

INTERIM REPORT Q1/2012

Key Figures

		Q1 2012	Q1 2011
Earnings position (continued operations)			
Sales	EUR m	33.5	35.7
Gross profit	EUR m	17.3	17.7
Gross profit margin	%	50.5	46.9
Operating EBITDA*	EUR m	-1.4	-1.0
Earnings from operations*	EUR m	-2.9	-2.7
Net operating earnings/EBIT	EUR m	-3.1	-2.7
Earnings after taxes/net result for the period	EUR m	-2.2	-3.9
Earnings per share	EUR	-0.49	-0.43
New orders	EUR m	33.5	35.0
Orders on hand	EUR m	97.7	97.5
Asset and financial position			
Total assets	EUR m	135.3	145.2
Equity	EUR m	46.4	60.6
Equity ratio	%	34.3	41.7
Net funds	EUR m	7.9	-1.7
Working capital	EUR m	35.5	37.1
Cash flow (operations)	EUR m	-3.8	-10.4
Employees (end of period excl. trainees/continued sectors)		939	1,015

* before restructuring and impairment costs

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 Systems
- Security Communications
- Security Products

AUTOMOTIVE COMMUNICATION

- Automotive
Communication

Interim Group Management Report

Ladies and gentlemen, dear Shareholders!

In the first quarter of 2012, Funkwerk AG rigorously continued to implement the measures defined for its reorientation. These aim to improve our efficiency at every level and increasingly leverage our traditional strengths again. We are currently focusing primarily on maximising the synergies within our group, a step which involves strict optimisation of our corporate structures. We are also pushing ahead with internationalising our sales operations and improving our supply chain management, and are continuing to focus more on selected growth fields having already achieved a number of key milestones.

We were able, for instance, to finalise the sale of our Enterprise Communication segment by the end of March. We also parted with Funkwerk Avionics GmbH and its pertinent product line operating as part of our Automotive Communication segment. Our remaining operations were restructured to form business units (BUs), which now operate company-wide across all sites. Our Traffic & Control Communication (TCC) segment is now divided into the BUs Infrastructure and Rolling Stock; our Security Communication segment comprises the BUs Video Systems, Security Communication (SC) and Security Products. At Automotive Communication (AC), operations are taken on by a BU of the same name.

To ensure that we are able to expedite this set of measures vigorously – a project that will continue to keep us busy at least for the remainder of this year – Funkwerk's management team has been strengthened with the interim appointment of Dr Christian E. Baur to the Executive Board.

General setting

GLOBAL ECONOMIC ENVIRONMENT

The situation of the global economy gradually improved in early 2012, after a rather more measured pace in the fourth quarter of 2011. According to the IMF (International Monetary Fund), this development was due to such factors as the fact that the Euro countries at times adopted more aggressive policies to solve the debt crisis. A further positive aspect was the pickup in economic activities in the USA. The German economy also currently seems to be inching its way out of a temporary slow-down and, in the

opinion of leading research institutes in their latest spring report, is heading once again towards a robust overall year. This is corroborated by one of the main business climate indicators – the ZEW index – as it climbed further in April 2012, for the fifth time in a row.

SECTOR TREND

Based on the VDB (German Rail Industry Association), Germany's rail technology manufacturers started the year 2012 with a good backlog of orders. This followed on from order levels up by 28 per cent to the new record of EUR 14.5bn in 2011. In the first few months of 2012, this positive demand continued in some subsectors, boosted by the infrastructure acceleration programme launched by the German government. The basic parameters for communication and information systems as subsectors of great importance to us, however, remained rather difficult, especially in the rest of Europe.

In the German market for security technology, the positive trend experienced in the previous year probably continued in early 2012. The BHE (Germany's National Association of Manufacturers and Installers of Security Systems) estimates that electronic security technology sales rose by almost 3 per cent to around EUR 2.7bn. At international level, the signs are also pointing towards growth, though the trend in Europe is somewhat hampered by low investment confidence in the public sector.

In the automobile industry, the VDA (German Automobile Industry Association) has named mainly key international markets such as the USA and China as driving forces behind global vehicle sales. The figures in Western Europe, in contrast, remained poor, with a decline in sales by around 8 per cent in the first quarter. Without the robust German market, which improved by over 1 per cent, the decrease in this region would have been even higher.

Business trend of Funkwerk AG at a glance

In the first quarter of 2012, Funkwerk AG focused on consistently implementing the measures planned for the group's reorientation. At EUR 33.5m, consolidated sales generated by the remaining operations lagged some 6.2 per cent behind the prior-year benchmark figure (EUR 35.7m) primarily because of the group's refocusing strategy and the resulting discontinuation of the after-sales product line in our AC segment. Operating earnings before impairment and restructuring costs totalled EUR –2.9m, and so

proved only marginally less than the appropriately adjusted prior-year figure of EUR -2.7m. Meanwhile, the financial and asset position of the Funkwerk group notably stabilised. Operating cash flow improved from EUR -10.4m in the first quarter to EUR -3.8m, while our free cash flow rose from EUR -13.4m to EUR 3.0m. The equity ratio was up from 30.8 per cent at the end of 2011 to 34.3 per cent. Our net financial position, which works out as the difference between financial liabilities and liquid funds, improved significantly - growing from EUR 4.5m at the end of 2011 to EUR 7.9m on 31 March 2012.

In the first quarter of 2012, our continued operations took in orders worth EUR 33.5m. The order intake thus reduced by EUR 1.5m, or around 4 per cent, on the first quarter of 2011. Similar to the sales trend, the main reason for this decrease is found in the discontinuation of the after-sales market (AC). Related to the segments, orders booked in TCC amounted to EUR 16.7m (2011: EUR 16.0m), while SC took in business worth EUR 12.7m (2011: EUR 13.6m) and AC had new orders coming in at EUR 4.1m (2011: EUR 5.4m). Orders on hand as at 31 March 2012 totalled EUR 97.7m (2011: EUR 97.5m).

The purpose, the segments and the management and control system of the Funkwerk group are described in the 2011 annual report; these did not change in the reporting period. The latest annual report is available for downloading in the Investor Relations/Financial Reporting section of the company's website or can be requested from Funkwerk AG. The consolidated group changed in the first quarter of 2012 due to the sale of Funkwerk Avionics GmbH in Automotive Communication. The company, which generated sales of approx. EUR 3.4m and an annual profit of just under EUR 0.2m with around 23 employees in 2011, was deconsolidated as at 31 March 2012. On 13 January 2012, we also sold our Enterprise Communication segment. The appropriate purchase contract had been signed as early as in October 2011 with the usual reserve of conditions precedent. The deconsolidation of the companies in this segment was effective on 1 January 2012.

Segment reports

TRAFFIC AND CONTROL COMMUNICATION (TCC)

Sales in our TCC segment improved on an adjusted basis, from EUR 16.5m in the relevant prior-year period to EUR 17.6m in the first quarter of 2012. Operating earnings before restructuring and impairment costs of the continued operations amounted to EUR -0.4m (2011: EUR -0.5m).

Since the market in Western Europe is characterised by a high level of equipment, we particularly focused on pushing ahead with the internationalisation of our activities in the reporting period. Several contracts from new customers abroad brought initial success. In Riga (Latvia) and Vladivostok (Russia), for instance, we will be renewing the passenger information systems at the railway stations, and we also received a framework contract from Austria's national railway company, ÖBB, for the supply of LCD displays. In addition, we were able to place further products and services with existing customers of our Infrastructure BU - including Deutsche Bahn AG, where we were instructed to modernise the software at the control centres of DB Netz AG. Our extensive know-how in control and communication systems, but also our knowledge of the customer's processes, in particular, stands us in good stead here. Initial operation is scheduled for 2014. Furthermore, we are involved in a project to provide the control and safety systems of Deutsche Bahn with modern, efficient standard interfaces, and have received a number of maintenance contracts for existing systems - including orders from the USA and Sweden.

In terms of our electronic interlocking system Alister, we expect to obtain formal SIL 4 certification for use in passenger transport in the latter half of 2012. Positive references in numerous countries also lead us to believe that we will see growth, especially at international level, in the cargo, or SIL 2, interlocking systems sector. Furthermore, we received an important reference contract from Germany in the first quarter of 2012. Hamburger Hochbahn AG as the second largest local transport company in Germany commissioned Funkwerk with the supply of an Alister SIL 2 interlocking system for its Saarlandstraße depot. This is the first Alister SIL 2 interlocking system from Funkwerk to be installed in Germany.

In our Rolling Stock BU activities also increasingly focus on the international market. One of the advantages for us here is our lead in GSM-R technology. We are participating in quite a number of global tenders in this sector. Further growth is expected to come from our focX handhelds introduced in 2011 both for train

radio applications and for shunting communication. The first major framework contract here came from Austria. It involves the delivery of more than 2,000 handheld transceivers to the Austria's national railway company (ÖBB) and will run until 2016.

SECURITY COMMUNICATION (SC)

Segment sales in our SC segment increased quarter on quarter, up from EUR 11.2m to around EUR 11.5m. Operating earnings totalled EUR -1.6m, after EUR -1.3m in the previous year.

In our Security Communication BU, the trend towards TETRA systems for personal emergency call equipment continued. We enjoy a unique market position here, particularly with penal facilities, which we plan to use to advantage. Along with penal facilities - where we added new projects in Tonna, Straubing and Diez in the first quarter of 2012 - we also hope to increase our customer base in the industry. We will, for instance, equip a large factory run by a technology corporation in Hanau with a GSM security tracking system. Furthermore, we plan to intensify our foreign business and win new system partners. We also see excellent potential for evacuation systems. Particularly in sectors with increased security requirements, such as the energy sector, it is crucial that the location of staff can be exactly pinpointed in case of hazardous incidents and appropriate measures initiated. We see good opportunities here for Funkwerk because of our market lead in explosion-proof DECT and TETRA equipment, but also our in-depth know-how and excellent position. In addition, we have widened our offering by introducing such products as our new Funkwerk D4 Office, a high-end handheld business unit with comprehensive telephony and messaging functions, which was launched in the first quarter.

Video solutions are used to an increasing degree not only to improve security, but also to manage resources and so, to increase the efficiency - e.g. in traffic management or in large plants. One of the contracts received in the first quarter came from Volkswagen asking us to secure its factory premises in Wolfsburg. We will also be installing a video masking system at the Göttingen penal facility and a video system for visual inspection of the measuring and materials handling systems in the petrochemicals sector in Hamburg.

AUTOMOTIVE COMMUNICATION (AC)

The volume of business in AC reduced as projected due to our now largely completed reorientation, down from EUR 5.8m to EUR 4.3m. We had abandoned our after-sales business in the latter half of 2011, which therefore is still included in the benchmark figure. Instead, we are now focusing exclusively on OEM business with automobile and lorry manufacturers. The segment result was again affected by significant advance payments due for major contracts won in 2011. These contracts involve substantial development costs and investments and will not result in appropriate sales and earnings until presumably the end of 2013. On balance, operating earnings in this segment amounted to EUR -1.0m in the first quarter of 2012 (2011: EUR -0.8m).

Currently the primary issue in our AC segment is connectivity solutions, i.e. the integration of smartphones and other CE devices in vehicles and the connection of vehicles to the outside world. The main challenges facing us here are linking mobile terminals with existing vehicle electronics using modern interfaces such as USB, Bluetooth or WLAN, and networking the car with the Internet. Accordingly, interest in our coupling antenna registered in the first quarter proved significant, as it optimises the reception and is already used by various manufacturers. Technology makers and other tier 1 suppliers increasingly seek us out as development partners for the integration of telephone solutions in the vehicle. Our coupling chamber has been patented, which further proves Funkwerk's expertise in this area. Internally, we completed the restructuring work in development to ensure a more efficient use of resources. Optimising our supply chain management has also shown initial success - especially in terms of inventory management.

Earnings, financial and asset position

SALES AND EARNINGS

In the first quarter of 2012, our strategic reorientation once again necessitated adjustments in the consolidated financial statements of Funkwerk AG. The sales and cost fractions of Funkwerk Avionics GmbH, which was sold at the end of March 2012 in the context of our focusing strategy, and of our sports display product line marketed by our Infrastructure BU in TCC, which we also plan to sell in the further course of 2012, were combined and reported as a cumulative total under »Profit from discontinued operations (after taxes)« in the statement of income and accumulated earnings. To ensure comparability in the earnings statement,

we corrected the prior-year quarterly figures accordingly and adjusted them for the companies sold in the course of 2011. The after-sales business of AC, which was also discontinued in 2011, on the other hand, is included in the comparative figures.

For this reason primarily, consolidated sales of our continued operations reduced by 6.2 per cent in the first quarter of 2012, down to EUR 33.5m on the prior-year benchmark figure. At EUR 0.6m, the other operating income remained more or less steady (2011: EUR 0.7m). Capitalised development costs reduced from EUR 1.7m in the previous year to EUR 1.2m, which includes around EUR 0.9m for developments in our AC segment. In all, our total operating performance in the first quarter of EUR decreased by 10.1 per cent to EUR 36.1m.

In terms of employees, the restructuring measures initiated led to initial positive trends. Personnel expenses reduced by 3.6 per cent to EUR 15.4m, though the consequences of pay-scale and non-pay-scale wage and salary increases granted for the first time again in 2011 were manageable.

Much more significant progress was made in terms of cost of materials, which reduced to a much greater extent than consolidated sales and overall performance, down by 15.0 per cent to EUR 17.0m. At EUR 17.3m, the gross yield (without internally produced and capitalised assets and other operating income) as a result remained at prior-year level (2011: EUR 17.7m) despite the drop in business volume. The gross yield margin improved quite notably from 46.9 per cent to 50.5 per cent. Other operating expenses amounted to EUR 5.1m and so remained virtually stable.

As a result of the savings achieved, operating earnings before impairment and restructuring costs amounted to EUR -2.9m despite the reduced sales volume to remain virtually at prior-year level (EUR -2.7m). Taking restructuring costs of EUR 0.2m (2011: EUR 0) into account, the EBIT totalled EUR -3.1m, after EUR -2.7m in the previous year.

The financial result totalled EUR -0.6m, compared to EUR -0.2m in the prior-year reference period. This decrease was due, on the one hand, to a greater use of short-term loans. The insignificantly higher interest income despite cash inflow from the sale of companies, however, also reflected a rather low market interest rate. In total, consolidated earnings before taxes amounted to EUR -3.7m (2011: EUR -2.9m). Taking into account a tax expenditure of EUR 0.3m (2011: EUR 0.6m), net earnings generated by our continued operations in the first quarter of 2012 aggregated EUR -4.0m, compared to EUR -3.4m in the first three months of 2011. Diluted and undiluted earnings per share for our continued operations stood at EUR -0.49 (2011: EUR -0.43).

Earnings in the discontinued operations accounted for EUR 1.8m (2011: EUR -0.4m), due in the main to the deconsolidation result of our EC segment. Below the line, this led to an overall result up from EUR -3.9m in the prior-year period to EUR -2.2m.

Financial position

The financial position of Funkwerk could be significantly stabilised over the course of the last few months. The successful sale of companies and the related purchase price payments were crucial factors in the funding. This funds inflow also prompted the banking syndicate of the syndicated loan agreement headed by Commerzbank AG on 26 March 2012 to guarantee amendment of the syndicated loan agreement in an addendum. The addendum centres on reducing the loan funds from EUR 75.5m to EUR 50.0m, divided into a cash credit line of EUR 10m and a bank guaranteed credit line of EUR 40m. At the same time, funds from the sales of around EUR 18m 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 was in April 2012.

Liquidity trend

The liquidity outflow from current operations across the group amounted to EUR 3.8m in the reporting period, compared to EUR 10.4m in the first quarter of 2011. This improvement is due primarily to the release of funds to the amount of EUR 3.6m, which had previously been tied up in inventories, trade accounts receivable, and other assets. The funds outflow in the prior-year period had added EUR 4.4m to this item.

The cash flow from investment activities also improved significantly, up from EUR -2.9m to EUR 6.8m. This, in the main, resulted from the most recent company sales, which led to inflows of EUR 8.7m. This inflow is opposite capital investments in fixed assets of EUR 0.6m and for development costs to the amount of EUR 1.2m.

Adding up the cash inflow and outflow, free cash flow for the reporting period totalled EUR 3.0m, after EUR -13.4m in the first quarter of 2011.

The cash flow from financing activities amounted to EUR 2.1m. This figure reflects the utilisation of the revolving money market loan.

Asset position

Our consolidated balance sheet as at 31 March 2012 reduced quite noticeably by EUR 22.6m to EUR 135.5m on the end of 2011. One of the main reasons for this was the successful completion of the sale of Funkwerk Avionics GmbH and our EC segment, both of which were still included in the balance sheet as at 31 December 2011. As these companies are now no longer part of the Funkwerk group, the »Assets held for sale« item on the assets side decreased from EUR 14.6m to EUR 0.1m – the low remaining amount is related to our sports displays product line (TCC) currently earmarked for sale. The »Liabilities held for sale« item on the liabilities side was eliminated as at the end of March. On 31 December 2011, this item had still amounted to EUR 15.7m. In addition, our financial assets reduced from EUR 12.0m to EUR 3.5m because of the complete redemption of shareholder loans, which Funkwerk AG had granted EC and Funkwerk Avionics GmbH.

A further factor on the assets side resulting in a balance sheet contraction was primarily the highly seasonal reduction in trade accounts receivable from EUR 34.0m to EUR 22.5m as at the reporting date. This must be seen particularly alongside the increase in liquid funds from EUR 17.4m to EUR 23.1m due to the sale of companies and the equally seasonal rise in inventories from EUR 35.6m to EUR 37.4m. At EUR 37.2m, the long-term assets barely changed in total, compared to EUR 36.9m previously.

On the liabilities side of the consolidated balance sheet, the most notable aspect other than the sale of our corporate units was primarily the decrease in accounts payable by EUR 6.9m to EUR 21.0m as a direct comparison with the trade accounts receivable. In contrast, the short-term financial liabilities rose on account of the utilisation of money market loans to finance current operations, up by EUR 2.3m to EUR 15.2m. Long-term debt remained virtually stable at EUR 14.2m, after EUR 14.4m in the previous year.

Due to the deficit in the first quarter, equity reduced by EUR 2.3m to EUR 46.4m. As a result, the equity ratio as at 31 March 2012 stood at 34.3 per cent, compared to 30.8 per cent at the end of 2011. It also marginally increased on the equity ratio adjusted for the liabilities held for sale at the end of December (34.2 per cent).

Net cash, i.e. the balance of financial liabilities and liquid funds, also improved from EUR 4.5m at the end of 2011 to EUR 7.9m.

Other performance indicators

INVESTMENTS

In the first three months of the current financial year, Funkwerk invested around EUR 1.8m (2011: EUR 2.1m of continued operations) in fixed and intangible assets. Of this amount, EUR 0.6m were spent on fixed assets in the reporting period and EUR 1.2m on intangible assets with focus on developments for the major contracts in our AC segment.

RESEARCH AND DEVELOPMENT

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 and to improve our efficiency. In the first three months of 2012, R&D spending in the group totalled EUR 5.7m. In terms of sales, this produces a R&D ratio of 17.0 per cent.

The development teams in our TCC segment concentrated primarily on the completion of our electronic public address systems (EPA) in vehicles. As Funkwerk is the first manufacturer to offer such a system based on the SIL 2 safety standard, this product provides us with a unique selling point. Further focus was given to the development of a TFT monitor for outdoor applications and a passenger information system for small and mid-sized transport operators.

A key research project in SC was the Dect-over-IP platform, which we plan to launch before the end of this year. These DECT base transceiver stations can be used, for instance, in large office buildings, but also in penal facilities using the existing Ethernet wiring. We also aim to start marketing our new Universal DECT Security System (UDSS) in 2012. This enables small and mid-sized security applications to be integrated into any DECT infrastructure. Other R&D aspects focused on the further development of our business handheld D4 Office. The revised housing design will be introduced in the first instance at the CeBIT 2013. Focal points at our Video Systems BU included the new compact video ma-

nagement system OptiSave, which comprises up to 16 cameras and covers the entry-level market in the professional segment. In August, we are also planning to launch our IP camera FAC 4000. This HD device was fully developed in-house and includes various features used for professional applications.

Major projects in AC other than project-related developments for the contracts won were the combination of antenna coupling, wireless coupling and charging of mobile phones in the vehicle including Bluetooth and WLAN connection of mobile phones. We also increased our portfolio of LTE home antennas and pushed ahead with redesigning our Compenser, which is due to be introduced in the second quarter. In addition, we are planning to increase our spectrum of telematics solutions – ranging from eCall applications all the way to broadband infotainment services.

EMPLOYEES

At the end of the first quarter 2012, Funkwerk as a group employed 939 people (excluding discontinued operations), which is 76 employees less than the equally adjusted prior-year reference figure. This reduction is due, specifically, to the streamlining of our operating units. Divided into strategic segments, this paints the following picture: 498 employees worked in TCC (2011: 529), 307 in SC (2011: 324), and 134 in AC (2011: 162). In addition, 57 young trainees (2011: 60) at our various sites were prepared for work in commercial and industrial fields and in information technology.

Opportunity and risk report

The existing opportunities and risks for Funkwerk as a group along with the structure and setup of our risk management system are described in detail in our 2011 annual financial statements. The opportunities and risks of the group to date have not significantly changed. As before, we are not facing any risks that may jeopardise the continued existence of our company.

Events after the reporting period

On 19 April 2012, the addendum to the syndicated loan agreement between Funkwerk and the banking syndicate was finalised as described in the chapter on the group's financial position.

With effect from 20 April 2012, the Supervisory Board of Funkwerk AG appointed Dr Christian E. Baur to the group's Executive Board. He will help consistently implement the group's reorien-

tation. Dr Christian E. Baur has more than 16 years of management and consulting experience.

On 7 May 2012, the Executive Board and the Supervisory Board of Funkwerk AG decided to go ahead with the merger of Hörmann-Funkwerk Köllede GmbH (FWK) registered in Köllede (»FWK«) with and into Funkwerk AG. Funkwerk AG will submit the merger contract to its shareholders for approval at the annual general meeting on 22 June 2012. Within the framework of this merger, all assets of FWK will be transferred to the parent company, Funkwerk AG. As a result, FWK will cease to exist once the merger takes effect. This merger is a major milestone in the reorientation of the Funkwerk group, as it helps simplify our corporate structures.

No other events of material importance which may have a significant effect on the earnings, financial and asset position of the Funkwerk group occurred between the end of the reporting period and the signing of this report.

Related party disclosures

No transactions of material importance were concluded with parties related to Funkwerk in the reporting period.

Forecasting report

GENERAL ECONOMIC SETTING

Various research institutes believe that the prospects for the global economy in 2012 have marginally improved on grounds of the overall positive trend at the start of the year. Consequently, several of the forecasts were revised up. In its latest outlook, the IMF, for instance, expects the global economy to grow at 3.5 per cent – up from the 3.3 per cent predicted earlier in the year. This expansion will, however, be driven once more primarily by the emerging markets and developing countries, which are predicted to grow at 5.7 per cent. The industrialised nations will again likely develop on a more moderate level of only 1.4 per cent. The main reason for this is the fact that the economy in the Eurozone is expected to shrink by 0.3 per cent as a result of the difficult conditions in Southern European countries. In contrast, Germany can be expected to grow by 0.6 per cent.

Despite the generally improved economic parameters, the IMF points out that the current upward trend continues to be rather fragile on grounds of the risks still existing in the Eurozone, for instance, and due to the oil price trend.

SECTOR TREND

The German rail sector on the whole is expected to see growth in sales in 2012. Along with excellent order books, one of the contributing factors here will be the infrastructure acceleration programme launched by the German government. This, however, will not benefit all subsectors. As in the previous year, the communication and information systems sector, in particular – as one of our core business areas – will continue to experience difficult conditions.

In view of ever more complex challenges in the transport infrastructure sector, along with increasing security needs of both the authorities and the public, growth in the global market for security technology should continue unabated. Sales especially of video monitoring and surveillance solutions should see further positive momentum. Market analysts believe a gain of over 7 per cent internationally to be feasible in the current year. It remains to be seen here how the persistently low investment confidence in the European public sectors critical to us will develop.

For the automobile industry, the VDA predicts global growth of around 4 per cent in 2012, provided the financial markets can be stabilised. The driving forces behind this growth are in the main expected to be the USA, China and India. Western Europe will, on balance, likely remain at no more than a steady level.

PROSPECTIVE DEVELOPMENT OF FUNKWERK AG

The reorientation initiated in the Funkwerk group will continue to define our course of business throughout the remainder of the year. Over and above our internal tasks, it is the measured trend in our sales markets in particular that poses quite a few challenges for us. In the rail and security sectors, we depend to a significant degree on government authorities; investments here are still rather limited. On the whole, we anticipate a more or less steady level of consolidated sales in 2012. In terms of earnings, we should see initial increases in efficiency presenting us with balanced operating earnings.

Over the next few months, priority will be given in the group to increasing our organisational and cost synergies and to optimising our administrative aspects. In this context, we are currently reviewing all our products and are taking a close look at

our three current sites to see where our products can be manufactured most efficiently. In regard to our planned internationalisation of TCC and SC, we intend to develop existing sales channels and are aiming for strategic partnerships. Focus will also be given to optimising our supply chain management, which goes hand in hand with the installation of a group-wide ERP system.

From 2013, we anticipate growth stimuli to increase sales presumably in the upper single-digit percentage range. As a result, we expect our operating result to be back in the black again.

Kölleda, May 2012

— The Executive Board —



Carsten Ahrens



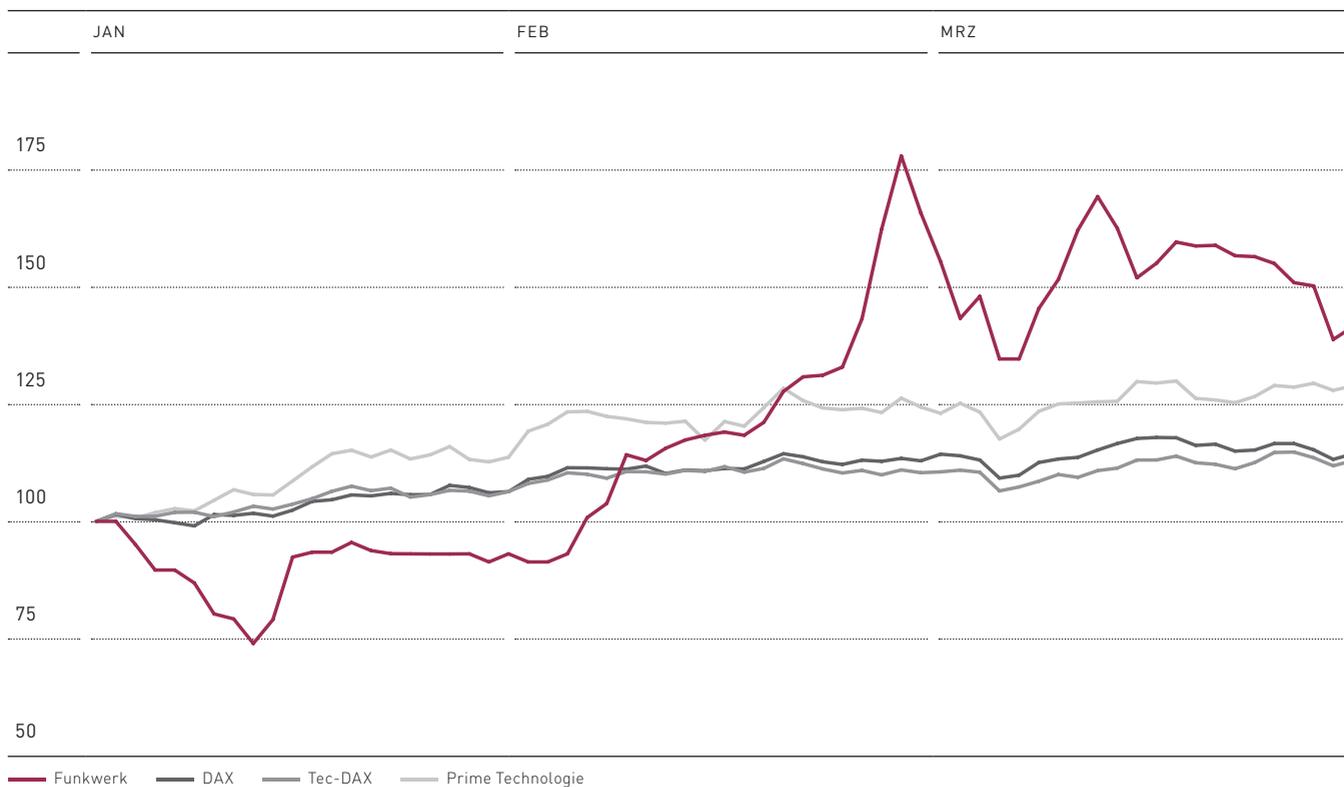
Dr Christian Baur



Johann Schmid-Davis

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

Stock markets with strong starting quarter

The international stock markets saw some drastic price gains in the first quarter of 2012. The good mood of the markets was based on factors such as the fact that the national debt crisis in the Eurozone had temporarily lost some of its horror with fears subsiding, so the global economy could once again slip into a recession. This was added by the exceptionally generous cash provision of the banking sector by the central banks. In Germany, the financial markets were also held up by a largely robust economic development. Against this backdrop, Germany's leading index, DAX, rose impressively by 17.8 per cent in the first three months. The German technology index, TecDAX, recorded a gain of 15.3 per cent.

Funkwerk stock rises on strong gains

Funkwerk's share was among stock recording excellent performance in the first quarter of 2012. Initial losses, which took the share to its rock-bottom price of EUR 2.11 in early January, were quickly overcompensated by the gradual readiness of investors to buy. The catalyst for increasing interest in the share was, among other things, a number of obvious successes in the implementation of our reorientation measures in the company. Furthermore, we were able in January to realise significant inflows of liquidity from the sale of companies and win notable contracts in our defined core business areas in the further course. By the end of February, the price of Funkwerk's share had reached its quarterly peak of EUR 5.15. In the further course of the period, the market eased somewhat again. The closing price at the end of March stood at EUR 4.10, which is a rise of 45.4 per cent on the EUR 2.82 at the end of 2011. The 8.1 million Funkwerk shares had a market capitalisation of EUR 33.2m at the end of the quarter, after EUR 22.8m as at 31 December 2011.

Stock market turnover on up

Funkwerk's share is listed in the Prime Standard of the Frankfurt Stock Exchange and is also traded on the electronic trading platform XETRA and on unofficial regulated markets at all other German stock exchanges. In the first quarter of 2012, a total of around 1.6m Funkwerk shares (2011: 0.75) changed hands. On average, around 24,400 shares were traded on each trading day in this period (2011: 11,70).

Investor Relations activities

Funkwerk AG subscribes to an active information policy providing investors and financial market players with all relevant company data. We do so through prompt publication of price-relevant information in ad-hoc releases and other publications. These primarily include annual and quarterly financial statements and press releases. Comprehensive information is also available at any time on our website at www.funkwerk.com.

A key component of our Investor Relations activities is the dialogue with business press representatives and financial analysts. In March 2012, for instance, we organised a combined analyst and press conference on our financial statements, which will be followed by other events in the further course of the year. Interest is currently focused on explanations of our readjusted corporate strategy and on the resulting measures and prospects for Funkwerk AG.

Shareholder structure remains unchanged

The shareholder structure of Funkwerk AG 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.

Consolidated Financial Statement

Consolidated Statement of Financial position acc. to IFRS at 31 March 2012

ASSETS	31/03/2012	31/12/2011
	€ K	€ K
A. LONG-TERM ASSETS		
1. Intangible assets	25,020	24,607
thereof goodwill	5,425	5,425
thereof development costs	16,954	16,354
2. Tangible assets	12,150	12,252
3. Other assets	4	4
	37,174	36,863
B. SHORT-TERM ASSETS		
1. Inventories	37,358	35,611
2. Trade accounts receivable	22,464	33,991
3. Receivables from projects in progress	7,216	4,733
4. Due from affiliated companies	52	52
5. Tax refund claims	1,136	1,010
6. Other assets	3,262	1,602
7. Financial assets	3,501	11,997
8. Liquid assets	23,114	17,424
9. Long-term assets available for sale	50	14,631
	98,153	121,051
	135,327	157,914

LIABILITIES	31/03/2012	31/12/2011
	€ K	€ K
A. LIABILITIES		
1. Subscribed capital	8,101	8,101
2. Capital reserve	63,537	63,529
3. Retained earnings (revenue reserve)	38,211	38,211
4. Own shares	-1,062	-1,062
5. Net loss for the year	-62,139	-59,915
6. Foreign currency items	-240	-204
Equity of Funkwerk AG shareholders	46,408	48,660
	46,408	48,660
B. LONG-TERM LIABILITIES		
1. Pension obligations	12,675	12,822
2. Deferred investment subsidies	504	517
3. Deferred taxes	1,003	1,066
	14,182	14,405
C. SHORT-TERM LIABILITIES		
1. Financial liabilities	15,236	12,886
2. Trade accounts payable	20,994	27,939
3. Advance payments received on orders	10,253	9,004
4. Due to affiliated companies	357	390
5. Tax liabilities	5,939	5,674
6. Accrued liabilities	9,954	11,532
7. Deferred investment subsidies	78	87
8. Other liabilities	11,926	11,679
9. Liabilities held for sale	0	15,658
	74,737	94,849
	135,327	157,914

Statement of Comprehensive Income acc. to IFRS 01/01/2012 to 31/03/2012

	Q1 2012	Q1 2011
	€ K	€ K
Continued segments		
1. Sales revenues	33,471	35,703
2. Increase in finished goods inventories and work in progress	823	1,933
3. Other own work capitalised	1,182	1,747
4. Other operating income	607	748
5. Total operating performance	36,083	40,131
6. Cost of materials	16,984	19,967
7. Personnel expenses	15,360	15,931
8. Planned depreciation	1,592	1,658
9. Other operating expenses	5,093	5,273
10. Operating result before impairment charges and restructuring costs	-2,946	-2,698
11. Restructuring costs	172	0
12. Operating result / EBIT	-3,118	-2,698
13. Financial income	28	3
14. Financial expenses	583	169
15. Financial results	-555	-166
16. Earnings before taxes	-3,673	-2,864
17. Taxes on income	-303	-579
18. Result of continued segments	-3,976	-3,443
DISCONTINUED OPERATIONS		
19. Result of sold business segments (after tax)	1,752	-411
20. Earnings after taxes / Result for the period	-2,224	-3,854
Amounts directly included in equity		
21. Currency differences	-36	-25
22. Other period results – continued segments	-36	-25
23. Other period results – sold business segments	0	0
24. Total	-2,260	-3,879
THE RESULT FOR THE QUARTER COMPRISES		
Funkwerk AG shareholders	-2,224	-3,854
THE AMOUNTS DIRECTLY INCLUDED IN EQUITY COMPRISE		
Funkwerk AG shareholders	-36	-25
EARNINGS PER SHARE		
Earnings per share (undiluted and diluted)	-0.28	-0.48
EARNINGS PER SHARE CONTINUED SEGMENTS		
Earnings per share (undiluted and diluted)	-0.49	-0.43

Consolidated Statement of Cash flows acc. to IFRS 01/01/2012 to 31/03/2012

	Q1 2012	Q1 2011
	€ K	€ K
1. Annual result	-2,224	-3,854
2. Income tax expenditure	317	715
3. Depreciation of development costs	592	820
4. Depreciation of tangible assets and intangible assets	1,012	1.326
5. Other non-cash expenditure and income	-1,820	9
6. Reversal of investment subsidies	-21	-34
7. Changes in reserves	-1,719	-1,043
8. Profit / loss from disposal of fixed assets	-1	-2
9. Changes in inventories, receivables and other assets	3,570	-4,360
10. Changes in advance payments received on orders	1,249	1,858
11. Changes in other debts	-4,667	-5,780
12. Interest income	-28	-4
13. Interest expenditure	420	178
14. Interest paid	-417	-70
15. Interest received	3	6
16. Paid/received income tax	-86	-208
17. Cash flow from operating activities	-3,820	-10,443
18. Receipts from the disposal of fixed assets	2	2
19. Payments for investments and development costs	-1,182	-2,209
20. Payments for investments in intangible assets without goodwill and development costs	-55	-172
21. Payments for investments in fixed assets	-604	-531
22. Receipts from investment subsidies	11	0
23. Receipts for deconsolidating	8,671	0
24. Cash flow from investing activities	6,843	-2,910
25. Free Cash Flow	3,023	-13,353
26. Receipts from take-up of (financial) credit	2,140	3,574
27. Cash flow from financing activities	2,140	3,574
28. Net change in cash and cash equivalents	5,163	-9,779
29. Cash and cash equivalents at beginning of period	17,951	12,056
30. Cash and cash equivalents at end of period	23,114	2,277

Consolidated Statement of Changes in Equity acc. to IFRS 01/01/2012 to 31/03/2012

	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE REVERSE	OWN SHARES	NET LOSS	FOREIGN CURR. ITEM	EQUITY OF FUNKWERK AG SHARE- HOLDERS
	€ K	€ K	€ K	€ K	€ K	€ K	€ K
December 31, 2010	8,101	63,422	38,211	-1,062	-43,976	-237	64,459
Group profit for the period	0	0	0	0	-3,854	0	-3,854
Foreign currency items	0	0	0	0	0	-25	-25
Total	0	0	0	0	-3,854	-25	-3,879
Share options (IFRS 2)	0	34	0	0	0	0	34
Transactions with owners	0	34	0	0	0	0	34
March 31, 2011	8,101	63,456	38,211	-1,062	-47,830	-262	60,614
December 31, 2011	8,101	63,529	38,211	-1,062	-59,915	-204	48,660
Group profit for the period	0	0	0	0	-2,224	0	-2,224
Foreign currency items	0	0	0	0	0	-36	-36
Total	0	0	0	0	-2,224	-36	-2,260
Share options (IFRS 2)	0	8	0	0	0	0	8
Transactions with owners	0	8	0	0	0	0	8
March 31, 2012	8,101	63,537	38,211	-1,062	-62,139	-240	46,408

Segment Reporting IFRS 01/01/2012 to 31/03/2012

	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	2012	17,857	5,151	0	11,552	34,560			
	2011	19,807	6,678	6,269	13,318	46,072			
Sales revenues with other business segm.*	2012	0	1	0	76	77			
	2011	0	16	26	2,142	2,184			
External sales revenues	2012	17,857	5,150	0	11,476	34,483	-1,128	116	33,471
	2011	19,807	6,662	6,243	11,176	43,888	-10,449	2,264	35,703
Other operating income	2012	1,800	246	0	346	2,392	-1,799	14	607
	2011	311	261	104	134	810	-296	234	748
Segment revenues	2012	19,657	5,396	0	11,822	36,875	-2,927	130	34,078
	2011	20,118	6,923	6,347	11,310	44,698	-10,745	2,498	36,451
Inventory changes of finished goods and work in progress	2012	-671	570	0	924	823	0	0	823
	2011	775	274	0	884	1,933	0	0	1,933
Own work capitalised (development)	2012	51	900	0	231	1,182	0	0	1,182
	2011	561	460	462	726	2,209	-462	0	1,747
Cost of materials	2012	6,267	4,074	0	7,138	17,479	611	116	16,984
	2011	8,839	4,165	2,921	6,362	2,287	4,584	2,264	19,967
Personnel expenses	2012	8,228	2,500	0	5,102	15,830	470	0	15,360
	2011	9,777	2,836	2,571	5,222	20,406	4,475	0	15,931
Planned depreciation of fixed assets	2012	363	301	0	332	996	12	0	984
	2011	471	320	178	357	1,326	224	0	1,102
Planned depreciation of development work	2012	368	0	0	240	608	0	0	608
	2011	148	123	264	285	820	264	0	556
Other operating expenses	2012	2,533	879	0	1,724	5,136	57	14	5,093
	2011	2,668	957	1,281	1,964	6,870	1,831	234	5,273
Betriebsergebnis vor Wertminderungs- und Restrukturierungsaufwendungen	2012	1,278	-888	0	-1,559	-1,169	-1,777	0	-2,946
	2011	-449	-744	-406	-1,270	-2,869	171	0	-2,698
Restrukturierungsaufwendungen	2012	86	26	0	60	172	0	0	172
	2011	0	0	0	0	0	0	0	0
Operating result / EBIT	2012	1,192	-914	0	-1,619	-1,341	-1,777	0	-3,118
	2011	-449	-744	-406	-1,270	-2,869	171	0	-2,698

* 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 2011 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
Funkwerk Dabendorf GmbH (FWD)	Zossen, Brandenburg	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 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 Statkom GmbH	Kölleda, Thuringia	100
Funkwerk plettac electronic GmbH	Fürth, Bavaria	100
Funkwerk Electronic Services GmbH	Salzgitter, Lower-Saxony	100
Funkwerk Engineering GmbH	Kiel, Schleswig-Holstein	100

On 18 October 2011, Funkwerk AG sold 100 per cent of its shares in Funkwerk Enterprise Communications GmbH, (in short: FEC). 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 includes Funkwerk Enterprise Communications GmbH along with 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). The sale excludes the group's inactive subsidiaries in Germany and Spain as well as the controlling interest of Funkwerk Enterprise Communications GmbH in Funkwerk ES Iberia S.L. (Majadahonda/Madrid, Spain).

The deconsolidation of FEC and its subsidiaries took effect on 1 January 2012, so that the Enterprise Communication (EC) segment also ceased to exist at this date. The effect of the deconsolidation on the result is currently running at approx. EUR 1.7m and is reported in the consolidated statement of income and accumulated earnings under »Result of discontinued operations (after tax)«.

On 21 March 2012 the group sold Funkwerk Avionics GmbH (FAV) in Automotive Communication (AC). The deconsolidation took effect on 31 March 2012. The effect of the deconsolidation on the result is currently running at approx. EUR 0.1m here and is also reported in the consolidated statement of income and accumulated earnings under »Result of discontinued operations (after tax)«. In the first three months of fiscal 2012, FAV generated sales to the amount of EUR 824k, with earnings for the period of EUR -29k. For the 2011 financial year, FAV had reported revenues of EUR 3,354k along with annual net profit of EUR 187k. At the time of sale, the company employed 23 people.

The sports display product line integrated in the TCC segment is again classified as a discontinued operation, as is still earmarked for sale.

Earnings of the discontinued operations (after tax) under the item:

SOLD BUSINESS SEGMENTS	Q1 2012	Q1 2011
	IN € K	IN € K
Sales revenues	1,128	10,449
Gross performance	1,220	11,207
Expenditure	1,223	11,378
Operating result	-3	-171
Financial result	-11	-104
Taxes on income	-14	-136
Operating result after tax	-28	-411
Result from the sale of sold business segments	1,780	0
Taxes on income on the result from the sale of sold business segments	0	0
Period result	1,752	-411

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 31 March 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, im Mai 2012

Financial Calendar

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

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