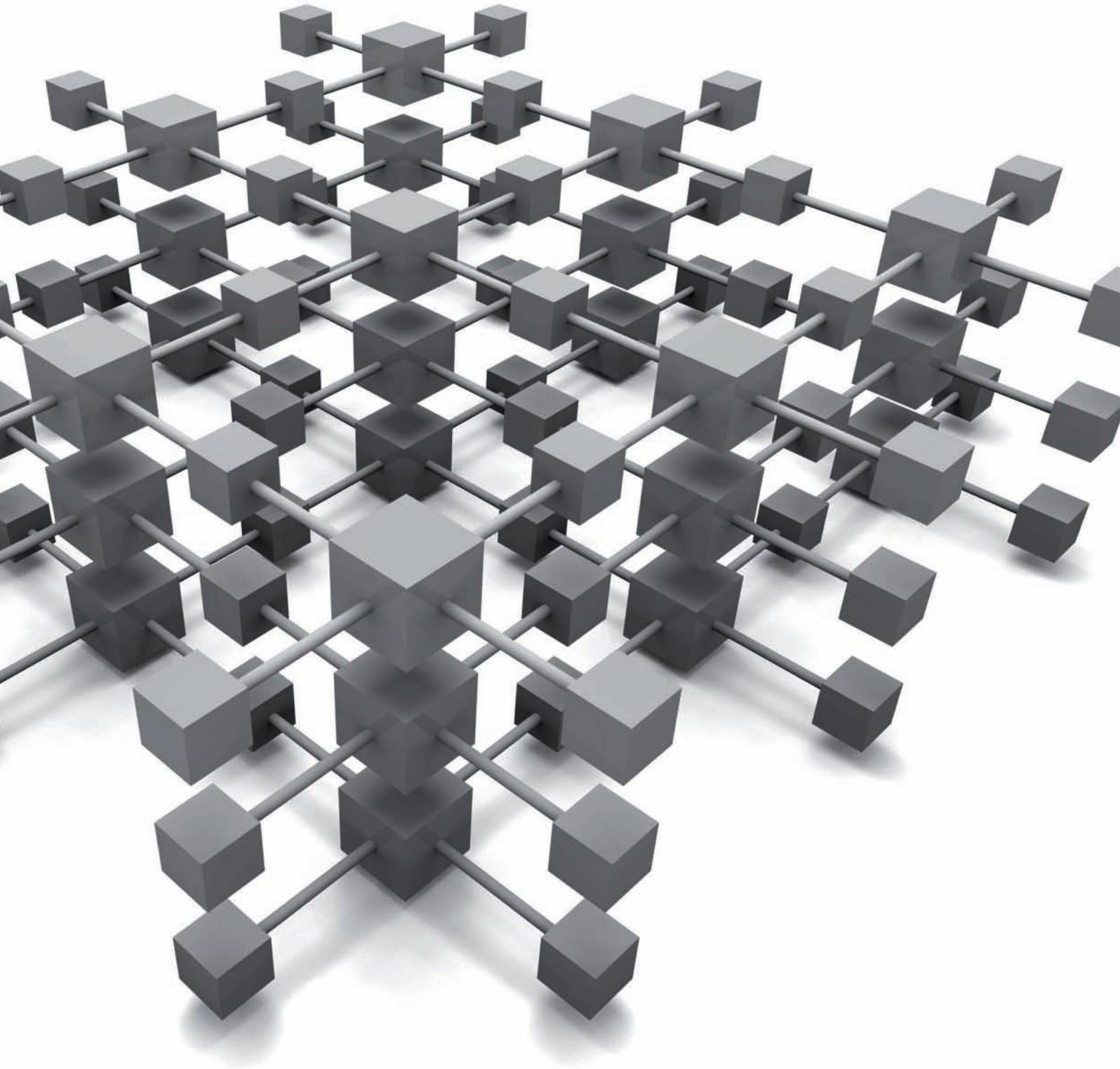


INTERIM REPORT

2 / 2010



KEY DATA

| | Q1-Q2 2010 | Q1-Q2 2009 |
|--|------------|------------|
| | € M | € M |
| Results of operations | | |
| Revenues | 100.7 | 113.9 |
| Gross yield | 54.4 | 62.8 |
| Operating profit* | -2.0 | -5.5 |
| Operating result /EBIT | -2.7 | -5.9 |
| Earnings per share in EUR | -0.43 | -0.58 |
| Receipt of order | 113.7 | 97.9 |
| Order volume | 107.4 | 97.5 |
| Net assets and financial position | | |
| Operating Cash Flow | -12.2 | -23.3 |
| Working Capital | 61.6 | 91.2 |
| Shareholder's Equity | 85.7 | 125.0 |
| Equity ratio (in %) | 54.2 | 60.7 |
| Balance sheet total | 158.3 | 205.9 |
| Employees (annual average) | 1,297 | 1,567 |

*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 (ASM)
- Communication systems (OEM)
- Telematics
- Avionics

ENTERPRISE COMMUNICATION

- Networks
- Voice
- Data security

SECURITY COMMUNICATION

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

GROUP INTERIM MANAGEMENT REPORT

Dear ladies and gentlemen, dear shareholders,

In the second quarter of the 2010 financial year, Funkwerk AG was able to achieve its prime target – a turnaround in operations taking us back into the black. And so our major efforts of restructuring the group in 2009, combined with cuts in personnel, have brought the hoped-for success. In 2010, Funkwerk is back on track to becoming a profitable company.

This is underlined by an increase in incoming business, up by 17 per cent, along with an order book that has grown by as much as 10 per cent on the previous year. With the intake of new orders in the first quarter already up by 22 per cent on the same quarter a year earlier, the second quarter once again improved last year's level by 9 per cent, from €47.8 million to €52.3 million.

General economy and sector trend

After the steep downturn in economic activity in 2009, it seems the recovery of global economy has now also reached Funkwerk, albeit with a slight delay. As a manufacturer of information and communication systems, Funkwerk AG primarily provides infrastructure whose cyclical development generally lags behind both the consumption and investments.

Whereas many economic sectors gained fresh momentum primarily because of the pickup in global trade, we can as yet see much restraint among companies and institutions in venturing investments. In the second quarter, this was nursed particularly by the »debt crisis«, which now forces many industrialised nations to consolidate their budgets. This poses a new risk for transport providers and companies with infrastructure facilities, which greatly depend on public spending.

Consequently, the speed of recovery in the area of professional communication technology – the focal point of our business – remains comparatively measured. The demand of companies and institutions here continues to be well below the level experienced prior to the outbreak of the global economic crisis. Many budgets for communication equipment and information systems were scaled back and have not to date been significantly raised again.

Against this background, sales at Funkwerk in the second quarter of 2010 continued to develop at a somewhat measured pace. While revenues increased by around 12 per cent on the first quarter, to €53.3 million, the figure still remained down on the prior-year period by a good 7 per cent (€57.2 million). This can be put down to the extremely poor level of incoming orders towards the end of 2009, but also comes as a consequence of the restructuring and concentration of our product range, which eliminated a number of sales items.

On the whole, Funkwerk generated sales totalling €100.7 million in the first half of 2010 (2009: €113.9 million), with new business in the amount of €113.7 million (2009: €97.9 million). At €107.4 million, the volume of orders also proves tops the previous year (€97.5 million) by quite a significant amount. It must also be noted here that the decline in sales by around 12 per cent was due predominantly to a deconsolidation effect as well as the politically induced standstill of business activities in Algeria. The figures clearly show that the downturn has bottomed out and recovery has set in again for Funkwerk.

Costs cut by €10 million in first six months

The positive effect of the measures initiated in 2009 to help adjust capacities and cut our fixed costs are beginning to show ever more notably in our statement of comprehensive income. Compared to the previous year, for example, personnel expenses and other operating expenses could be reduced in total by nearly €6 million in the second quarter, or just under €10 million in the first half of 2010. Instead of a quarterly loss of around €3 million, as in 2009, the bottom line for the second quarter of 2010 now shows a positive operating result of €0.1 million.

At group level, this results in earnings before interest and taxes (EBIT) of €-2.7 million in the first six months (2009: €-5.9 million). The negative figure in this period was due almost exclusively to the segment result of €-4.2 million at Security Communication, which could not be fully compensated. The ongoing restructuring brought with it personnel expenses and further charges, which further lowered the segment result by around €0.5 million.

All other business segments generated profit again in the second quarter, some even considerably above our projections. For the first six months, Traffic & Control Communication as well as Enterprise Communication delivered positive earnings contributions, while Automotive Communication managed a largely balanced result below the line.

Due to higher interest and tax expenditure in the group, earnings after interest and taxes totalled €-3.5 million in the first half of 2010 (2009: €-4.8 million). This corresponds to earnings per share of €-0.43 (2009: €-0.58).

Funkwerk expects to see figures rise again in the latter half of 2010, in sales, but primarily also in earnings. One indicator to suggest this is our level of incoming business, which at €52.3 million in the second quarter, was again up on the previous year (€47.8 million). In the first six months of 2010, Funkwerk booked new orders worth €113.7 million (2009: €97.9 million), which somewhat exceeds our projections. Traffic & Control Communication, in particular, followed a highly satisfactory trend.

Business trend by segment

CHANGES FOR SECURITY COMMUNICATION

Development at our Security Communication (SC) segment was still defined by ongoing restructuring and an adjustment of capacities. Organisationally and in terms of products, the various operating units here are currently being integrated and merged, while the business model is realigned. This change once again necessitated restructuring costs of €0.1 million in the second quarter, which will continue in the latter half of the year. The decline in sales on the previous year, brought on by the politically induced discontinuation of our major projects in Algeria, totalled about €10 million and could in parts be compensated in the second quarter.

Business, however, recovered somewhat slower than anticipated. As at the end of June, sales in this segment amounted to €23.1 million (2009: €31.9 million). At €-3.7 million (2009: €-2.5 million), the operating loss here rose further but has peaked now. We expect this figure to reduce again in the further course of the year.

Due to the reorientation, the advanced integration and related synergy effects for Security Communication, business in this segment should, on the whole, be steady with a rising trend and a gradual improvement in the earnings situation. This projection is based on the segment's intake of new orders in the first half of 2010, which at €25.3 million was up by some 13 per cent on the previous year (2009: €22.4 million).

The market launch of our new product range of TETRA radio equipment with special functions for security-related tasks proved highly successful, with initial project placements in the personal security sector. Our product range is continuously increased to the point that we will be able towards the end of the year to address a much larger market. We have also increased our product spectrum of professional DECT radio devices in order to gain a greater foothold in the market and open up the OEM sector. In terms of video monitoring and property protection, we are in the process of modularising such key products as pan-tilt heads, control systems and cameras and scale them for different applications, again to allow us to address a much wider market. Within the scope of our restructuring, we plan to concentrate on building up our product business and make project business more productive by optimising our processes. This should result in further cost cuts.

AUTOMOTIVE COMMUNICATION BACK TO PROFIT IN Q2

Our Automotive Communication (AC) segment was able to break even in the second quarter. In OEM business for the automobile industry, the trend turned to become slightly positive again. This was added by a welcome increase in business with radio transponders in the avionics sector.

On the whole, revenues at Automotive Communication totalled €8.0 million in the second quarter of 2010, up from €6.7 million in the previous year. After almost two years, the segment's operating result in the same period was finally positive again. As a result, AC closed the first half with losses down to only €-0.3 million (2009: €-3.1 million) and therefore was back to a near-balanced result.

Incoming business in this segment remained cautiously positive in the second quarter. At €14.5 million, new orders as at the end of June were up by some 5 per cent on the previous year (€13.8 million). We anticipate that both sales and earnings will remain positive in the latter half of the year, albeit at a lower level. Business with communication equipment for vehicles is not expected to rally significantly until 2011, when new products will go into serial production.

Related to the first six months, sales generated in this segment stood at €15.1 million, improving by over 6 per cent on the previous year (€14.2 million). A key factor in bringing about this increase was our business with radio transponders for small aircraft, whereas sales in vehicle equipment and in telematics continued to stagnate. The after-sales market in particular is battling with disappointing demand, while the automobile industry is handling an increasing level of release orders. Generally, there is a lack of mature products to compensate for the slow-down of serial deliveries.

Over the past few months, however, we were able to win major tenders in the automobile industry for commercial and private motor vehicles. These promise growth again from 2011. In addition, we have successfully launched the Active Antenna as a sideline product of our automotive portfolio. It makes it possible in areas with poor infrastructure, where broadband via the landlines is not possible, to provide good Internet connection via UMTS mobile radio networks. All mobile radio providers have noted great interest.

Highly motivated staff in a stable organisation prepares for future growth, as capacities had already been adjusted to the drop in sales volume in 2009. Consequently, we were able to cut our fixed costs in the first half of 2010 by €1.3 million on the previous year (€-3.1 million), which contributed not only to the increase in sales, but also to a noticeable improvement in earnings by around €2.8 million.

In the automotive sector, Funkwerk addresses a number of target groups, from the after-sales market to commercial vehicles and private cars to avionics and telematics. All target groups increasingly want a wide range of functions integrated into compact models with standard operation. This results in considerable synergies which can be further increased by providing a uniform, generic platform. As a result, Funkwerk has begun work on an appropriate basic design which will make it possible in the future to engage in product developments more effectively through reuse of development results.

ENTERPRISE COMMUNICATION: STEADILY IN THE BLACK

Enterprise Communication (EC) as a segment has now become a reliable profit earner for Funkwerk. Despite heavy pressure from the competition and price squeezes, the business parameters here have improved to the point that business with TC systems, network and data security solutions is profitable even at a comparatively low sales level. Particularly the change in strategy following the restructuring, away from individual devices to complete solutions, will enable us again to grow sales at a sustainable level.

Revenues in this segment continued to develop steadily in the second quarter of 2010 and stood at €13.9 million at the end of June (2009: €16.4 million). It must be borne in mind in a comparison that last year's figure was bumped up by a one-off licence sale worth €2.3 million. Enterprise Communication has reduced the variety of its products and now concentrates on solutions for small to mid-sized companies. As a consequence, it has given up comparatively unprofitable sales potential.

The operating result in this segment continued to improve in the second quarter, standing at €0.7 million at the end of June (2009: €1.8 million). Due to the one-off licence sale of €2.3 million, a comparison with the previous year would only distort the picture.

In the course of the remaining year, we therefore expect a steadily positive contribution to operating income as sales continue to grow at a consistent level. The rate of new orders also remained steady and totalled €14.4 million in the first half of 2010 (2009: €16.0 million incl. licence sale). On account of the completed restructuring of this segment and the discontinuation of unprofitable operations as a result, export declined quite significantly. This could be compensated, however, by an increase in domestic demand. In a new export offensive, together with the introduction of our new IP-based communication platform »Hybird«, it should be possible, as the economic parameters improve, to increase foreign sales from the third quarter.

TRAFFIC & CONTROL COMMUNICATION: GROWING EARNING POWER

Funkwerk's largest segment, Traffic & Control Communication (TCC), managed to get back on track to success in the first half of the year, having eliminated sources of loss and implemented an effective cost cutting programme.

Whereas the first quarter was still defined by declining sales due to the discontinuation of unprofitable peripheral activities and the deconsolidation of Bouyer S.A.S, revenues generated in the second quarter were on the rise again. At €26.1 million, the prior-year figure was exceeded (€25.6 million). Over the six-month period, revenues here totalled €48.6 million (2009: €51.4 million).

Business with communication, management and information systems for transport companies and manufacturers of transport infrastructures is not expected to improve at a more substantial level until the latter half of the year. The improvement may even be more significant than projected. This is indicated by the considerable increase in new orders. At €59.5 million at the end of June, orders were up by 30 per cent on the prior-year benchmark figure (€45.7 million).

The operating result of this segment continued to increase and stood at €1.1 million at the end of June (2009: €–2.2 million). This figure primarily reflects the reduction in personnel expenses, down by €4 million, and the ongoing economy drive. The main contributors to earnings, however, were once again mobile radio systems, whereas the other product groups should manage a positive turnaround in the latter half of the year. This asymmetrical trend is typical in this business. We were able to uphold our market leaderships in passenger information systems for railway companies and in mobile radio terminals with new products. By way of example, we were now also able to introduce our GSM-R radio devices in Australia. In addition, we are about to launch our GSM-R hand-held radio devices and expect good demand here from all railway companies. In terms of mobile information systems for trains, we can report a particularly high level of orders, up by around 200 per cent on the previous year.

We intend to use these market leaderships in the further course of the year as a platform for further growth at international level. As a result, sales at Traffic & Control Communication is expected to rise over the whole year, with earnings in this segment continuing to improve. Once we have obtained approval from the Federal Railway Authority for our innovative electronic interlocking system, »ALISTER«, which we expect to get in the fourth quarter, we can tap further sales potential here.

Explanatory notes to the earnings situation

The earnings situation of Funkwerk AG gradually improved in the first half of 2010. Whereas sales continued to develop at a measured pace with earnings even lower than in the previous year, quarterly sales between April and the end of June were positive again. This is due primarily to the drastic cut in fixed costs as a result of the restructuring and the capacity adjustment in the previous year.

While sales in the first six months of 2010 dropped by a further 11 per cent on the previous year, due among other things to the discontinuation of unprofitable activities and product variants, our operating result on balance improved by over €3 million. As a result, three of our four business segments saw their earning power improve quite significantly in the second quarter to rise above the breakeven point.

Only our Security Communication segment was required account for the standstill of our major projects in Algeria and the ongoing restructuring by combining product groups and locations, thus increasing its deficit in a year-on-year comparison. The segment result of €–4.2 million (2009: €–2.5 million) was decisive for the group loss before interest and taxes of €–2.7 million in the first half of 2010.

Permanent relief of the burden on the statement of comprehensive income of Funkwerk is seen primarily in personnel expenses and the other operating expenses. Due also to the reduction in employees by 270 to 1,297, personnel expenses in the first half of the year fell disproportionately by €7.1 million to €40.9 million. The other operating expenses also reduced by €2.8 million to €15.1 million. In contrast, the cost of materials largely developed on a par with sales, decreasing by around 49 per cent to €52.3 million (2009: €58.9 million), with the gross yield margin remaining constant. The savings achieved in fixed costs thus continued to be higher than the sales-related reduction in gross yield.

Despite reduced sales, this improved the earnings before interest and taxes (EBIT) to €-2.7 million (2009: €-5.9 million). This figure includes one-off restructuring costs of €0.7 million (2009: €0.4 million). In comparison with the previous year, it must be borne in mind here that 2009 saw one-off amounts come in from licence sales worth around €2.3 million.

Due to higher tax payments and negative financial results, the consolidated earnings after taxes thus stood at €-3.5 million (2009: €-4.8 million). This corresponds to a loss per share of €-0.43 (2009: €-0.58).

Explanatory notes to the financial and net worth position

Despite the decline in sales, the measures initiated to adjust our resources and optimise the working capital had a positive effect on the financial and net worth position of the Funkwerk group in the reporting period. Cash flow from operations improved by over €11 million on the previous year. At 54.2 per cent (end of 2009: 53.1 per cent), the equity ratio as a measure of financial stability of a company also continued at an exceptionally high level.

Due to the trend of business, effective inventory management and the impairments effected in the latter half of 2009, total assets reduced considerably on the previous year, down by around 23 per cent to €158.3 million. Compared to the end of 2009, total assets fell somewhat by 6 per cent, or €9.6 million. As expected, the equity decreased to €85.7 million on account of the loss for the period (end of 2009: €89.1 million).

In the reporting period, the working capital was reduced by about €30 million on the previous year, to €61.6 million, primarily with accounts receivable down by around €27 million. In addition, advance payments on orders more than doubled to €5.4 million as a result of consistent inventory management and liquidity control by our management.

The positive trend of working capital, therefore, is decisive for an effective improvement in cash flow from operations. Compared to the prior-year quarter, the operating cash flow rose by around €11 million to €-12.2 million (2009: €-23.3 million). In contrast to the end of 2009, however, the group required €8.7 million in order to prefinance the project orders, along with €3.5 million to finance ongoing operations and the apparent growth. Payments for investments in the reporting period reduced by around 30 per cent on the prior-year quarter, to €5.1 million at the end of June 2010 (2010: €7.6 million), with capitalised development costs amounting to €4.1 million (2009: €5.6 million) and spending on tangible assets at €0.8 million (2009: €1.3 million). Taking into account the deconsolidation effect of Bouyer S.A.S in the amount of €-1.1m, the cash flow from investments came to €-6.2 million (2009: €-5.6 million).

Since Funkwerk generally makes advance payments in the first six months of the year for sales which do not yield a return until the latter half of the year, the operating cash flow is expected to improve effectively from the third quarter. As a result, we expect the operating cash flow to be positive for the whole year. Liquid funds as at 30 June 2010 amounted to €7.1 million to exceed the prior-year level (2009: €4.0 million). Net cash and cash equivalents as at the cutoff date totalled €1.4 million, up by around €5.3 million on the prior-year benchmark of €-3.9 million.

Research and development

Spending on development efforts at Funkwerk is always proportionate to business growth. In addition, we aim to keep up with the latest technological developments in all areas and consolidate our market leadership achieved in specific product fields and applications through innovative solutions.

In the first half of 2010, spending on research and development totalled around € 8 million, which corresponds to around 8 per cent of sales and therefore averages our target range. Product developments made up € 4.1 million, while € 3.9 million were spent on basic developments and product maintenance. The lion's share was allocated to the two major developments, TETRA mobile radio devices and our ALISTER electronic interlocking system.

Employees

With the exception of Security Communication, the personnel and capacity adjustments required in all segments had largely been completed by the end of 2009. In view of the potential growth evident in the second quarter, we sporadically began to hire new staff with outstanding qualifications again. As at June 30, the number of employees reduced by 270, or around 17 per cent, on the previous year to 1,297 (end of June 2009: 1,567). The consolidation of product areas and locations in our Security Communication segment will further reduce the number of employees by the end of the year.

Opportunities and risk report

The main opportunities and risks affecting the asset, financial or earnings position of Funkwerk, along with the risk management system are described in detail in the 2009 annual report of our company. No new aspects have arisen since then. We refer to the risk resulting from the interruption of our Algeria business, where appropriate current assets are still tied up.

Events after the cutoff date and major transactions with affiliated individuals and companies

No events of special note occurred after the cutoff date on June 30, 2010. There were no major transactions with individuals or companies affiliated with Funkwerk.

Forecast and prospects

The surprisingly strong and rapid recovery of the global economy provides a favourable framework for the further development of business at Funkwerk. The International Monetary Fund (IMF) now predicts growth for the global economy of around 4.6 per cent in 2010. At 7 to 10.5 per cent, this trend will likely be stronger in the BRIC states (Brazil, Russia, India and China) and significantly weaker in Europe and western industrialised nations. In the latter – which are key markets for Funkwerk – growth is forecast to range as low as 1 to 3 per cent.

The use of information and communication technology at transport companies, in the industry and at organisations with security functions will continue to gain in importance in the mid to long term. This above-average growth potential must, however, be seen opposite the risk related to the dependence of many of our customers on sufficient funding or state aid. Restrictions, such as have come up again in recent months on account of the debt crisis in western industrialised nations and necessary budget consolidations, could lead to the postponement or even cancellation of projects. This could have a detrimental effect on our further trend of business.

At the same time, technology in this area continues to progress rapidly and poses considerable challenges for Funkwerk to keep up. We can see an increasing number of companies from other sectors pushing in to put pressure on the margins.

Against this background, Funkwerk began in 2009, and continued in the first half of 2010, to concentrate its various business operations and reduce fixed costs to the point that we will be able to get back into the black even if business develops at a slow pace. On the other hand, we have sufficient resources to manage above-average growth – compared to the overall economy.

This is currently most likely in our Traffic & Control Communication segment. Many key areas in information and communication technology provide Funkwerk as a technology leader with sustainable market opportunities, since the train radio systems for local and long-distance rail transport in many countries are due to be renewed or modernised. Due especially to necessary savings in system maintenance, new market segments arise for such cost-effective installations as electronic interlocking systems (ESTW-R), which Funkwerk will increasingly operate.

Automotive Communication has finally bottomed out in the second quarter of 2010 and gives rise to expect a virtually balanced operating result even if business continues to develop at a lower level in the further course of the year. The market penetration of infotainment offers and mobile Internet should further boost the sale of Funkwerk products.

Our Enterprise Communication segment develops steadily even despite intense competitive pressure. It now reliably delivers positive earnings contributions. Comprehensive business solutions and system solutions with new performance features for select industries promise profitable growth here in the medium term, which could be further accelerated through specific cooperation. A problem here as much as in Automotive Communication continues to be the persistence of a demand-driven market for electronic components and the strong dollar.

Security Communication is still in the midst of change. In mid-year, it has not yet negotiated all the recognisable hurdles and risks. But we should see improvements in performance here from as early as the third quarter. The restructuring project initiated will optimise processes and introduce a new business model. The consolidation of operating units will bring with it both cost and sales synergies which should increasingly come in useful.

In order to further optimise our processes, Funkwerk has launched a project introducing a standardised group management information system. This will make it possible to access information based on the same data. The resulting currency and transparency of information should reduce risks.

All things considered, there is currently no reason for Funkwerk to change the targets previously communicated for 2010. Based on the trend of new orders, we believe sales can grow on 2009. With this in mind and our drastic cut in fixed costs, we expect operations to return into the black and confirm our mid-term margin target (EBIT) of 8 per cent.

The Executive Board



Dr.-Ing. Hans Grundner
Chairman of the Board



Johann M. Schmid-Davis,
Chief Financial Officer

Corporate bodies in the reporting period

SUPERVISORY BOARD

- Christian A. Hufnagl (Chairman until 27 May 2010), entrepreneur, Hamburg
- Niels Lund Chrestensen (Member until 27 May 2010), entrepreneur, Erfurt
- Maximilian Ardelt (Deputy Chairman until 27 May 2010 and Chairman from 27 May 2010), entrepreneur, Starnberg
- Alfons Hörmann (Deputy Chairman from 27 May 2010), entrepreneur, Wertingen
- Prof. Dr.-Ing. Gerhard Fettweis (Member from 27 May 2010), university professor, Dresden

EXECUTIVE BOARD

- Dr.-Ing. Hans Grundner (Chairman), Strategy and Business Development
- Johann M. Schmid-Davis, Masters in Bus. Econ., Finance, Organisation and Investor Relations

FUNKWERK-SHARE AND INVESTOR RELATIONS

THE FUNKWERK SHARE: APPRECIATION STABILISED

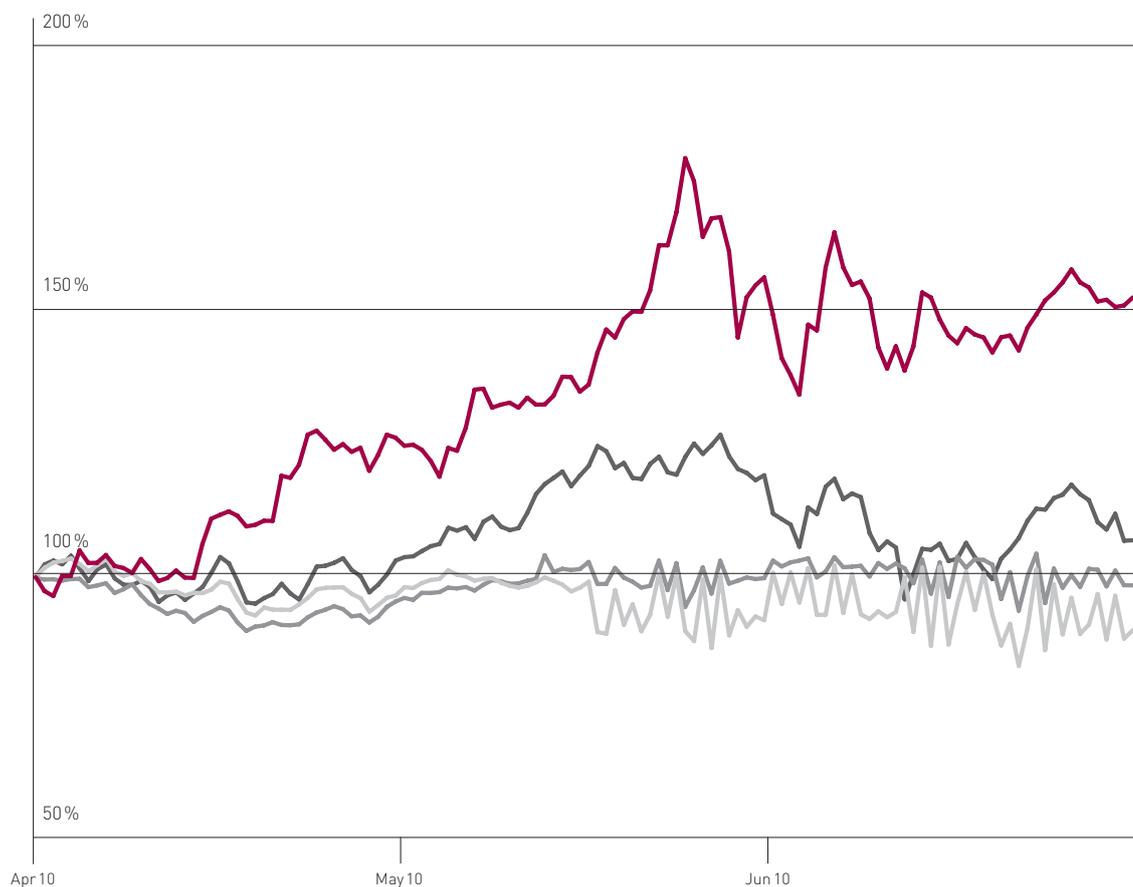
In the second quarter of 2010, Funkwerk's share (ISIN DE0005753149) proved highly resistant to the fluctuations of the general stock market trend. Whereas the relevant German stock indices, DAX and TecDAX, sagged on balance, the value added to Funkwerk AG stabilised. After continuously increasing in the first quarter, the share price initially rose faster still in consequence of the analyst and press conference on the company's financial statements, to reach its current all-time high of €9.65 by mid-April.

While fears of insolvency of Europe's industrial nations and the consequences of the debt crisis caused significant volatility in the stock markets, with the general trend pointing downwards, Funkwerk's share could largely break away. After appreciating by over 80 per cent in only four months, some investors cashed in on the profits, but the share continued to be much in demand. Generally positive, Funkwerk's rating was confirmed at the investor talks and IR road shows carried out in the first half of 2010.

At the end of June, Funkwerk's share stood at €8.06, an appreciation of 51.9 per cent in the first six months of 2010. In contrast, the German stock index, DAX, only just managed to maintain its start-of-year level, while the index for Germany's leading technology companies, TecDAX, lost as much as over 10 per cent in value.

Most analysts currently continue to rate Funkwerk's share a clear buy. The upside targets given all range in the region of €6.50 to €11.60.

PERFORMANCE Q2/2010



Current information on Funkwerk's share along with presentations and reports on the company are available on our website at www.funkwerk.com/investor-relations.

NEW SUPERVISORY BOARD APPOINTED

At the annual general meeting on 27 May 2010, the shareholders of Funkwerk AG appointed a new Supervisory Board for the company. In addition to Mr. Maximilian Ardel as chairman, the board now comprises Prof. Dr. Ing. Gerhard Fettweis, holder of the chair of Mobile Communication Systems at the Technical University in Dresden, as well as Mr. Alfons Hörmann.

The shareholders' meeting also renewed its authorisation to buy own stock up to a share of 10% of the current capital stock (€8,101,241) by the end of 26 May 2015. The time limit only applies to the acquisition, not to ownership of the shares.

The company currently holds a total of 41,579 own shares, or 1.06 per cent of the capital stock.

2010 SHARE OPTION PLAN APPROVED

The shareholders' meeting further approved the proposal submitted by the Executive Board and the Supervisory Board of setting up a new Share Option Plan, as existing plans had come to an end. The current capital stock of €8,101,241 may be conditionally increased by up to €365,000 through issue of no-par bearer shares to grant option rights. Allottees include the Executive Board, managing directors, executives, and employees of Funkwerk AG and affiliated companies.

The lion's share of the Share Option Plan, up to 197,700 shares, are intended for employees. The option rights for the Executive Board are limited to 56,500 shares; for the management, to 48,100 shares; and for executive staff, to 62,700 shares.

FUNKWERK NOW AUTHORISED TO ISSUE CONVERTIBLE AND OPTION BONDS

As a new capital procurement instrument, Funkwerk AG, in principle, can now also issue convertible and option bonds. A proposal by the Executive Board and the Supervisory Board to change the Shareholders' Agreement to that effect was approved at the shareholders' meeting. Accordingly, the Executive Board is now authorised, with the approval of the Supervisory Board, to issue convertible and/or option bonds once or in several stages up to a total par value of €30 million by the end of 26 May 2015 and to grant the holders or creditors option rights to a maximum of 3,200,000 shares of the company. For this purpose, the company's share capital may be increased by up to 3,200,000 shares. The shareholders will always have a preemptive right to these convertible and/or option bonds.

This now also gives Funkwerk AG the possibility of utilising a financing instrument which generally affords attractive capital borrowing terms to the issuing company. It will considerably increase the scope of financing options for our company.

BASIC SHARE INFORMATION

- Segment: Prime Standard, Frankfurt Stock Exchange
- Class: No-par bearer share at a nominal value of €1
- WKN/ISIN DE 575 314 / DE 0005753149 (code: FEW)
- Reuters: FEWG.DE
- Bloomberg: FEW GR
- Designated sponsors: WestLB, Close Brothers Seydler Bank AG
- Market capitalisation: €65.2 m (end of June 2010)

CONSOLIDATED FINANCIAL STATEMENT

Consolidated Statement of Financial position acc. to IFRS at 30, June 2010

| ASSETS | 30/06/2010 | 31/12/2009 |
|--|----------------|----------------|
| | EUR K | EUR K |
| A. Long-Term Assets | | |
| 1. Intangible assets | 35,210 | 32,887 |
| thereof goodwill | 10,168 | 10,161 |
| thereof development costs | 21,377 | 17,487 |
| 2. Tangible assets | 15,409 | 16,804 |
| 3. Financial assets reported using the equity method | 1,240 | 1,530 |
| 4. Other assets | 43 | 67 |
| 5. Deferred taxes | 2,403 | 2,303 |
| | 54,305 | 53,591 |
| B. Short-Term Asset | | |
| 1. Inventories | 48,312 | 42,568 |
| 2. Trade accounts receivable | 25,145 | 25,282 |
| 3. Receivables from projects in progress | 15,699 | 15,206 |
| 4. Due from affiliated companies | 743 | 682 |
| 5. Tax refund claims | 2,118 | 3,955 |
| 6. Other assets | 3,893 | 3,397 |
| 7. Financial assets | 935 | 950 |
| 8. Financial assets | 7,122 | 22,141 |
| 9. Long-term assets available for sale | 0 | 76 |
| | 103,967 | 114,257 |
| | 158,272 | 167,848 |

| LIABILITIES | 30/06/2010 | 31/12/2009 |
|--|----------------|----------------|
| | EUR K | EUR K |
| A. Equity Capital | | |
| 1. Subscribed capital | 8,101 | 8,101 |
| 2. Capital reserve | 63,337 | 63,270 |
| 3. Retained earnings | 38,211 | 38,211 |
| 4. Own shares | -1,062 | -1,062 |
| 5. Net loss | -22,636 | -19,096 |
| 6. Foreign currency items | -221 | -323 |
| Equity of Funkwerk AG shareholders | 85,730 | 89,101 |
| 7. Minority interests | 0 | 14 |
| | 85,730 | 89,115 |
| B. Long-Term Liabilities | | |
| 1. Pension obligations | 11,880 | 13,021 |
| 2. Deferred investment subsidies | 853 | 748 |
| 3. Deferred taxes | 0 | 0 |
| 4. Financial liabilities | 17 | 23 |
| | 12,750 | 13,792 |
| C. Short-Term Liabilities | | |
| 1. Financial liabilities | 5,669 | 2,264 |
| 2. Trade accounts payable | 22,968 | 23,263 |
| 3. Advance payments received on orders | 5,353 | 7,349 |
| 4. Due to affiliated companies | 20 | 58 |
| 5. Tax liabilities | 438 | 2,852 |
| 6. Accrued liabilities | 10,865 | 11,289 |
| 7. Deferred investment subsidies | 186 | 403 |
| 8. Other liabilities | 14,293 | 17,463 |
| | 59,792 | 64,941 |
| | 158,272 | 167,848 |

Statement of Comprehensive Income acc. to IFRS

01/01/2010 to 30/06/2010

| | Q2 2010 | Q2 2009 | Q1-Q2 2010 | Q1-Q2 2009 |
|---|---------------|---------------|----------------|----------------|
| | 01/01/2010 TO | 01/01/2009 TO | 01/01/2010 TO | 01/01/2009 TO |
| | 30/06/2010 | 30/06/2009 | 30/06/2010 | 30/06/2009 |
| | EUR K | EUR K | EUR K | EUR K |
| 1. Sales revenues | 53,262 | 57,204 | 100,702 | 113,944 |
| 2. Change in finished goods inventories and work in progress | -547 | 795 | 1,944 | 2,142 |
| 3. Other own work capitalised | 1,945 | 2,751 | 4,081 | 5,712 |
| 4. Other operating income | 2,455 | 16 | 3,762 | 3,556 |
| 5. Total operating performance | 57,115 | 60,766 | 110,489 | 125,354 |
| 6. Cost of materials | 27,468 | 27,455 | 52,287 | 58,919 |
| 7. Personnel expenses | 20,120 | 24,285 | 40,883 | 47,955 |
| 8. Planned depreciation | 2,052 | 3,084 | 4,303 | 6,172 |
| 9. Other operating expenses | 7,112 | 8,554 | 15,052 | 17,846 |
| 10. Operating result before impairment charges and restructuring costs | 363 | -2,612 | -2,036 | -5,538 |
| 11. Restructuring costs | 253 | 387 | 694 | 387 |
| 12. Operating result (EBIT) | 110 | -2,999 | -2,730 | -5,925 |
| 13. Earnings from financial assets reported using the equity method | -90 | 0 | -290 | 0 |
| 14. Interest and similar income | 38 | 54 | 126 | 117 |
| 15. Interest and similar expenses | 201 | 252 | 359 | 487 |
| 16. Financial results | -253 | -198 | -523 | -370 |
| 17. Earnings before taxes | -143 | -3,197 | -3,253 | -6,295 |
| 18. Taxes on income | -431 | 862 | -213 | 1,702 |
| 19. Other taxes | -27 | -120 | -74 | -251 |
| 20. Earnings after taxes/result for the period | -601 | -2,455 | -3,540 | -4,844 |
| Amounts directly included in equity | | | | |
| 21. Currency differences | 132 | 177 | 102 | 136 |
| 22. Other period results | 132 | 177 | 102 | 136 |
| 23. Total | -469 | -2,278 | -3,438 | -4,708 |
| The result for the quarter comprises | | | | |
| Funkwerk AG shareholders | -610 | -2,435 | -3,540 | -4,809 |
| Minority interests | 9 | -20 | 0 | -35 |
| The amounts directly included in equity comprise | | | | |
| Funkwerk AG shareholders | 132 | 177 | 102 | 136 |
| Minority interests | 0 | 0 | 0 | 0 |
| Earnings per share acc. to IAS 33 | | | | |
| Earnings per share (undiluted) in EUR | -0.08 | -0.30 | -0.44 | -0.60 |
| Earnings per share (diluted) in EUR | -0.07 | -0.29 | -0.43 | -0.58 |

Consolidated Statement of Cash Flows acc. to IFRS

01/01/2010 to 30/06/2010

| | Q1-Q2 2010 | Q1-Q2 2009 |
|--|----------------|----------------|
| | 01/01/2010 TO | 01/01/2009 TO |
| | 30/06/2010 | 30/06/2009 |
| | EUR K | EUR K |
| 1. Annual result | -3,540 | -4,844 |
| 2. Income tax revenues/expenditure | 213 | -1,723 |
| 3. Depreciation of development costs | 1,259 | 2,760 |
| 4. Depreciation of tangible assets and intangible assets | 3,044 | 3,412 |
| 5. Earnings from financial assets reported using the equity method | 290 | 0 |
| 6. Other non-cash expenditure and income | 52 | -2,141 |
| 7. Reversal of investment subsidies | -112 | -95 |
| 8. Changes in reserves | -681 | -920 |
| 9. Profit/loss from disposal of fixed assets | 4 | 179 |
| 10. Changes in inventories, receivables and other assets | -7,529 | -5,514 |
| 11. Changes in advance payments received on orders | -2,163 | -1,369 |
| 12. Changes in other debts | -2,177 | -13,124 |
| 13. Interest and similar income | -126 | -117 |
| 14. Interest and similar expenses | 359 | 487 |
| 15. Interest paid | -133 | -162 |
| 16. Interest received | 7 | 31 |
| 17. Paid income tax | -997 | -166 |
| 18. Cash flow from operating activities | -12,230 | -23,306 |
| 19. Receipts from the disposal of fixed assets | 3 | 15 |
| 20. Payments for investments and development costs | -4,144 | -5,568 |
| 21. Payments for investments in intangible assets without goodwill and development costs | -162 | -730 |
| 22. Payments for investments in fixed assets | -779 | -1,290 |
| 23. Payments for the acquisition of consolidated companies less acquired cash and cash equivalents | 25 | -200 |
| 24. Acquisition of participating interests | 0 | -32 |
| 25. Receipts from the disposal of participating interests | 0 | 2,233 |
| 26. Payments for removal of majority owned shares (including liquid funds) | -1,131 | 0 |
| 27. Cash flow from investing activities | -6,188 | -5,572 |
| 28. Free cash flow | -18,418 | -28,878 |
| 29. Receipts from take-up of (financial) credit | 3,399 | 7,549 |
| 30. Payments for the redemption of loans and (financial) credit | 0 | 0 |
| 31. Receipts/payments due to compensation claims to minority shareholders | 0 | 0 |
| 32. Cash flow from financing activities | 3,399 | 7,549 |
| 33. Net change in cash and cash equivalents | -15,019 | -21,329 |
| 34. Cash and cash equivalents at beginning of period | 22,141 | 25,364 |
| 35. Cash and cash equivalents at end of period | 7,122 | 4,035 |

Consolidated Statement of Changes in Equity acc. to IFRS

| | SUBSCRIBED CAPITAL | CAPITAL RESERVE | REVENUE RESERVE | OWN SHARES | NET PROFIT/ 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 |
| December 31, 2008 | 8,101 | 63,017 | 38,211 | -1,062 | 21,657 | -379 | 129,545 | 11 | 129,556 |
| Group profit for the period | 0 | 0 | 0 | 0 | -4,809 | 0 | -4,809 | -35 | -4,844 |
| Foreign currency items | 0 | 0 | 0 | 0 | 0 | 136 | 136 | 0 | 136 |
| Total | 0 | 0 | 0 | 0 | -4,809 | 136 | -4,673 | -35 | -4,708 |
| Share options (IFRS 2) | 0 | 146 | 0 | 0 | 0 | 0 | 146 | 0 | 146 |
| Change in minority interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -2 | -2 |
| Transactions with owners | 0 | 146 | 0 | 0 | 0 | 0 | 146 | -2 | 144 |
| June 30, 2009 | 8,101 | 63,163 | 38,211 | -1,062 | 16,848 | -243 | 125,018 | -26 | 124,992 |
| December 31, 2009 | 8,101 | 63,270 | 38,211 | -1,062 | -19,096 | -323 | 89,101 | 14 | 89,115 |
| 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 |
| Total | 0 | 0 | 0 | 0 | -3,540 | 102 | -3,438 | -14 | -3,452 |
| Share options (IFRS 2) | 0 | 67 | 0 | 0 | 0 | 0 | 67 | 0 | 67 |
| Change in minority interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transactions with owners | 0 | 67 | 0 | 0 | 0 | 0 | 67 | 0 | 67 |
| June 30, 2010 | 8,101 | 63,337 | 38,211 | -1,062 | -22,636 | -221 | 85,730 | 0 | 85,730 |

Segment reporting

01/01/2010 to 30/06/2010

| | YEAR | TCC EUR K | AC EUR K | EC EUR K | SC EUR K | GROUP EUR K |
|---|-------------|---------------|---------------|---------------|---------------|----------------|
| Total sales revenues | 2010 | 48,613 | 15,229 | 13,965 | 27,065 | 104,872 |
| | 2009 | 51,494 | 14,265 | 16,790 | 36,492 | 119,041 |
| Sales revenues with other business segments* | 2010 | 15 | 131 | 105 | 3,919 | 4,170 |
| | 2009 | 74 | 32 | 413 | 4,578 | 5,097 |
| External sales revenues | 2010 | 48,598 | 15,098 | 13,860 | 23,146 | 100,702 |
| | 2009 | 51,420 | 14,233 | 16,377 | 31,914 | 113,944 |
| Other operating income | 2010 | 1,515 | 706 | 868 | 673 | 3,762 |
| | 2009 | 1,599 | 644 | 876 | 437 | 3,556 |
| Segment revenues | 2010 | 50,113 | 15,804 | 14,728 | 23,819 | 104,464 |
| | 2009 | 53,019 | 14,877 | 17,253 | 32,351 | 117,500 |
| Inventory changes of finished goods and work in progress | 2010 | 2,114 | 145 | 0 | -315 | 1,994 |
| | 2009 | 1,159 | 389 | 0 | 594 | 2,142 |
| Own work capitalised (development) | 2010 | 666 | 1,371 | 1,002 | 1,042 | 4,081 |
| | 2009 | 1,604 | 1,720 | 1,029 | 1,359 | 5,712 |
| Cost of materials | 2010 | 25,147 | 9,341 | 6,786 | 11,013 | 52,287 |
| | 2009 | 25,440 | 9,289 | 7,172 | 17,018 | 58,919 |
| Personnel expenses | 2010 | 19,552 | 5,371 | 4,852 | 11,108 | 40,883 |
| | 2009 | 23,824 | 6,194 | 5,204 | 12,733 | 47,955 |
| Planned depreciation of fixed assets | 2010 | 1,306 | 733 | 416 | 589 | 3,044 |
| | 2009 | 1,423 | 835 | 402 | 752 | 3,412 |
| Planned depreciation of development work | 2010 | 96 | 390 | 53 | 720 | 1,259 |
| | 2009 | 377 | 1,180 | 758 | 445 | 2,760 |
| Other operating expenses | 2010 | 5,717 | 1,772 | 2,785 | 4,778 | 15,052 |
| | 2009 | 6,877 | 2,164 | 2,930 | 5,875 | 17,846 |
| Operating result before impairment charges and restructuring costs | 2010 | 1,075 | -287 | 838 | -3,662 | -2,036 |
| | 2009 | -2,159 | -2,676 | 1,816 | -2,519 | -5,538 |
| Restructuring costs | 2010 | 4 | 0 | 170 | 520 | 694 |
| | 2009 | 0 | 387 | 0 | 0 | 387 |
| Operating result | 2010 | 1,071 | -287 | 668 | -4,182 | -2,730 |
| | 2009 | -2,159 | -3,063 | 1,816 | -2,519 | -5,925 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2009 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) | Nürnberg, 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. | Mailand, Italy | 100 |
| Funkwerk Aphona Communications GmbH | Wien, Austria | 100 |
| Funkwerk IP-Appliances GmbH | Nürnberg, Bavaria | 100 |
| FunkTech GmbH | Nürnberg, Bavaria | 100 |
| Funkwerk Information Technologies Karlsfeld GmbH (FITK) | Karlsfeld, Bavaria | 100 |
| Funkwerk Information Technologies York Limited | York, Great Britain | 100 |
| Funkwerk Information Technologies Malmö AB | Malmö, Sweden | 100 |
| Funkwerk IT Polska Sp. Z.o.o. | Warschau, Poland | 100 |
| Microsyst Systemelectronic GmbH | Weiden, Bavaria | 100 |
| Funkwerk Systems Austria GmbH | Wien, Austria | 100 |
| Funkwerk Ungarn Kft. | Budapest, Hungary | 100 |
| Funkwerk Akademie GmbH | Beichlingen, Thuringia | 100 |
| Funkwerk plettac electronic GmbH | Fürth, Bavaria | 100 |
| Funkwerk Electronic Services GmbH (FES) | Salzgitter, Lower-Saxony | 100 |
| Funkwerk Engineering GmbH | Kiel, Schleswig-Holstein | 100 |

On January 12th 2010 the management of Funkwerk's subsidiary Bouyer S.A.S., based in Montauban France, has requested the opening of insolvency proceedings. Because of the loss of control, the subsidiary was deconsolidated per January 1st 2010. Funkwerk has made the relevant provisions regarding its engagement already in 2009, resulting in no effect on the group profit and loss statement from this deconsolidation.

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

Following the preparation of the reporting date June 30, 2010, there have been no key events that might have a major influence on our business operations.

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
Köllede, August 2010

CORPORATE CALENDAR FOR 2010

March 31, 2010 Balance sheet press conference

May 12, 2010 Disclosure of quarterly report

May 27, 2010 Shareholders' Meeting

August 12, 2010 Disclosure of half-yearly report

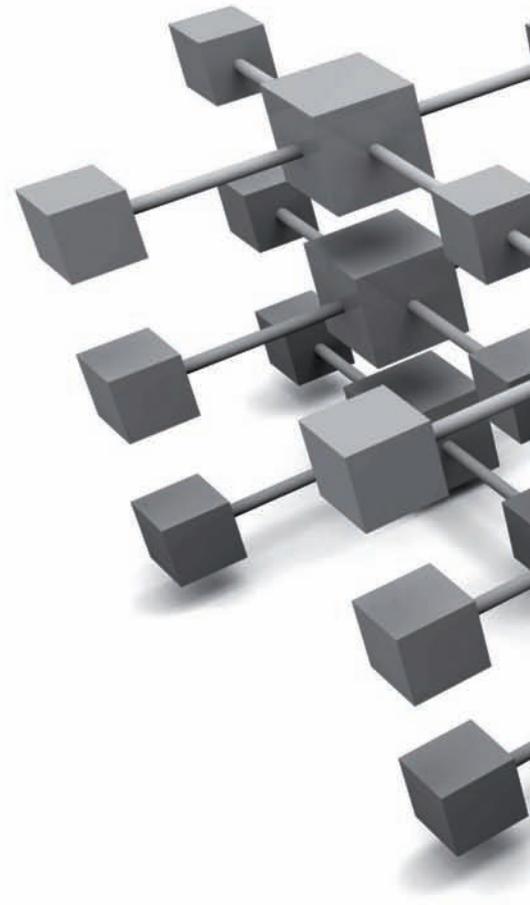
November 10, 2010 Disclosure of nine-monthly report

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IMPRINT

Editing: Funkwerk AG, Kölleda
Design and Typesetting: Studio Delhi, Mainz



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