE COMMUNICATION (AC)

Our AC segment will in future focus solely on supplying the automobile and lorry industry, i.e. the OEM market. We expect to see significant growth here over the next few years. Our end customer business with products for the automobile after-sales market will in future be discontinued. Our core strengths primarily include technologies for secure and reliable mobile radio reception in vehicles and connecting vehicles to the Internet.

In the first six months of 2011, sales in our AC segment totalled around EUR 12.6m, after EUR 15.1m in the prior-year period. The operating result of EUR –2.0m was burdened by advance performances for our new basic contracts with leading automobile and lorry manufacturers, which we received in the first quarter. These contracts, worth almost EUR 100m in total, will not be reflected in sales until 2013. Business at AC was also marked by strategic reorientation. Our concentration here on the OEM market further required considerable organisational and personnel restructuring. Several measures were already implemented in the reporting period, particularly at our Dabendorf site.

In addition to the basic contracts from the automobile industry, which are based on specially developed software framework from Funkwerk, we were also delighted to receive an order in the telematics sector. To date the largest individual order, it involves the equipment of over 5,000 vehicles. The project is worth over EUR 3m and will be implemented from the third quarter of 2011 over a period of nine months. Our avionics sector reported satisfactory demand for radio equipment and our Mode S transponders.

#### ENTERPRISE COMMUNICATION (EC)

The product spectrum of our EC segment includes TC-systems, intelligent networks for intra-company and cross-company communication, and data security solutions.

At EUR 13.9m, sales here remained stable despite the difficult market environment in Europe and particularly in Southern Europe, ranging at prior-year level and thus within our target. The crucial factor here, primarily, was the fact that we placed our product portfolio in 2010 on a uniform platform and in this connection developed new solutions. Especially our new WLAN-controller and an innovative gateway, but also project business involving branch networking were very much in demand. In terms of smaller and mid-sized TC systems, we were able in the second quarter to win a strategically significant basic contract from an international partner which will be reflected in our sales in the next five years starting from early 2012. The EBIT amounted to EUR -0.1m, after gains of EUR 0.6m in the first half of 2010, which was due largely to the higher scheduled depreciation of capitalised development costs for products launched in 2011. The operating EBITDA in the first six months totalled EUR 0.9m (2010: EUR 1.3m).

### Explanatory notes to the earnings position

The earnings trend in the Funkwerk group remained cautious in the second quarter of 2011. Sales generated between April and June totalled EUR 50.4m to range some 5 per cent below the prior-year figure. In the full first half of the year, consolidated sales aggregated EUR 94.3m. Compared to the benchmark figure in 2010, this means a reduction by around 6 per cent. The necessary reorientation which is hoped to put the company bank onto an income-oriented growth path was initiated in the reporting period, largely in the second quarter of 2011. Therefore, we will not as yet see any positive effects of this, but rather some exceptional charges against earnings. Add to this the hesitation among many key customer groups to invest and the adjustment of our product portfolio since 2010, which, year-on-year, meant the loss of sales shares.

The lower sales level and the notably reduced other operating income compared to the previous year could only be compensated to a degree by increases in efficiency and further cost reduction measures. In consequence thereof, the operating result in the second quarter of 2011 totalled EUR -1.4m, compared to EUR 0.1m in the prior-year period. This puts the operating result for the first six months of 2011 at EUR -4.2m (2010: EUR -2.8m). We also had to make considerable advance payments for product developments and projects.

The increase in efficiency and adjustment of our product portfolio are reflected in the expense items trend over the first six months of 2011. The cost of materials reduced at a disproportionately higher rate than the drop in sales, down by 12 per cent to EUR 46.0m. The gross yield in the first half of 2011 came to EUR 48.9m, compared to EUR 50.4m in the prior-year period. In contrast, the gross yield margin increased from 49.1 per cent to 51.5 per cent. The other operating expenses also reduced. Previously at EUR 15.1m in the 2010 period, they were now down to EUR 14.2m in the reporting period. At EUR 41.0m, personnel costs remained at prior-year level (EUR 40.9m) despite the reduction in workforce, as voluntary and collectively agreed wage increases kicked in again after the two crisis years in 2009 and 2010. We also increased key technology sectors in the group, whereas personnel cuts mainly affected low-wage sectors. In contrast, the other operating income was down by EUR 1.9m, from EUR 3.8m in the 2010 period to EUR 1.9m in 2011. This is due primarily to a notable cut in investment subsidies and lower income from the reversal of reserves. While the first three months of 2011 did not involve bookings of restructuring costs (2010: EUR 0.4m), the figure for the second quarter came to EUR 0.3m (2010: EUR 0.3m). This was predominantly due to consulting costs incurred in connection with our reorientation. The operating result before impairment and restructuring costs totalled EUR -4.0m in the first half of 2011, compared to EUR -2.1m in the prior-year period.

The financial result decreased quite significantly, dropping to EUR -1.1m (2010: EUR -0.5m) in the first six months of 2011. The negative or volatile development of the US dollar certainly proved a detrimental factor here, as Funkwerk frequently handles foreign exchange contracts in this currency and appropriate book losses needed to be posted as at the cutoff date. This was aggravated by costs incurred in connection with the avilment of our credit lines and the conclusion of the syndicated loan agreement. Earnings before taxes amounted to EUR -5.3m, after EUR -3.3m in the prior-year six-month period. Less taxes on income, which rose from EUR 0.2m to EUR 1.0m due to higher deferred tax liabilities, net earnings for the period totalled EUR -6.3m, compared to EUR -3.5m in the first half of 2010. Net earnings per share thus stood at EUR -0.79 in the reporting period.

## Explanatory notes to the financial and asset position

The operating cash flow marginally improved despite the period's higher deficit. In the first half of 2011, it amounted to EUR -11.3m, after EUR -12.2m in the same period last year. This was due especially to increased advances received.

Investment activities in the reporting period required around EUR 6.3m, after EUR 5.1m in the previous year. The free cash flow stood at EUR -17.6m, compared to EUR -18.4m in the first six months of 2010. In terms of financing, the greater use of existing credit lines resulted in an influx of EUR 8.2m, after EUR 3.4m in the prior-year period.

To provide financial stability for Funkwerk AG in the long term, we concluded a multiyear syndicated loan agreement of EUR 75.5m in the reporting period. The loan from three German commercial banks headed by Commerzbank AG has a term of three years with a renewal option of a further two years. It is made up of a revolving money market loan in the amount of EUR 17.5m and a guaranteed credit line of EUR 58m. Funkwerk AG and its subsidiaries have provided collateral for it. The loan was

issued on condition of being granted a government indemnity bond, which we received early in May 2011. It is an 80 per cent indemnity bond for EUR 9.0m of cash credit and a 60 per cent indemnity bond for EUR 10.6m of guaranteed credit. It comes from the Federal Government/Laender programme »Germany funds«, has a term of five years and is tied to a condition usual for government bonds: throughout its term, the majority shareholder of Funkwerk AG must undertake to vote for a retention of earnings at the annual general shareholders' meeting, meaning that no dividend will be paid out.

As at 30 June 2011, our liquid funds totalled around EUR 2.7m, which is around EUR 9.4m less than at the end of 2010.

Total assets in the Funkwerk group marginally reduced by around 1 per cent on the end of 2010, down from EUR 149.7m to EUR 148.4m. On the assets side, long-term assets rose from EUR 49.9m to EUR 51.9m, which was due to higher development costs. Short-term assets in total reduced by some 3 per cent to EUR 96.5m largely on account of the liquid funds.

On the liabilities side, equity reduced primarily due to the period result, down by some 10 per cent to EUR 58.1m. This produced an equity ratio of 39.2 per cent at the end of June 2011, after 43.1 per cent on 31 December 2010. Long-term debt rose on balance, up from EUR 14.5m to EUR 15.2m, while short-term debt increased from EUR 70.8m to EUR 75.1m. One particular factor here was increased financial liabilities, which rose from EUR 0.4m at the end of 2010 to EUR 8.6m.

## Research and development

Research and development are given top priority in each segment of Funkwerk AG. 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 the first six months of 2011, R&D spending added up to EUR 13.7m. We primarily focused on the technological enhancement of our product portfolio to round off our range of solutions and at the same time integrate the latest technologies into our products.

Our SC segment concentrated on the further development of our video management system POSA-Compact and Multisec. Multisec was adapted to include the latest processor technology, so that compact surveillance systems are now available as a single unit. Our Argoscan system for hard shoulder release on motorways was complemented by a comprehensive traffic analysis function. The system automatically recognises traffic disruptions or motorists driving in the wrong direction on the motorway and so is an optimal aid for the operator. We also developed D4-Office as our first professional DECT-handset for pure office use and continued to invest in the development of our Tetra portfolio.

TCC focused its R&D work primarily on the further development and customisation of existing products and systems as part of new contracts. In the second quarter, we also continued working on our electronic interlocking system Alister SIL 4 and are slowly but surely getting closer to obtaining a licence for it.

In AC, we developed a new LTE-Compenser for optimal wireless connection even with weak signals. The LTE-mobile radio standard will primarily provide private homes and companies in rural areas with fast Internet. For this, we have developed a highly efficient external antenna which has met with a positive response from the market.

A further focal point of our extensive development work was the contracts won in spring for OEM business with German automobile manufacturers. In EC, we launched a new VPN-concentrator and pushed ahead with developments for the new IP-based compact telecommunication system, which will be ready for the market by the end of the year.



## Investments

Along with development investments, capital spending at Funkwerk in the first half of 2011 totalled EUR 1.7m, after EUR 0.9m in the previous year. The lion's share in the reporting period, around EUR 1.2m, was invested in tangible assets, particularly in test equipment, tools and production facilities for product launches. A total of EUR 0.5m was invested in intangible assets (without goodwill and capitalised development costs). Fixed-asset depreciation and amortisation of intangible assets amounted to EUR 2.6m (2010: EUR 3.0m).

Capitalised development costs in the Funkwerk group totalled EUR 4.7m (2010: EUR 4.1m), which were opposite depreciation in the amount of EUR 1.6m (2010: EUR 1.3m).

## Employees

At the end of June 2011, Funkwerk employed a workforce of 1,297 (without trainees). The number of employees has therefore remained constant since 31 December 2010. Our reorientation will result in considerable restructuring and a cut in personnel particularly in AC and SC; this will materialise primarily in the latter half of the year.

## Changes to the Supervisory Board

Mr Maximilian Ardelt, Starnberg, resigned from his seat on the Supervisory Board with effect from the end of the annual general meeting on 19 May 2011, at which point he retired from the board. The annual general meeting elected Dr.-Ing. Manfred Egner, Aidlingen, to join the Supervisory Board from the retirement of Mr Ardelt until the end of the shareholders' meeting that will decide on discharge for the 2014 financial year. At its meeting on 19 May 2011, the Supervisory Board confirmed the appointment of Mr Alfons Hörmann as chairman of the board and elected Prof. Dr. Gerhard P. Fettweis as deputy chairman.

## Opportunities and risk report

The existing opportunities and risks for the Funkwerk group along with the structure and setup of the risk management system are described in detail in the 2010 annual report of our company. No new risks have arisen since then which could jeopardise the continued existence of our group. The opportunities and risks for Funkwerk AG did not significantly change in the second quarter of 2011.

## Events after the cutoff date and related party transactionse

The strategic reorientation of our AC segment, which will in future focus exclusively on OEM business, went hand in hand with a restructuring of our Dabendorf site. The workforce here is due to be reduced by around 25 per cent by the end of 2011. The majority of personnel affected was already released at the end of July 2011. The personnel cuts primarily affect the administration, the marketing of after-sales

products, and production adjustments. In contrast, more focus will in future be given to the development sector. The SC segment also underwent organisational changes, as video security and personal emergency communication were combined as a product group. Consequently, we also had to cut some 20 jobs at our Fürth site with effect from the end of July 2011.

Since mid-July, we have funds in the total amount of EUR 75.5m available from the syndicated loan agreement, which we concluded in the first half of 2011. This has clearly improved the financial stability of our company so we are able to plan operations more reliably and effectively.

No other events of special significance that may have an effect on the earnings, financial and asset situation of the Funkwerk group occurred since the conclusion of the reporting period until the signing of this report.

Funkwerk did not enter into any material transactions with related parties.

## Forecasting report

### GENERAL ECONOMIC SETTING

Despite the recent increase in economic risks, the majority of research institutes assumes that the global economy will see positive development over the next few months. The IMF, for instance, expects global growth of around 4.3 per cent for the full year of 2011. The driving factor in the global market will continue to be the expansion in several threshold and developing countries such as the BRIC states. The highest growth rate will likely be seen in China, around 9.6 per cent. The IMF has reduced its figure for the USA to 2.5 per cent, whereas forecasts for Germany were raised to 3.2 per cent and for France, to 2.1 per cent.

To what extent the current turbulences in the global financial markets will impact the global economic trend cannot currently be predicted. A downturn in economic activity would most likely also affect the markets in which Funkwerk operates.

The use of information and communication technology in transport companies, the industry and organisations with security functions is continuing to gain in importance in the medium and long term. As before, these growth opportunities must be seen opposite the debt crisis in key industrialised nations and the necessary budget consolidations. In the medium term, the resulting considerable investment backlog needs to be eliminated, as it jeopardises the efficiency of infrastructures in energy, transport and supply in some areas. We therefore expect to see considerable catch-up effects in the long term. Further growth prospects are opening up with the announced investments in security and the trend towards networked vehicles and networking of terminals with vehicle electronics in the car. As a supplier of integrated solutions, Funkwerk holds an excellent position here.

### EXPECTED DEVELOPMENT OF FUNKWERK-GROUP

2011 will be a difficult year for the Funkwerk group. The company is facing major challenges and needs to implement key restructuring measures that will allow us to grow profitably again in the future. We are also involved in a business that requires a great deal of staying power, as the investments and the lead times for our developments are at times enormous. We have set the course as necessary and defined the key points of our strategic reorientation. Now we need to see to it that these measures are rigorously implemented. In the latter half of the year, we will especially push ahead with our specific focus on core areas. This includes scrutinising all our operations and rigorously discontinuing a number of subsectors.

Against this background, we have adjusted our forecast for the whole of 2011 based on our current group structure and from today's perspective expect but a minor increase in sales on 2010. The operating result without allowing for restructuring costs and impairments will likely be slightly negative. How high the extraordinary burdens will be depends largely on the schedule of upcoming measures. Further adjustments will therefore be necessary in the personnel sector as a result of the restructuring of our business segments. We do, however, expect minor cost savings as early as in 2011 because of our purchasing rationalisation measures which we are currently implementing.

In the long term, the structural and strategic reorientation of the Funkwerk group will bring lasting improvement both in terms of our competitive position and our profit level and, as a result, will increase the credit rating of our company.

Kölleda, in August 2011  
– The Executive Board –

Johann Schmid-Davis

Carsten Ahrens

## Corporate bodies in the reporting period

### SUPERVISORY BOARD

- Alfons Hörmann (Chairman from 18 March 2011), entrepreneur, Wertingen
- Prof. Dr.-Ing. Gerhard Fettweis (Deputy Chairman from 18 March 2011), university professor, Dresden
- Dr. Ing. Manfred Eigner (from 19 May 2011), entrepreneur, Aidlingen
- Maximilian Ardel (until 19 May 2011 and Chairman until 18 March 2011), entrepreneur, Starnberg

### EXECUTIVE BOARD

- Johann M. Schmid-Davis, Masters in Bus. Econ., Finance, Organisation and Investor Relations
- Carsten Ahrens, Graduate Engineer, Business Development, Technology and products
- Dr.-Ing. Hans Grundner (until 19 May 2011)

## FUNKWERK SHARE

### NERVOUS FINANCIAL MARKETS

The trend in the global stock markets over the first six months of 2011 was dominated by strong contrasts. The generally robust condition of the global economy on the one hand led to positive impetus for the share prices. On the other, however, extraordinary events such as the nuclear catastrophe in Japan kept delivering setbacks and prevented a sustainable upward trend. Since the spring, the debt crisis in the euro zone has increasingly been back in the focus of investors and the stock markets have notably become more nervous. This uncertainty was further aggravated towards the middle of the year by the increasingly acute debt problems in the USA. Despite increasing headwind, however, some of the major stock markets managed to close the first half of the year with a gain. Germany's leading index, DAX, for instance, improved by 6.7 per cent on the end of 2010. The technology index TecDAX gained 5.1 per cent.

### FUNKWERK SHARE NEGATIVE – PROSPECTS IMPROVED

Until April, Funkwerk's share developed largely the same as the overall market, with a sideways trend affected by major fluctuations. By mid-year, however, the downward pressure on the price had increased. This was due mainly to the difficult economic setting in key sales markets. The readjustment of our strategy which we had initiated did not as yet have a positive effect on our business because of necessary advances; it did, however, significantly improve the prospects for Funkwerk. The share price in this phase dropped down to our annual low of EUR 5.00. The closing price as at the end of June was EUR 5.37 Euro, down by 25.7 per cent on the closing quotation of EUR 7.23 in 2010.

In July and August 2011, the mood in the financial markets notably deteriorated. The downgrading of the US credit rating by a rating agency, but also major concern over the economic trend in the biggest markets led to major turbulences. Worldwide, stock prices dropped significantly. Funkwerk's share found itself caught up in this downward trend.

The market capitalisation of the 8.1 million Funkwerk shares on 30 June 2011 stood at EUR 43.5m, compared to EUR 58.8m at the end of December 2010.

### INVESTOR RELATIONS ACTIVITIES

Funkwerk AG pursues an active Investor Relations policy. Our current focus is on convincing the financial market of the sustainability of our adjusted strategy. In the first instance, we want to emphasise the successes already achieved through our reorientation and the resulting business potential and make these more transparent. Funkwerk's share is currently rated a buy and sell each by two analysts, one bank is taking a neutral position.

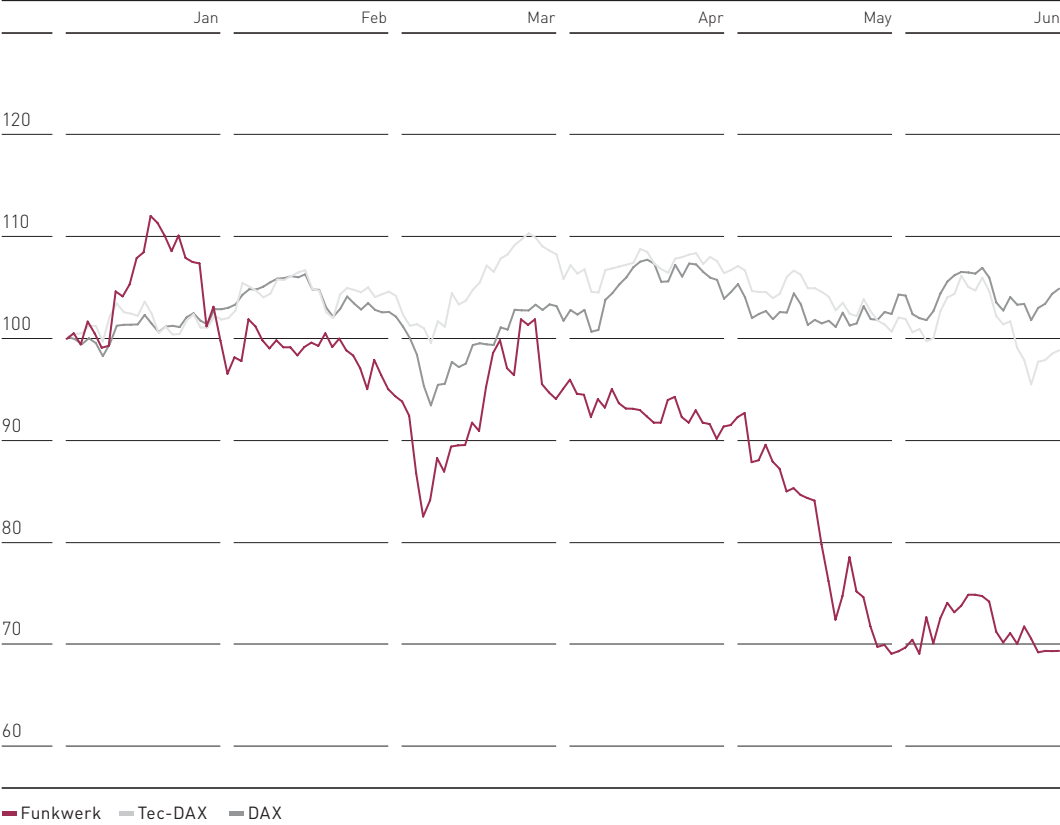
### SHAREHOLDER STRUCTURE UNCHANGED

The shareholder structure of Funkwerk AG remains unchanged: 52.83 per cent of the shares are currently held by HÖRMANN Funkwerk Holding GmbH. 47.17 per cent of the shares were in a free float.

BASIC SHARE INFORMATION

- Listing date: November 15, 2000
- Segment: Prime Standard, Frankfurt Stock Exchange
- Class: No-par bearer share at a nominal value of EUR 1
- WKN/ISIN DE: 575 314/DE 0005753149 (code: FEW)
- Reuters: FEWG.DE
- Bloomberg: FEW GR
- Designated Sponsors: Close Brothers Seydler Bank AG
- Capital stock: 8.102.241 Euro

PERFORMANCE FUNKWERK SHARE (INDICATED TO 100)





# CONSOLIDATED FINANCIAL STATEMENT

## Consolidated Statement of Financial position acc. to IFRS AT 30, JUNE 2011

ASSETS	30/06/2011	31/12/2010
	EUR K	EUR K
<b>A. Long-Term Assets</b>		
1. Intangible assets	38,389	35,658
thereof goodwill	9,161	9,161
thereof development costs	26,565	23,184
2. Tangible assets	13,490	14,224
3. Other assets	43	43
	<b>51,922</b>	<b>49,925</b>
<b>B. Short-Term Asset</b>		
1. Inventories	48,304	43,560
2. Trade accounts receivable	26,476	27,629
3. Receivables from projects in progress	10,131	8,017
4. Due from affiliated companies	52	206
5. Tax refund claims	1,046	1,304
6. Other assets	3,866	3,026
7. Financial assets	3,952	3,969
8. Liquid assets	2,647	12,056
	<b>96,474</b>	<b>99,767</b>
	<b>148,396</b>	<b>149,692</b>

LIABILITIES	30/06/2011	31/12/2010
	EUR K	EUR K
<b>A. Equity Capital</b>		
1. Subscribed capital	8,101	8,101
2. Capital reserve	63,480	63,422
3. Retained earnings	38,211	38,211
4. Own shares	-1,062	-1,062
5. Net loss	-50,311	-43,976
6. Foreign currency items	-291	-237
	<b>58,128</b>	<b>64,459</b>
<b>B. Long-Term Liabilities</b>		
1. Pension obligations	12,544	12,525
2. Deferred investment subsidies	928	874
3. Deferred taxes	1,691	1,071
4. Financial liabilities	0	12
	<b>15,163</b>	<b>14,482</b>
<b>C. Short-Term Liabilities</b>		
1. Financial liabilities	8,617	422
2. Trade accounts payable	27,397	29,368
3. Advance payments received on orders	10,554	8,735
4. Due to affiliated companies	299	56
5. Tax liabilities	3,969	3,867
6. Accrued liabilities	12,753	14,323
7. Deferred investment subsidies	115	138
8. Other liabilities	11,401	13,842
	<b>75,105</b>	<b>70,751</b>
	<b>148,396</b>	<b>149,692</b>

## Statement of Comprehensive Income acc. to IFRS 01/01/2011 TO 30/06/2011

	Q2 2011 01/04/2011 TO 30/06/2011 EUR K	Q2 2010 01/04/2010 TO 30/06/2010 EUR K	Q1 - Q2 2011 01/01/2011 TO 30/06/2011 EUR K	Q1 - Q2 2010 01/01/2010 TO 30/06/2010 EUR K
<b>1. Sales revenues</b>	<b>50,441</b>	<b>53,262</b>	<b>94,329</b>	<b>100,702</b>
2. Increase in finished goods inventories and work in progress	-1,336	-547	597	1,944
3. Other own work capitalised	2,482	1,945	4,691	4,081
4. Other operating income	1,053	2,455	1,863	3,762
<b>5. Total operating performance</b>	<b>52,640</b>	<b>57,115</b>	<b>101,480</b>	<b>110,489</b>
6. Cost of materials	23,746	27,468	46,033	52,287
7. Personnel expenses	20,588	20,120	40,994	40,883
8. Planned depreciation	2,071	2,052	4,217	4,303
9. Other operating expenses	7,341	7,139	14,211	15,126
<b>10. Operating result before impairment charges and restructuring costs</b>	<b>-1,106</b>	<b>336</b>	<b>-3,975</b>	<b>-2,110</b>
11. Restructuring costs	270	253	270	694
<b>12. Operating result (EBIT)</b>	<b>-1,376</b>	<b>83</b>	<b>-4,245</b>	<b>-2,804</b>
13. Earnings from financial assets reported using the equity method	0	-90	0	-290
14. Financial income	3	38	7	126
15. Financial expenses	801	201	1,075	359
<b>16. Financial results</b>	<b>-798</b>	<b>-253</b>	<b>-1,068</b>	<b>-523</b>
<b>17. Earnings before taxes</b>	<b>-2,174</b>	<b>-170</b>	<b>-5,313</b>	<b>-3,327</b>
18. Taxes on income	-307	-431	-1,022	-213
<b>19. Earnings after taxes / result for the period</b>	<b>-2,481</b>	<b>-601</b>	<b>-6,335</b>	<b>-3,540</b>
Amounts directly included in equity				
20. Currency differences	-29	132	-54	102
<b>21. Other period results</b>	<b>-29</b>	<b>132</b>	<b>-54</b>	<b>102</b>
<b>22. Total</b>	<b>-2,510</b>	<b>-469</b>	<b>-6,389</b>	<b>-3,438</b>
<b>The result for the quarter comprises</b>				
Funkwerk AG shareholders	-2,481	-610	-6,335	-3,540
Minority interests	0	9	0	0
<b>The amounts directly included in equity comprise</b>				
Funkwerk AG shareholders	-29	132	-54	102
Minority interests	0	0	0	0
<b>Earnings per share acc. to IAS 33</b>				
Earnings per share (undiluted) in EUR	-0.31	-0.08	-0.79	-0.44
Earnings per share (diluted) in EUR	-0.31	-0.08	-0.79	-0.44

## Consolidated Statement of Cash Flows acc. to IFRS 01/01/2011 TO 30/06/2011

	Q1 – Q2 2011 01/01/2011 TO 30/06/2011 EUR K	Q1 – Q2 2010 01/01/2010 TO 30/06/2010 EUR K
<b>1. Annual result</b>	<b>-6,335</b>	<b>-3,540</b>
2. Income tax revenues/expenditure	1,022	213
3. Depreciation of development costs	1,618	1,259
4. Depreciation of tangible assets and intangible assets	2,599	3,044
5. Earnings from financial assets reported using the equity method	0	290
6. Other non-cash expenditure and income	60	52
7. Reversal of investment subsidies	-67	-112
8. Changes in reserves	-1,823	-681
9. Profit/loss from disposal of fixed assets	66	4
10. Changes in inventories, receivables and other assets	-6,125	-7,529
11. Changes in advance payments received on orders	1,819	-2,163
12. Changes in other debts	-4,365	-2,177
13. Interest income	-7	-126
14. Interest expenditure	434	359
15. Interest paid	-166	-133
16. Interest received	10	7
17. Paid income tax	-53	-997
<b>18. Cash flow from operating activities</b>	<b>-11,313</b>	<b>-12,230</b>
19. Receipts from the disposal of fixed assets	4	3
20. Payments for investments and development costs	-4,668	-4,144
21. Payments for investments in intangible assets without goodwill and development costs	-503	-162
22. Payments for investments in fixed assets	-1,158	-779
23. Receipts from investment subsidies	46	0
24. Payments for the acquisition of consolidated companies less acquired cash and cash equivalents	0	25
25. Payments for deconsolidationg	0	-1,131
<b>26. Cash flow from investing activities</b>	<b>-6,279</b>	<b>-6,188</b>
<b>27. Free cash flow</b>	<b>-17,592</b>	<b>-18,418</b>
28. Receipts from take-up of [financial] credit	8,183	3,399
<b>29. Cash flow from financing activities</b>	<b>8,183</b>	<b>3,399</b>
30. Net change in cash and cash equivalents	-9,409	-15,019
31. Cash and cash equivalents at beginning of period	12,056	22,141
<b>32. Cash and cash equivalents at end of period</b>	<b>2,647</b>	<b>7,122</b>

## Consolidated Statement of Changes in Equity acc. to IFRS

	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE RESERVE	OWN SHARES	NET LOSS	FOREIGN CURRENCY ITEMS	EQUITY OF FUNKWERK AG SHARE- HOLDERS	MINORITY INTERESTS	TOTAL
	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K
<b>December 31, 2009</b>	<b>8,101</b>	<b>63,270</b>	<b>38,211</b>	<b>-1,062</b>	<b>-19,096</b>	<b>-323</b>	<b>89,101</b>	<b>14</b>	<b>89,115</b>
Group profit									
for the period	0	0	0	0	-3,540	0	-3,540	-14	-3,554
Foreign currency									
items	0	0	0	0	0	102	102	0	102
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-3,540</b>	<b>102</b>	<b>-3,438</b>	<b>-14</b>	<b>-3,452</b>
Share options									
(IFRS 2)	0	67	0	0	0	0	67	0	67
Transactions									
with owners	0	67	0	0	0	0	67	0	67
<b>June 30, 2010</b>	<b>8,101</b>	<b>63,337</b>	<b>38,211</b>	<b>-1,062</b>	<b>-22,636</b>	<b>-221</b>	<b>85,730</b>	<b>0</b>	<b>85,730</b>
<b>December 31, 2010</b>	<b>8,101</b>	<b>63,422</b>	<b>38,211</b>	<b>-1,062</b>	<b>-43,976</b>	<b>-237</b>	<b>64,459</b>	<b>0</b>	<b>64,459</b>
Group profit									
for the period	0	0	0	0	-6,335	0	-6,335	0	-6,335
Foreign currency									
items	0	0	0	0	0	-54	-54	0	-54
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-6,335</b>	<b>-54</b>	<b>-6,389</b>	<b>0</b>	<b>-6,389</b>
Share options									
(IFRS 2)	0	58	0	0	0	0	58	0	58
Transactions									
with owners	0	58	0	0	0	0	58	0	58
<b>June 30, 2011</b>	<b>8,101</b>	<b>63,480</b>	<b>38,211</b>	<b>-1,062</b>	<b>-50,311</b>	<b>-291</b>	<b>58,128</b>	<b>0</b>	<b>58,128</b>



## Segment reporting 01/01/2011 TO 30/06/2011

	YEAR	TCC EUR K	AC EUR K	EC EUR K	SC EUR K	GROUP EUR K
Total sales revenues	2011	45,205	12,654	14,006	26,981	98,846
	2010	48,613	15,229	13,965	27,065	104,872
Sales revenues with other business segments*	2011	1	27	69	4,420	4,517
	2010	15	131	105	3,919	4,170
External sales revenues	2011	45,204	12,627	13,937	22,561	94,329
	2010	48,598	15,098	13,860	23,146	100,702
Other operating income	2011	757	620	279	207	1,863
	2010	1,515	706	868	673	3,762
<b>Segment revenues</b>	<b>2011</b>	<b>45,961</b>	<b>13,247</b>	<b>14,216</b>	<b>22,768</b>	<b>96,192</b>
	<b>2010</b>	<b>50,113</b>	<b>15,804</b>	<b>14,728</b>	<b>23,819</b>	<b>104,464</b>
Inventory changes of finished goods and work in progress	2011	-20	73	0	544	597
	2010	2,114	145	0	-315	1,944
Own work capitalised (development)	2011	1,055	1,225	980	1,431	4,691
	2010	666	1,371	1,002	1,042	4,081
Cost of materials	2011	20,284	7,933	6,368	11,448	46,033
	2010	25,147	9,341	6,786	11,013	52,287
Personnel expenses	2011	19,770	5,656	5,088	10,480	40,994
	2010	19,552	5,371	4,852	11,108	40,883
Planned depreciation of fixed assets	2011	903	638	346	712	2,599
	2010	1,306	733	416	589	3,044
Planned depreciation of development work	2011	300	218	530	570	1,618
	2010	96	390	53	720	1,259
Other operating expenses	2011	5,396	2,040	2,883	3,892	14,211
	2010	5,744	1,781	2,811	4,790	15,126
<b>Operating result before restructuring costs</b>	<b>2011</b>	<b>343</b>	<b>-1,940</b>	<b>-19</b>	<b>-2,359</b>	<b>-3,975</b>
	<b>2010</b>	<b>1,048</b>	<b>-296</b>	<b>812</b>	<b>-3,674</b>	<b>-2,110</b>
Restructuring costs	2011	108	40	27	95	270
	2010	4	0	170	520	694
<b>Operating result</b>	<b>2011</b>	<b>235</b>	<b>-1,980</b>	<b>-46</b>	<b>-2,454</b>	<b>-4,245</b>
	<b>2010</b>	<b>1,044</b>	<b>-296</b>	<b>642</b>	<b>-4,194</b>	<b>-2,804</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

## ACCOUNTING PRINCIPLES AND METHODS

The accounts were compiled in Euro in compliance with the International Accounting Standards Board (IASB) passed and published by the International Financial Reporting Standards (IFRS). The accounts are based on the accounting principles and methods applied to the consolidated financial statement for the 2010 financial year.

This interim report has neither been audited under § 317 of the German Commercial Code (HGB) nor reviewed and verified by an auditor.

## OVERVIEW OF COMPANIES OF THE CONSOLIDATED FUNKWERK GROUP

In addition to the parent company, Funkwerk AG, the following companies were included as subsidiaries in the accounts of the company according to the full consolidation method:

DIRECT SUBSIDIARIES	REGISTERED OFFICE	VOTING RIGHTS IN %
Hörmann-Funkwerk Kölleda GmbH (HFWK)	Kölleda, Thuringia	100
ALPHA Meß-Steuer-Regeltechnik GmbH (Alpha)	Neustadt/Weinstraße, Rhineland-Palatinate	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
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 Italy S.R.L.	Milan, Italy	100
Funkwerk Aphona Communications GmbH	Vienna, Austria	100
Funkwerk IP-Appliances GmbH	Nuremberg, Bavaria	100
FunkTech GmbH	Nuremberg, Bavaria	100
Funkwerk Information Technologies Karlsfeld GmbH	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, Bavaria	100
Funkwerk Systems Austria GmbH	Vienna, Austria	100
Funkwerk Akademie GmbH	Beichlingen, Thuringia	100
Funkwerk plettac electronic GmbH	Fürth, Bavaria	100
Funkwerk Electronic Services GmbH	Salzgitter, Lower-Saxony	100
Funkwerk Engineering GmbH	Kiel, Schleswig-Holstein	100

**SEASONAL AND ECONOMIC INFLUENCES**

Seasonal or economic influences exceeding the norm which require reporting or were not already disclosed in the report of the Executive Board did not exist.

**KEY EVENTS**

No events of special significance other than already described in the management report have occurred after the cutoff date on 30 June 2011.

**STATEMENT OF THE EXECUTIVE BOARD**

»In compliance with the generally accepted accounting principles for the interim report, we hereby confirm to the best of our knowledge and belief that the consolidated interim financial statements give a true and fair view of the company's assets, liabilities, financial position, and profit and loss, and that the group management report is an accurate representation of the trend of business of the company including operating result and group situation, and appropriately describes the opportunities and risks of the anticipated future development of the group in the remaining financial year.«

The Executive Board of Funkwerk AG  
Kölleda, August 2011

---

# CORPORATE CALENDAR FOR 2011

April 8, 2011	Publication of the 2010 annual report
May 13, 2011	Disclosure of quarterly report
May 19, 2011	Shareholder´s meeting
August 12, 2011	Disclosure of half-yearly report
September 2011	Analyst-conference
November 11, 2011	Disclosure of nine-monthly report

## INVESTOR RELATIONS CONTACT

Jörg Reichenbach  
Im Funkwerk 5  
99625 Köllda/Thüringen  
Germany  
Phone: +49 (0) 3635 600 – 346  
Fax: +49 (0) 3635 600 – 507  
E-Mail: [ir@funkwerk.com](mailto:ir@funkwerk.com)  
[www.funkwerk.com](http://www.funkwerk.com)

## IMPRINT

Editing and Typesetting: Funkwerk AG, Köllda  
Design, Typesetting and Cover-Photography: Studio Delhi, Mainz

Funkwerk AG  
Im Funkwerk 5  
99625 Kölleda/Thüringen  
[www.funkwerk.com](http://www.funkwerk.com)  
Germany