

INTERIM REPORT 2/2012

Key Figures

		Q1-Q2 2012	Q1-Q2 2011
Earnings position (continued operations)			
Sales	EUR m	74.1	75.5
Gross profit	EUR m	36.2	36.0
Gross profit margin	%	50.3	47.3
Operating EBITDA*	EUR m	-1.5	-1.2
Earnings from operations*	EUR m	-4.5	-4.4
Net operating earnings/EBIT	EUR m	-5.5	-4.7
Earnings after taxes/net result for the period	EUR m	-7.5	-6.2
Earnings per share	EUR	-0.93	-0.77
New orders	EUR m	71.7	83.6
Orders on hand	EUR m	95.4	106.1
Asset and financial position			
		30/06/2012	31/12/2011
Total assets	EUR m	113.7	157.9
Equity	EUR m	42.9	48.7
Equity ratio	EUR m	37.7	30.8
Net funds	EUR m	0.8	4.5
Working capital	%	36.6	46.7
Cash flow (operations)	EUR m	-9.3	-11.3
Employees (end of period excl. trainees/continued sectors)		923	1,008

* 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

- BU Infrastructure
- BU Rolling Stock

SECURITY COMMUNICATION

- BU Videosystems
- BU Security communications
- BU Security products

AUTOMOTIVE COMMUNICATION

- BU Automotive Communication

Interim Group Management Report

Business and general setting

GLOBAL ECONOMIC ENVIRONMENT

After a temporary respite earlier in the year, the global economy subsequently lost its momentum in the second quarter of 2012. The IMF (International Monetary Fund) puts this development down primarily to the increasing severity of the debt crisis in a number of eurozone countries resulting in mounting tension in the financial markets. The economy in various significant emerging markets, but equally in the USA, developed less than expected. Following a robust first quarter in 2012 in which the Federal Statistical Office confirmed a rise in the gross domestic product by 0.5% on the previous quarter, the German economy also showed signs of a slowdown. An indicative factor here was the trend of the ifo and ZEW indices in the second quarter.

SECTOR TREND

In the first half of 2012, the German rail industry benefited from a backlog of orders which, according to the German Rail Industry Association, VDB, was due to the excellent trend of demand in 2011 with a record level of orders amounting to EUR 14.5bn. While the positive order situation continued in the first few months of 2012 despite the slowing economic pace, and was additionally boosted in the rail infrastructure sector by the infrastructure acceleration programme launched by the German government, not all subsectors benefited from these stimuli. The parameters for communication and information systems as a key area of activity for Funkwerk, for instance, remained difficult — a trend that could also be observed in other European countries.

In Germany, the market for security technology continued its upward trend from the previous year. According to Germany's National Association of Manufacturers and Installers of Security Systems, BHE, sales in this sector rose more notably than expected in 2011, up by 4.1 per cent to EUR 2.7bn. The most significant increase was observed in video monitoring and surveillance technology, which improved by 5.0 per cent to EUR 395m. Outside Germany, security technology also remained a growth market despite the fact that the development in Europe was hampered by low investment confidence in the public sector.

The trend of business in the international automobile industry throughout the first half of 2012 remained positive on the whole. According to the German Automobile Industry Association, VDA, the USA, China, India, Japan and Russia, in particular, saw dynamic levels of demand. Vehicle sales in Western Europe, in contrast, were already decreasing specifically due to the weaknesses in Italy, Spain and France. Domestic sales and vehicle pro-

duction in Germany remained roughly at prior-year level. The commercial vehicle sector, meanwhile, showed first signs of a cyclical downturn.

REORIENTATION OF THE FUNKWERK GROUP

Funkwerk AG continued in the first half of 2012 to focus on restructuring its operations for a full repositioning of the group. The main features of our programme, which had been initiated in 2011, are detailed in the latest 2011 annual report, along with the purpose, the segments and the management and control system of the Funkwerk group. This report is available for downloading in the Investor Relations/Financial Reporting section on the company's website or can be requested from Funkwerk AG.

In the first six months of 2012 we were able in the context of our focusing strategy to finalise the sale of further companies which are not part of our core business. Funkwerk Avionics GmbH in Automotive Communication was sold in the first quarter, while the sale of our Enterprise Communication segment became legally effective on 13 January 2012. The sports display product line of Funkwerk Information Technologies Karlsfeld GmbH was divested in July 2012.

Priority was also given in the reporting year to the cost and organisational synergies existing in the group. These are to be improved to regain our earning power. In this context, we have started to install a group-wide ERP system. To enhance and refine our product portfolio methodically, we are specifically investing in key components. At the same time, we are streamlining our spectrum. As a result, we are concentrating strictly on products with strong margins and intend to market them more widely. In sales, we are expediting the internationalisation of our operations. We are systematically addressing new sales regions here, which we plan to access primarily through appropriate partnerships. A further focal point in our restructuring is the optimisation of our production processes with the aim of increasing our efficiency. For this purpose, we are improving the utilised capacity and productivity of our existing facilities and are rigorously outsourcing standard jobs.

ENLARGEMENT OF THE EXECUTIVE BOARD

In order to ensure that we are in a position to expedite this set of challenging measures at the required pace without neglecting our operations, an addition was made to the Executive Board of Funkwerk in the first half of 2012. Since April 2012, restructuring expert Dr Baur, Managing Director of consulting firm Alvarez & Marsal Germany, has been reinforcing the Executive Board on a temporary basis as Chief Restructuring Officer (CRO) to help con-

sistently implement the group's reorientation. Focus is given to establishing a basis for effective, profitable growth in the defined national and international sales markets. In this function Dr Baur is responsible for the group's complete reorientation (fitness programme), the Security Communication and Automotive Communication segments, and the Operations and IT departments.

MERGER OF HÖRMANN-FUNKWERK KÖLLEDA GMBH WITH AND INTO FUNKWERK AG

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 (HFWK) registered in Köllede with and into Funkwerk AG. The appropriate contract was approved at the shareholders' meeting on 22 June 2012. Within the framework of this merger, all assets of HFWK will be transferred to Funkwerk AG. As a result, HFWK 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 to improve our corporate structures and simplify our processes. Details of the merger are provided under »Events after the reporting period«.

BUSINESS TREND AT A GLANCE

At EUR 74.1m, consolidated sales generated by our continued operations remained marginally below the comparative prior-year figure of EUR 75.5m. The main reason here was the discontinuation of the group's AC after-sales business in mid-2011, which is still included in the figures for 2011. A quarter-on-quarter comparison reveals a positive trend. Whereas revenues in the first three months still lagged some 6 per cent behind the prior-year level, consolidated sales between April and June improved by around 2 per cent to EUR 40.7m. Operating earnings before impairment and restructuring costs totalled EUR -4.5m and so proved only marginally less than the prior-year figure of EUR -4.4m. Net earnings per share in the continued operations amounted to EUR -0.93 (2011: EUR -0.77). The financial and asset position of the Funkwerk group notably stabilised as a result of finalising the sale of our businesses. The equity ratio was up from 30.8 per cent at the end of 2011 to 37.7 per cent. Operating cash flow improved from EUR -11.3m in the first half of 2011 to EUR -9.3m, while our free cash flow rose from EUR -17.6m to EUR -4.0m.

New orders in the group totalled EUR 71.7m in the first half of 2012 (2011: EUR 83.6m). Compared to the benchmark period in 2011 adjusted for our sold divisions, incoming orders thus reduced by around 14 per cent. This is due largely to the abandonment of the after-sales market in AC and a returned order from 2011 worth around EUR 2.9, which is described in more detail under TCC in the following segment report. Relating to segments, orders booked in TCC amounted to EUR 35.2m (2011: EUR 39.0m), while

SC took in business worth EUR 29.0 (2011: EUR 30.4m), and AC had new orders coming in at EUR 7.5m (2011: EUR 14.2m). Orders on hand as at 30 June 2012 aggregated EUR 95.4m (2011: EUR 106.1m).

Segment report

TRAFFIC AND CONTROL COMMUNICATION (TCC)

Sales in our TCC segment totalled EUR 38.8m in the first half of 2012 contributing around 52 per cent to the total volume of consolidated sales. The prior-year figure of EUR 45.2m included EUR 7.7m attributable to the discontinued operations, whereas the current reporting period required an adjustment of EUR 0.3m for the sports display product line sold in July 2012. Adjusted for these units, segment sales in a six-month comparison rose marginally from EUR 37.5m to EUR 38.5m. The EBIT for the first six months amounted to EUR 0.7m (2011: EUR 0.2m). In the current financial year, around EUR 1.7m of this amount must be deducted for sold operations or units held for sale, compared to EUR 0.1m in the benchmark period. On an adjusted basis, the EBIT totalled EUR -0.9m (2011: EUR +0.1m)

Our Infrastructure BU was faced with a delay regarding our electronic interlocking system Alister. When the interlocking core on which the system is based was certified by the Federal Railway Office in 2011, we originally intended to commission our SIL 4 interlocking system Alister in the reporting period. Due to a number of open issues, some of which are outside our responsibility, this certification by the Federal Railway Office is as yet outstanding. The delay resulted in our withdrawal from a follow-up project placed by Deutsche Bahn AG waiving all mutual claims and the refunding of the advance paid. This project involved the Bremen-Bremerhaven seaport connection. Cancellation of the order received in 2011 reduced our order levels in the current financial year by around EUR 2.9m and so brought our order book down accordingly.

Our interlocking systems sold as Alister Cargo have already been in use for several years at marshalling yards, depots and works railways, which are subject to the lower safety level SIL 2. In the first half of 2012, a depot in the Danish town of Fredericia was reactivated. An order placed by Hamburger Hochbahn AG for the supply of an Alister Cargo type of interlocking system also brought a breakthrough in this segment in Germany. In Slovakia, the system was tested by a local operator to be used for a marshalling hump, where it received a positive SIL-2 report.

The software revision of our widely used »Customer Announcement and Information Manager« (CAIMAN) was completed in the reporting period. This system and the appropriate display systems are also increasingly in demand with other cus-

tomers. Priority at our customer Deutsche Bahn AG was given to customer-friendly information for passengers and to the standardisation of installed systems. Our internationalisation efforts continued winning us several orders from abroad placed by such countries as Austria and Russia. An increase in demand specifically for information systems is also notable in Great Britain and the Baltic states.

Incoming business in our Rolling Stock BU increased significantly in the second quarter. We were able, among other things, to conclude a software maintenance contract with Deutsche Bahn AG which has a term of eight years. An international manufacturer ordered 90 train radio systems for suburban trains in Frankfurt. This framework contract will run until 2014. In terms of our new focX handhelds, Funkwerk is currently executing a major framework contract for Austria's national railway company, which involves the delivery of more than 2,000 devices by 2016. A further contract came from Poland for 120 focX handhelds. A new customer also in Poland has ordered twelve train radio systems to be delivered from the current financial year up until 2014.

SECURITY COMMUNICATION (SC)

Segment sales in our SC segment totalled EUR 25.1m in the reporting period and so exceeded the relevant prior-year result of EUR 22.6m by 11 per cent. The segment's EBIT amounted to EUR -3.5m, compared to EUR -2.5m in the first six months of 2011. Crucial factors here specifically were special expenses and additional costs for the reorganisation of production and the resulting reorientation of our production and assembly sectors initiated at our Salzgitter site in the first half year.

In our video monitoring and surveillance systems sector, Funkwerk commenced in the current financial year with the equipment of the new head office of the European Central Bank (ECB) in Frankfurt. The contract, which is set to run until 2014 and is worth around EUR 5m, involves the entire video monitoring and surveillance system in and outside the building along with the networking of all security-relevant components. We also secured two new contracts for the airport in Düsseldorf. These comprise both network consulting services and our new HD camera (FAC 4000 model) and therefore are an important reference for this innovative product. In addition, we started projects for the transport service provider in Cologne upgrading the systems there with digital components from Funkwerk, and for Saab in Sweden.

In the security communication solutions sector we are benefiting quite considerably from the trend towards replacing existing systems with TETRA. The increase in migration business was particularly pronounced in terms of penal facilities, a sector which Funkwerk clearly dominates. New orders here came in from the penal facilities in Rohrbach, Cottbus and Diez. This me-

ans we have secured for ourselves all contracts placed by penal facilities in the first six months. We also received several supplementary orders for existing personal emergency call systems and will in future provide equipment for a fuel depot in Gustavsborg and for the University of Münster.

Initial deliveries of our explosion-proof TETRA handhelds, which are approved in compliance with the standards of the highest safety class, were made in the reporting period under a framework contract with a French power plant operator. We are expecting international TETRA orders to increase over the next few months. Furthermore, we pushed ahead with the marketing of our Funkwerk D4 Office, a high-end handheld business unit with comprehensive telephony and messaging functions. We expect to see a drastic rise in sales of this DECT technology based product in the latter half of the year.

AUTOMOTIVE COMMUNICATION (AC)

Business in our AC segment over the course of the reporting period was again determined by the major contracts from leading automobile and lorry manufacturers won in 2011. These require substantial advance payments and investments and will not likely result in appropriate sales and earnings until the end of 2013. Segment sales at the end of June 2012 totalled EUR 11.3m, with EUR 0.8m attributable to the avionics sector sold in the first quarter of 2012. The prior-year figure of EUR 12.6m included a share of EUR 1.8m for discontinued units. On an adjusted basis, sales in our AC segment marginally declined as projected by around 3 per cent. The EBIT improved in a six-month comparison, up from EUR -2.0m to EUR -1.0m. Earnings before interest and taxes in our continued operations amounted to EUR -1.1m, compared to EUR -2.2m in the benchmark period.

We were able in the first half of 2012 to capitalise on the continuing trend towards linking mobile and smartphones with vehicle electronics (connectivity). Wireless charging of mobile phones in the vehicle is equally on the increase. We received our first preliminary development contract here from the automobile industry, which on the whole is currently very much interested in this subject. Additional orders for new models also came in for our new Compenser version and the upgrade of our coupling antenna.

Earnings, financial and asset position

SALES AND EARNINGS

Our strategic reorientation once again necessitated adjustments in the consolidated financial statements of Funkwerk AG as at 30 June 2012. The sales and cost fractions of Funkwerk Avionics GmbH and our sports display product line sold in July 2012 were

combined and reported as a cumulative total under »Profit from discontinued operations (after taxes)« in the statement of income and accumulated earnings. The quarterly and six-month figures of the previous year were corrected accordingly and adjusted for the companies sold in the course of 2011.

The after-sales business of AC, which was also discontinued in 2011, is on the other hand included in the comparative figures. For this reason primarily, consolidated sales of our continued operations reduced by 1.8 per cent to EUR 74.1m in the first half of 2012. The decrease in business volume is, however, restricted to the first few months of the year. Consolidated sales in the second quarter of 2012 increased by 2.2 per cent to EUR 40.7m despite the effect described.

Internally produced and capitalised assets, which comprise products and programmes developed by Funkwerk, decreased in a six-month comparison from EUR 3.7 to EUR 2.4m as a result of changes to the valuation methods for capitalisation. At around EUR 1.8m, the lion's share of internally produced and capitalised assets was attributable to performance related to product developments under the AC contracts described.

The equally notable reduction of inventories by EUR 2.4m was due on the one hand to the billing of orders. Increased activities relating to our working capital management, however, also continued to have a positive effect. On the whole, the total operating performance of the Funkwerk group reduced by 6.8 per cent to EUR 75.9m between January and June.

The cost of materials in this period decreased by 10.9 per cent to EUR 35.7m and so reduced to a much greater extent than consolidated sales and our total operating performance. Thanks to streamlining our portfolio in the context of our reorientation and additional savings achieved as a result of our restructuring measures, we were able to keep the gross yield — without internally produced and capitalised assets and other operating income — stable at EUR 36.2m (2011: EUR 36.0m) despite the drop in sales. The gross yield margin improved from 47.3 per cent to 50.3 per cent. In terms of employees, the restructuring measures also led to positive trends. Personnel expenses reduced by 3.9 per cent to EUR 30.6m, though the consequences of pay-scale and non-pay-scale wage and salary increases granted for the first time again in 2011 and 2012 were manageable.

Operating earnings before impairment and restructuring costs in the first half of 2012 totalled EUR -4.5m, compared to EUR -4.4m in the comparative prior-year period. Taking restructuring costs of EUR 1.0m (2011: EUR 0.3m) into account, the EBIT settled at EUR -5.5m (2011: EUR -4.7m). Of this amount, EUR -2.4m were attributable to the second quarter of 2012 (2011: EUR -2.0m).

The financial result in the first six months of 2012 reduced from EUR -0.8m to EUR -1.1m, reflecting the greater use of short-term loans. At the same time, however, the extremely low market interest rate prevented us from investing the cash inflow from the sale of our companies more profitably. Below the line, consolidated earnings before taxes amounted to EUR -6.7m in the first half of 2012 (2011: EUR -5.5m). The tax expenditure totalled EUR -0.8m. Net earnings generated by our continued operations aggregated EUR -7.5m, compared to EUR -6.2m in the first half of 2011. Diluted and undiluted earnings per share for our continued operations therefore stood at EUR -0.93 (2011: EUR -0.77).

Earnings in the discontinued operations accounted for EUR 1.7m as at 30 June 2012, after EUR -0.1m in the comparative prior-year period. This is due in the main to the deconsolidation result of our EC segment. As a consequence, the overall result of the Funkwerk group improved from EUR -6.3m to EUR -5.8m.

FINANCIAL POSITION

The financial position of Funkwerk could be stabilised as a result of our restructuring efforts. Again, the main contributing factor here was the successful sale of businesses and the related purchase price payments. This cash inflow also prompted the banking syndicate of the syndicated loan agreement headed by Commerzbank AG to amend this agreement in April 2012. 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. The interest terms could be kept stable. At the same time, funds of around EUR 18m from the sale were made available to Funkwerk AG at its free disposal. The indemnity bonds received from the »Germany funds« Government/Laender programme in connection with the syndicated loan agreement could be returned. This means that from fiscal 2012 the condition whereby the majority shareholder of Funkwerk AG is obligated to vote for a retention of earnings no longer applies.

LIQUIDITY TREND

The cash flow from current operations amounted to EUR -9.3m in the first half of 2012, compared to EUR -11.3m in the comparative prior-year period. This outflow in operations was due primarily to the deficit of EUR -5.8m and the change in other debt. It must be seen opposite the release of funds to the amount of EUR 6.7m, which had previously been tied up in inventories, trade accounts receivable, and other assets.

The cash flow from investment activities totalled EUR 5.3m across the group. This positive effect resulted from the company sales completed in 2012, which led to inflows of EUR 8.7m in the first half year. Investments in tangible assets aggregated

EUR 1.1m, whereas outflows for investments in development costs came to EUR 2.4 m. Adding up the cash transactions in operations and investments, the free cash flow for the first half of 2012 totalled EUR –4.0 m (2011: EUR –17.6 m).

The cash flow from financing activities amounted to EUR 9.4 m. This was due to the scheduled repayment of funds from the credit line which we had utilised to finance current operations. In total, cash outflow from January to June 2012 amounted to EUR –13.4 m. As a result, the cash fund reduced from EUR 17.9 m as at 31 December 2011 to EUR 4.5 m.

ASSET POSITION

Total assets in the group reduced from EUR 157.9 m at the end of 2011 to EUR 113.7 m on 30 June 2012. The main reason for this reduction by EUR 44.2 m, or 28.0 per cent, was the successful completion of the sale of our EC segment and Funkwerk Avionics GmbH, both of which had still been included in the balance sheet as at 31 December 2011. As a result, the »Assets held for sale« item on the assets side decreased from EUR 14.6 m to EUR 0.3 m — the remaining amount relates to our sports displays product line still held for sale as at the cutoff date. Our financial assets reduced from EUR 12.0 m to EUR 3.5 m because of the complete redemption of shareholder loans, which Funkwerk AG had granted EC and Funkwerk Avionics GmbH. The »Liabilities held for sale« item on the liabilities side reduced by EUR 15.7 m after the sale.

Aside from the sale of these companies, a further factor on the assets side resulting in a balance sheet contraction was the reduction in trade accounts receivable from EUR 34.0 m to EUR 23.2 m. This decrease was due, on the one hand, to seasonal factors, but was equally a result of our rigorous working capital management. The same applies to the reduction of inventories to EUR 33.2 m (2011: EUR 35.6 m), after still posting a rise at the end of March. Liquid funds also decreased significantly from EUR 17.4 m to EUR 4.5 m due to the discharge of financial debt and high payments in our operating business. At EUR 37.5 m, the long-term assets on the other hand barely changed in total, compared to EUR 36.9 m previously.

On the liabilities side, the most prominent aspect other than the sale of our corporate units was primarily the reduction of short-term financial debt by EUR 9.2 m to EUR 3.7 m on account of repaid funds utilised under credit agreements to finance our current operations. Most notable here specifically was the seasonal reduction in accounts payable by EUR 8.8 m to EUR 19.2 m. On the whole, short-term debt — without debt held for sale — reduced by 28.9 per cent to EUR 56.3 m. Long-term debt remained stable at EUR 14.4 m.

Due to the deficit in the first six months, equity reduced by EUR 5.8 m to EUR 42.9 m. As a result of considerably reduced total assets, the equity ratio as at 30 June 2012 improved to 37.7 per cent,

compared to 30.8 per cent at the end of 2011. It also 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, totalled EUR 0.8 m, after EUR 4.5 m at the end of 2011.

Other performance indicators

INVESTMENTS

In the first six months of the current financial year, Funkwerk invested around EUR 1.2 m (2011: EUR 1.2 m) in fixed and intangible assets (excl. development costs) — adjusted for discontinued operations. Of this amount, EUR 1.1 m were spent on fixed assets and EUR 0.1 m on intangible assets. In addition to this, development costs primarily related to our AC segment came to EUR 2.4 m (2011: EUR 3.7 m).

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. In the first six months of 2012, R&D spending in the group totalled EUR 10.3 m. In terms of sales, this produces a R&D ratio of 13.9 per cent.

Work in our TCC segment continued to focus on the SIL 4 certification of our Alister interlocking system and meeting the commissioning requirements of the Federal Railway Authority. Furthermore, we are taking into account the increasing demand for simplified passenger information systems and are currently developing a system by the name of CAIMANITO, which will complement our existing portfolio of highly efficient solutions at the lower end of the range. We have already received an initial enquiry from Latvia for the equipment of the Riga railway station. Further focus was given to the very swift development of special display systems for the Russian market and a new outdoor display based on TFT technology, which we will introduce at the Innotrans railway technology trade fair.

Our Rolling Stock BU completed the development of the analogue module MTR 452. Efforts also focused on further improving the high-frequency properties of our radio modules in order to maintain and further consolidate our lead as a supplier of reliable high-performance systems. Another significant aspect was the development of systems for electronic loudspeaker announcements, which we were able to finalise by the end of June. Funkwerk is the first manufacturer to develop such a system based on the SIL 2 safety standard; this provides us with a unique selling point.

A key R&D project of SC in the first half of 2012 was the new IP HD camera FAC 4000, which will be rolled out in the third quarter

and used for the first time in such places as Düsseldorf Airport. Further projects included the completion of the VNS transmission technology and the start of development of the successor generation of our pan/tilt head Platon. In the next few months, we will also launch a new camera range in the lower price segment. At the end of 2012, our Security communications BU will start selling the DECT-over-IP system developed by Funkwerk. This system is currently in the test phase, which to date has proved highly successful. These DECT base transceiver stations can be used, for instance, in large office buildings using the existing Ethernet wiring.

Major projects in AC were aimed at combining antenna coupling, wireless charging, GPS and contactless data exchange (NFC) in connection with Bluetooth and WLAN to link mobile phones to the vehicle electronics. In order to advance the smartphone integration in vehicles, we agreed on a cooperation with »Philips & Lite-On Digital Solutions« (PLDS), a global provider of infotainment applications for the automobile industry.

Furthermore, the increasing implementation of car sharing and pay-as-you-drive concepts means that the demand for customised telematics solutions will rise. We are involved in a funded project here to promote the development of a platform for reliable operation of vehicle-related applications; this is based on a hardware solution from Funkwerk. Focus in AC was also given to the scheduled development of major contracts, which still require a number of payments and investments to be made.

EMPLOYEES

As at 30 June 2012, Funkwerk as a group employed 923 people in its continued operations, which is 85 employees less than the equally adjusted prior-year figure of 1,008. The most drastic reduction in terms of percentage was made in our AC segment, where the workforce reduced by around 20 per cent, down from 160 at the prior-year reference date to 130. In TCC, the employee figure decreased by around 5 per cent to 493 (2011: 518), while cuts in the SC segment ranged at around 9 per cent to 300 (2011: 330). In addition, 57 young trainees at our various sites were prepared for work in commercial and industrial fields and in information technology at the end of June 2012.

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 growing general economic risks related to the European banking and eurozone debt crisis have by the same token increased the uncertainties in our environment. Otherwise, the

opportunities and risks of the group in the first half of 2012 did not significantly change compared to the account in the 2011 annual financial statements. As before, we are not facing any risks that might jeopardise the continued existence of our company.

Events after the reporting period

In early July 2012, Funkwerk commenced with the merger of Hörmann-Funkwerk Kölleda GmbH (HFWK) registered in Kölleda with and into Funkwerk AG after approval at the shareholders' meeting. A fully owned subsidiary, HFWK is part of our TCC segment and specialises in the development of communication system solutions for mobile rail transport and railway infrastructures. The merger has retroactive effect from 1 January 2012.

The formation of Funkwerk AG/HFWK as a new economic entity bolsters the current reorientation of the Funkwerk group, as both the corporate structures within the group and the processes will be simplified and become more efficient and transparent. The operating units can also, as a result, be consistently focused on their relevant target groups. The merger balance sheet as at 1 January 2012 showed total assets of around EUR 87m, with equity of around EUR 43m. This corresponded to an equity ratio ranging at 49 per cent. Assets amounted to roughly EUR 42m.

In July 2012 the sale of our loss-making sports display product line in TCC was completed under an asset deal.

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

GLOBAL ECONOMIC ENVIRONMENT

With the economic slowdown towards the middle of the year, uncertainties as to the further development of the global economy have increased considerably. In the opinion of the majority of research institutes, the sluggish development will continue over the next few months. The International Monetary Fund, for instance, trimmed its forecast for global growth in 2012 only very

moderately by 0.1 percentage points to 3.5 per cent. This marginal correction was partly due, however, to the unexpectedly pronounced economic dynamics in the first quarter.

Irrespective of these forecasts, the Monetary Fund specifically warns that the risks for the further development continue to be high. In this context, the IMF particularly stresses the possibility of an escalating crisis in the eurozone and the imponderables of the fiscal policy in the USA.

SECTOR TREND

The German rail sector on the whole is expected in 2012 to match the prior-year sales level. That said, it may be assumed that the general parameters for key subsectors in the rail industry such as the market for communication and information systems will remain difficult. A similar plunge in capital spending is currently evident in other European countries. In the medium term, the backlog in Western and Eastern Europe should stimulate demand — both for rail infrastructure and for information systems.

From today's viewpoint, the requirement for security solutions will also continue to grow. Market analysts believe a rise at international level ranging in the single-digit percentage range to be possible in the current financial year. In Germany, the National Association of Manufacturers and Installers of Security Systems, BHE, expects to see improvement by around 3 per cent. Good parameters here are primarily the rising need of people for security and the increasing efficiency requirements relating to transport infrastructure. The market for video security solutions remains a segment with good prospects. IP-based systems are progressively gaining ground here, which should provide stimuli both for new and retrofitting business. Major uncertainties, however, remain in terms of the investment behaviour of the public sector as a key market for Funkwerk, which is notably holding off in view of the difficult financing conditions.

Based on the forecasts of the VDA, the differences in development experienced in the international automobile industry should continue throughout the further course of the year. Whereas demand especially in the Southern European markets is set to remain poor, the USA, China, Russia and Japan in particular are expected to see the dynamics continue. On the whole, the VDA anticipates an increase in global automobile sales of around 4 per cent. A further plus for Funkwerk is the fact that by the same token the positive trend towards connectivity in the vehicle is likely to continue. According to the estimates of market analysts, around 60 per cent of all vehicles will be networked by 2017. Car sharing is another promising area that should lead to increasing demand for efficient telematics solutions.

PROSPECTIVE DEVELOPMENT OF FUNKWERK AG

The reorientation and restructuring initiated to radically reposition our group will continue to define the course of our business throughout the remainder of the year. Focus will be given to ensuring the consistent implementation of specified measures and to the strict pursuit of our fitness programme rolled out across all our sites under the responsibility of the CRO and his team with the following three prime targets:

1. Implementation of operational measures to improve our performance, i.e. specifically the reduction of our operational break-even
2. Reduction of inventories by up to 20 per cent
3. Setup of efficient structures and processes both in regard to internal operations to reduce our processing times and to future production structures in the Funkwerk group.

The still cautious investment activity in the public sector will continue to slow down our business development in the latter half of the year. Provided that the general economic setting remains the same, we expect consolidated sales in 2012 on the whole to range at prior-year level. Furthermore, we should see initial effects of our restructuring measures in the form of cost savings. Based on these aspects and the current economic setting, we should be able to reach break-even point in terms of our operating earnings, or be only just below.

In the long term, our restructuring will enable us once again to leverage our traditional strengths. As a result, we expect notable impetus for growth from 2013, which could lead to an improvement in sales in the upper single-digit percentage range. In terms of operating result, we are aiming to get back into the black again.

A detailed description of our strategy and our other, largely unchanged expectations in regard to the opportunities and future development of Funkwerk AG are contained in our 2011 annual report.

Kölleda, August 2012

— The Executive Board —



Carsten Ahrens



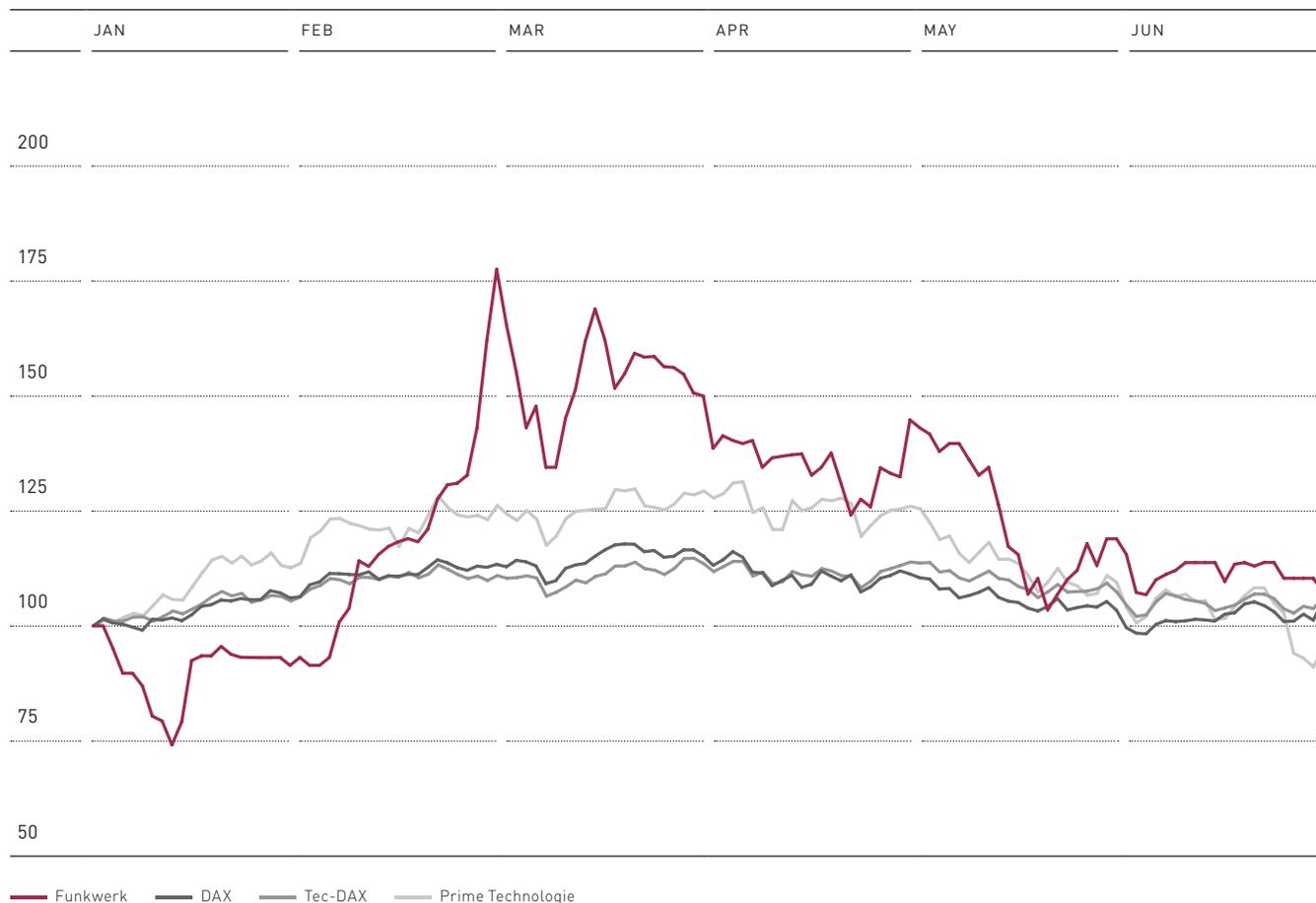
Dr. Christian Baur



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

Volatile stock markets

After a stellar start to the year, the international stock markets came under pressure in the second quarter of 2012. With the escalation of the European debt crisis, investors were left greatly unsettled when Spain and Italy as two of the main member states of the eurozone came under scrutiny in the financial markets. To further aggravate the situation, the prospects of economic growth in such countries as the USA and in the once dynamic emerging markets were marred. As yet rather robust, the German economy also started to show initial signs of weakening in the second quarter when key early indicators including the Ifo and the ZEW index began to fall. Against this backdrop, the substantial price gains achieved early in 2012 across stock markets worldwide were

partly exhausted again. On balance, however, the leading German index still showed a formidable increase of 8.8 per cent in the first half of 2012 per. The technology index, TecDAX, gained almost equally as much, rising by 8.6 per cent.

Funkwerk share

Funkwerk's share did not escape the volatile situation on the stock market either. Initial losses, which took the share price to its current annual low of EUR 2.11 in early January, were soon compensated by the incipient disposition to buy. The mood among investors was lifted most notably by appreciable successes achieved in the reorientation of our company. Boosted by a market climate that by then proved encouraging, the price quoted at the end of February had risen to our current annual peak of EUR 5.15. When the general market environment subsequently began to deteriorate from the second quarter, our previous share gains partly dwindled again. At the end of June, the share was finally quoted at EUR 3.11, which was up by 10.3 per cent on the year-end price of EUR 2.82 in 2011. At the closing date, the 8.1 million Funkwerk shares had a market capitalisation of EUR 25.2m, after EUR 22.8m as at 31 December 2011.

Higher trading volume

Funkwerk AG is quoted on the German Stock Market in Frankfurt/Main and is listed in the Prime Standard. It is also traded in the electronic trading system XETRA and in off-floor trading at all other German stock markets. A total of around 2.0m Funkwerk shares were traded in the first half of 2012, compared to around 1.1m in the comparative prior-year period. This notable increase points to rising interest in Funkwerk's share. Over the first six months of 2012, an average of around 15,600 shares changed hands per trading day (2011: 8,300).

Investor Relations activities

Funkwerk AG subscribes to an active information policy providing investors and the financial market players with all relevant company data. We regularly publish annual and quarterly financial statements along with press releases. Furthermore, we ensure prompt publication of all information relevant to our share through ad-hoc releases. Our investors and the interested public also have access to comprehensive information on our website at www.funkwerk.com.

A key aspect of our Investor Relations activities is personal dialogue with representatives of the business press and financial analysts. In March 2012, for instance, we held a combined analyst and press conference on our financial statements. Further events are planned throughout the remainder of the year. All attention among analysts and journalists currently centres 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 as at the end of June 2012 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 30 June 2012

ASSETS	30/06/2012	31/12/2011
	€ K	€ K
A. LONG-TERM ASSETS		
1. Intangible assets	25,515	24,607
thereof goodwill	5,425	5,425
thereof development costs	17,622	16,354
2. Tangible assets	11,942	12,252
3. Other assets	4	4
	37,461	36,863
B. SHORT-TERM ASSETS		
1. Inventories	33,175	35,611
2. Trade accounts receivable	23,155	33,991
3. Receivables from projects in progress	7,040	4,733
4. Due from affiliated companies	23	52
5. Tax refund claims	1,139	1,010
6. Other assets	3,355	1,602
7. Financial assets	3,501	11,997
8. Liquid assets	4,513	17,424
9. Long-term assets available for sale	320	14,631
	76,221	121,051
	113,682	157,914

LIABILITIES	30/06/2012	31/12/2011
	€ K	€ K
A. LIABILITIES		
1. Subscribed capital	8,101	8,101
2. Capital reserve	63,545	63,529
3. Retained earnings (revenue reserve)	38,211	38,211
4. Own shares	-1,062	-1,062
5. Net loss for the year	-65,693	-59,915
6. Foreign currency items	-210	-204
Equity of Funkwerk AG shareholders	42,892	48,660
	42,892	48,660
B. LONG-TERM LIABILITIES		
1. Pension obligations	12,779	12,822
2. Deferred investment subsidies	494	517
3. Deferred taxes	1,153	1,066
	14,426	14,405
C. SHORT-TERM LIABILITIES		
1. Financial liabilities	3,671	12,886
2. Trade accounts payable	19,151	27,939
3. Advance payments received on orders	7,267	9,004
4. Due to affiliated companies	388	390
5. Tax liabilities	6,200	5,674
6. Accrued liabilities	9,083	11,532
7. Deferred investment subsidies	70	87
8. Other liabilities	10,498	11,679
9. Liabilities held for sale	36	15,658
	56,364	94,849
	113,682	157,914

Statement of Comprehensive Income acc. to IFRS 01/01/2012 to 30/06/2012

	Q2 2012 01/04/2012 TO 30/06/2012 € K	Q2 2011 01/04/2011 TO 30/06/2011 € K	Q1 - Q2 2012 01/01/2012 TO 30/06/2012 € K	Q1 - Q2 2011 01/01/2011 TO 30/06/2011 € K
Continued segments				
1. Sales revenues	40,677	39,809	74,148	75,512
2. Increase in finished goods inventories and work in progress	-3,076	-1,336	-2,253	597
3. Other own work capitalised	1,216	1,963	2,398	3,710
4. Other operating income	983	888	1,590	1,636
5. Total operating performance	39,800	41,324	75,883	81,455
6. Cost of materials	18,734	20,120	35,718	40,087
7. Personnel expenses	15,271	15,950	30,631	31,881
8. Planned depreciation	1,456	1,597	3,048	3,255
9. Other operating expenses	5,913	5,381	11,006	10,654
10. Operating result before impairment charges and restructuring costs	-1,574	-1,724	-4,520	-4,422
11. Restructuring costs	835	270	1,007	270
12. Operating result / EBIT	-2,409	-1,994	-5,527	-4,692
13. Financial income	1	3	29	6
14. Financial expenses	595	677	1,178	846
15. Financial results	-594	-674	-1,149	-840
16. Earnings before taxes	-3,003	-2,668	-6,676	-5,532
17. Taxes on income	-480	-118	-783	-697
18. Result of continued segments	-3,483	-2,786	-7,459	-6,229
DISCONTINUED OPERATIONS				
19. Result of sold business segments (after tax)	-71	305	1,681	-106
20. Earnings after taxes / Result for the period	-3,554	-2,481	-5,778	-6,335
Amounts directly included in equity				
21. Currency differences	30	-29	-6	-54
22. Other period results - continued segments	30	-29	-6	-54
23. Other period results - sold business segments	0	0	0	0
24. Total	-3,524	-2,510	-5,784	-6,389
THE RESULT FOR THE QUARTER COMPRISES				
Funkwerk AG shareholders	-3,554	-2,481	-5,778	-6,335
THE AMOUNTS DIRECTLY INCLUDED IN EQUITY COMPRISE				
Funkwerk AG shareholders	30	-29	-6	-54
EARNINGS PER SHARE				
Earnings per share (undiluted and diluted) in €	-0.44	-0.31	-0.72	-0.79
EARNINGS PER SHARE CONTINUED SEGMENTS				
Earnings per share (undiluted and diluted) in €	-0.43	-0.35	-0.93	-0.77

Consolidated Statement of Cash flows acc. to IFRS 01/01/2012 to 30/06/2012

	Q1 – Q2 2012 01/01/2012 TO 30/06/2012	Q1 – Q2 2011 01/01/2011 TO 30/06/2011
	€ K	€ K
1. Annual result	-5,778	-6,335
2. Income tax expenditure	797	1,022
3. Depreciation of development costs	1,200	1,618
4. Depreciation of tangible assets and intangible assets	1,858	2,599
5. Other non-cash expenditure and income	-1,808	60
6. Reversal of investment subsidies	-44	-67
7. Changes in reserves	-2,487	-1,823
8. Profit / loss from disposal of fixed assets	-173	66
9. Changes in inventories, receivables and other assets	6,745	-6,125
10. Changes in advance payments received on orders	-1,737	1,819
11. Changes in other debts	-7,791	-4,365
12. Interest income	-29	-7
13. Interest expenditure	668	434
14. Interest paid	-591	-166
15. Interest received	15	10
16. Paid/received income tax	-156	-53
17. Cash flow from operating activities	-9,311	-11,313
18. Receipts from the disposal of fixed assets	175	4
19. Payments for investments and development costs	-2,398	-4,668
20. Payments for investments in intangible assets without goodwill and development costs	-102	-503
21. Payments for investments in fixed assets	-1,059	-1,158
22. Receipts from investment subsidies	11	46
23. Receipts for deconsolidating	8,671	0
24. Cash flow from investing activities	5,298	-6,279
25. Free Cash Flow	-4,013	-17,592
26. Receipts from take-up of (financial) credit		8,183
27. Payments for the redemption of (financial) credit	-9,425	0
28. Cash flow from financing activities	-9,425	8,183
29. Net change in cash and cash equivalents	-13,438	-9,409
30. Cash and cash equivalents at beginning of period	17,951	12,056
31. Cash and cash equivalents at end of period	4,513	2,647

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	-6,335	0	-6,335
Foreign currency items	0	0	0	0	0	-54	-54
Total	0	0	0	0	-6,335	-54	-6,389
Share options (IFRS 2)	0	58	0	0	0	0	58
Transactions with owners	0	58	0	0	0	0	58
June 30, 2011	8,101	63,480	38,211	- 1,062	-50,311	-291	58,128
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	-5,778	0	-5,778
Foreign currency items	0	0	0	0	0	-6	-6
Total	0	0	0	0	-5,778	-6	-5,784
Share options (IFRS 2)	0	16	0	0	0	0	16
Transactions with owners	0	16	0	0	0	0	16
June 30, 2012	8,101	63,545	38,211	- 1,062	-65,693	-210	42,892

Segment Reporting IFRS 01/01/2012 to 30/06/2012

	YEAR	TCC	SC	AC	EC	GROUP	SOLD BUS. SEG- MENTS	CORR. CONS.	RETAINED BUS. SEGGS
		T€	T€	T€	T€	€ K	€ K	€ K	€ K
Total sales revenues	2012	38,832	25,250	11,277	0	75,359			
	2011	45,205	26,981	12,654	14,006	98,846			
Sales revenues with other business segm.*	2012	4	152	1	0	157			
	2011	1	4,420	27	69	4,517			
External sales revenues	2012	38,828	25,098	11,276	0	75,202	-1,170	116	74,148
	2011	45,204	22,561	12,627	13,937	94,329	-23,476	4,659	75,512
Other operating income	2012	2,224	598	553	0	3,375	-1,799	14	1,590
	2011	757	207	620	279	1,863	-683	456	1,636
Segment revenues	2012	41,052	25,696	11,829	0	78,577	-2,969	130	75,738
	2011	45,961	22,768	13,247	14,216	96,192	-24,159	5,115	77,148
Inventory changes of finished goods and work in progress	2012	-1,805	-541	93	0	-2,253	0	0	-2,253
	2011	-20	544	73	0	597	0	0	597
Own work capitalised (development)	2012	85	468	1,845	0	2,398	0	0	2,398
	2011	1,055	1,431	1,225	980	4,691	-981	0	3,710
Cost of materials	2012	15,041	13,392	7,858	0	36,291	689	116	35,718
	2011	20,284	11,448	7,933	6,368	46,033	10,605	4,659	40,087
Personnel expenses	2012	16,434	10,176	4,528	0	31,138	507	0	30,631
	2011	19,770	10,480	5,656	5,088	40,994	9,113	0	31,881
Planned depreciation of fixed assets	2012	716	601	544	0	1,861	12	0	1,849
	2011	903	712	638	346	2,599	432	0	2,167
Planned depreciation of development work	2012	737	462	0	0	1,199	0	0	1,199
	2011	300	570	218	530	1,618	530	0	1,088
Other operating expenses	2012	5,142	4,193	1,712	0	11,047	55	14	11,006
	2011	5,396	3,892	2,040	2,883	14,211	4,013	456	10,654
Operating result before impairment charges and restructuring costs	2012	1,262	-3,201	-875	0	-2,814	-1,706	0	-4,520
	2011	343	-2,359	-1,940	-19	-3,975	-447	0	-4,422
Restructuring costs	2012	548	321	138	0	1,007	0	0	1,007
	2011	108	95	40	27	270	0	0	270
Operating result / EBIT	2012	714	-3,522	-1,013	0	-3,821	-1,706	0	-5,527
	2011	235	-2,454	-1,980	-46	-4,245	-447	0	-4,692

* 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 Passenger Informations GmbH (Funkwerk Akademie GmbH)	Kölleda, Thuringia	100
Funkwerk Statkom GmbH	Kölleda, Thuringia	100
Funkwerk videosysteme GmbH (Funkwerk plettac electronic GmbH)	Nuremberg, Bavaria	100
Funkwerk Electronic Services GmbH	Salzgitter, Lower-Saxony	100
Funkwerk Engineering GmbH	Kiel, Schleswig-Holstein	100

The sports display product line in our TCC segment is classified as a discontinued operation after its sale in July 2012.

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

SOLD BUSINESS SEGMENTS	Q1 2012	Q1 2011
	IN € K	IN € K
Sales revenues	1,170	23,476
Gross performance	1,262	25,140
Expenditure	-1,336	-24,693
Operating result	-74	447
Financial result	-11	-228
Taxes on income	-14	-325
Operating result after tax	-99	-106
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	1,681	-106

Seasonal and economic influences

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

Key events

No events of special significance other than already described in the management report have occurred after the cutoff date on 30 June 2012.

Statement of the Executive Board

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

The Executive Board of Funkwerk AG
 Kölleda, August 2012

Financial Calendar

Disclosure of nine-monthly report

November 13, 2012

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