

INTERIM REPORT  
2. QUARTER AND FIRST HALF OF 2013

## Consolidated key figures

		Q1-Q2 2013	Q1-Q2 2012
<b>RESULTS CONTINUED BUSINESS SEGMENTS</b>			
Sales	EUR m	49.7	62.7
Gross profit	EUR m	30.2	32.2
Gross profit margin	%	60.7	51.4
Operating EBITDA*	EUR m	0.0	- 0.8
Earnings from operations*	EUR m	-2.7	-3.3
Net operating earnings/EBIT	EUR m	-3.0	-4.2
Earnings after taxes	EUR m	-3.8	-5.5
Earnings per share	EUR	-0.48	-0.68
Incoming orders	EUR m	60.4	57.7
Order backlog	EUR m	72.7	84.3
<b>NET ASSET AND FINANCIAL POSITION</b>			
		30 / 06 / 2013	31 / 12 / 2012
(Operating) Cash flow	EUR m	-6.5	-9.3
Working capital	EUR m	28.5	30.4
Net cash	EUR m	0.3	6.0
Shareholders' equity	EUR m	27.2	32.2
Equity ratio	%	28.6	28.5
Balance sheet total	EUR m	94.9	113.1
Employees (reporting date incl. trainees)		755	788

\* before impairment charges and restructuring costs

## Company snapshot

Funkwerk AG is a mid-sized technology company specialising in solution-oriented information, communication and security systems for rail transport, infrastructure, authorities and businesses. Funkwerk products are based on the state-of-the-art principles of radio and communication technology and data processing to improve security and comfort and help reduce customer costs. Consolidated under Funkwerk AG, the company operates with two strategic business segments divided into business units (BUs).

### TRAFFIC & CONTROL COMMUNICATION (TCC)

- BU Infrastructure
- BU Rolling Stock

### SECURITY COMMUNICATION (SC)

- BU Video Systems
- BU Security Communications

## Group interim report

### Business and general setting

#### GLOBAL ECONOMIC ENVIRONMENT

According to the International Monetary Fund (IMF), the world economy on the whole grew at a less robust pace in the first half of 2013 than expected early in the year. This primarily is down to three factors. Not only was the growth rate in the developing and newly industrialised countries lower than anticipated, the recession in the eurozone was also more pronounced than feared, and the US market recovered not quite at the rate predicted.

Against this backdrop, Germany's economy proved comparatively robust. Recently, however, it also showed unmistakable signs of a weakening cycle particularly in such aspects as export or industrial production. Figures here, according to the Federal Statistical Office, were down quite notably by 2.4 per cent and 1.0 per cent, respectively, in May 2013 compared to the previous month.

#### SECTOR ENVIRONMENT

Infrastructure investments in the first half of 2013 continued to stagnate, a phenomenon that has troubled the railway markets in which Funkwerk operates for a number of years now. This led to a further intensification of competition and corresponding price pressures. The German Rail Industry Association, VDB, shares our cautious appraisal and confirmed that trade in infrastructure equipment still remained at too low a level. The persistent lack of funding in this area over the last years is getting worse and is viewed with great concern. The international markets of Funkwerk also depend to a large degree on government investments and financing, so that here too, corporate sales specifically in neighbouring European countries proved rather sluggish.

The parameters in the market for security technology were equally difficult for Funkwerk in the first half of 2013. The public sector as one of our key customer groups continued to be rather reluctant to order. In contrast, the private industry, in other words, German companies specialising in electronic security technology, largely reported a satisfactory state of business.

#### REORIENTATION OF THE FUNKWERK GROUP

Over the last roughly two years, Funkwerk AG has undergone a radical restructuring programme to improve the efficiency of our operations and return the company to profitable growth. The measures and changes implemented as a result again affected business in the first half of 2013 and brought initial positive effects. The sale of a number of companies and the related focus on our two core segments along with uniform processes in the group and optimising our product portfolio and production structures helped to improve earnings in the group. The main features of our restructuring programme, which we will consistently carry on through the latter half of the year, are detailed in our latest 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.

#### EXTENSION OF THE EXECUTIVE BOARD

On 31 May 2013 Kerstin Schreiber, who has been with the company for 15 years, was added to the Executive Board of Funkwerk AG. She will be in charge primarily of financial aspects, central purchasing and central production, but also of process control. Dr.-Ing. Manfred Lerch, who has been on the board since 1 November 2012 and managed the company as sole director between January and the end of May 2013, has since been responsible for operations and for technology and product planning.

#### SALE OF COMPANIES

In the context of our focusing process, which has continued into 2013, two further companies were sold in the first half of the year — Microsyst Systemelectronic GmbH in Weiden, which had been part of the TCC segment specialising in display systems for industrial applications, and our British subsidiary Funkwerk Information Technologies York Limited (also part of our TCC segment). Microsyst Systemelectronic GmbH, which did not directly count as part of the core business of Funkwerk AG, was sold in a management buyout to the company's authorised signatory. Funkwerk Information Technologies York Limited was taken over by the Canadian Trapeze Group, a global leader in the supply

of advanced software solutions and intelligent transport systems in the field of public passenger transport.

In order to ensure comparability with the six-month figures of the previous year, the statement of comprehensive income as at 30 June 2013 and the relevant 2012 figures were adjusted for companies sold.

#### **FUNKWERK BUSINESS TREND AT A GLANCE**

At EUR 49.7m, consolidated sales of our continued business segments in the first six months of 2013 were down by 21 per cent on the prior-year benchmark figure. On a more positive note, incoming business improved from EUR 57.7m to EUR 60.4m. The main contributing factor here, along with new orders from Germany and our growing service business, was the rise in foreign activities, which we had specifically intensified as part of our strategic reorientation programme. Our order backlog as at the end of June 2013 totalled EUR 72.7m (previous year: EUR 84.3m).

Consolidated earnings improved despite a lower sales volume thanks to the positive effects of our efficiency improvement measures. Operating earnings before interest, taxes and depreciation (EBITDA) reached breakeven point (previous year: EUR -0.8m), with an operating result before impairment charges and restructuring costs of EUR -2.7m (previous year: EUR -3.3m). Contrary to the previous year, restructuring costs in the first half of 2013 were considerably less, with the result that EBIT and earnings after taxes improved more considerably still, by 29 per cent to EUR -3.0m and by 30 per cent to EUR -3.8m, respectively. The balance sheet total reduced from EUR 113.1m at the end of 2012 to EUR 94.9m, whereas the equity ratio remained virtually unchanged at 28.6 per cent (31 December 2012: 28.5 per cent).

## **Segment report**

Sales in the continued operations of our TCC segment decreased from EUR 33.9m in the prior-year benchmark period to around EUR 28.0m, reducing the EBIT from EUR -0.8m to EUR -1.4m. The TCC division thus contributed some 56 per cent to the group's volume of sales generated by our continued segments in the first half of 2013.

The optimisation of production at our Kölleda site was completed after installing a clocked continuous production system. This has enabled us to reduce material inventories and cycle times quite considerably and streamline our production areas to a significant degree, which has already had a positive effect on our earnings in the current financial year. In early July, Dr Rüdiger Grube, the CEO of our main customer, Deutsche Bahn AG, visited our Kölleda site to get an idea of our new installation. He seemed visibly impressed with the quality of our products, our pioneering technology and the flexibility of our production.

Our train radio systems sector received new orders both from Germany and abroad. One such order involves the delivery of 400 data radio modules to China which were specially developed for this market. We also completed two projects for Swiss rail operator SBB, which were reflected in the June sales figures. On the whole, incoming orders in this product sector proved well above our projections. Demand for passenger information systems and equipment, meanwhile, was rather keen in the reporting period with quite a number of tenders submitted by Funkwerk. As a result, we expect to gain more contracts in the course of the coming months. We have already received contracts for software updates for suburban trains in Berlin and Munich, which we provided with a control system and a passenger information system, respectively. New orders involving the migration and upgrading of existing signalling technology systems came in from Sweden enabling us to further improve our market position in this country.

The launch of our Alister electronic interlocking system for passenger transport is still on hold pending SIL 4 approval by the Federal Railway Authorities, which is required for the start-up of the Deutsche Bahn pilot project. As detailed in our annual report, we are still working on completing the documentation, although the system has been running in shadow mode for many months

now without showing any technical problems. In the cargo sector our interlocking system has been operating successfully on a SIL 2 licence in more than 40 installations across Europe.

### SECURITY COMMUNICATION (SC)

Sales in our SC segment reduced from EUR 25.1m in the prior-year benchmark period to EUR 21.7m, though with improved EBIT, which was up from EUR -3.5m to EUR -1.6m. This segment also experienced keen demand with incoming business ranging at prior-year level. In our Security Technology BU small systems for operation of single workplaces did particularly well, as did radio systems based on the Tetra standard. We managed to consolidate our lead with penal facilities here receiving further orders from Germany. We have also installed the first systems in the health sector, with equipment being used in forensics and care facilities. Outside Germany, we extended our partner network by adding two new distributors in order to benefit in better ways from gains in growth regions.

Development in our video systems sector was defined by the trend towards digitalisation. Analogue systems are increasingly changed over to digital, giving us a competitive edge with our new digital camera models FAC 4000 and VNS 404, which are already successfully used in various projects. In the first half of 2013 we received an order from Hamburg S-Bahn, for instance, where we are upgrading and fully digitalising the existing camera surveillance system supplied by Funkwerk. Meanwhile, our solution for hard shoulder release on motorways is also increasingly growing in importance. Our Agrosan system has gained us a good market position in this area enabling us to benefit from the growing traffic volume in Germany.

## Earnings, financial and asset position

### SALES AND EARNINGS

The general economic setting in the first half of the year remained difficult for Funkwerk. The investment reluctance in the public sector as a vital customer group for us bore down particularly hard on our business. This was aggravated by the fact that

the price pressures in a number of market sectors continued unabated. Against this backdrop, consolidated sales in the first six months of 2013 reduced by 20.7 per cent to EUR 49.7m compared to the benchmark period. Of this amount, EUR 27.7m were generated in the second quarter, which is around 20 per cent less than the prior-year benchmark. In all, however, business generated in this period was still within our conservative projections for the year.

The group's total operating performance in the reporting period reduced less drastically than sales, down by 16.1 per cent to EUR 52.2m. This was due to higher internally produced and capitalised assets and a more moderate inventory reduction. The cost of materials decreased by 31.8 per cent to EUR 19.2m. This above-average reduction came as a result of the restructuring measures and portfolio adjustments implemented in the previous years. Gross profit (without internally produced and capitalised assets and other operating income) reduced by 6.2 per cent to EUR 30.2m. The gross profit margin as a result stood at 60.7 per cent, compared to 51.4 per cent in the relevant prior-year period.

Personnel expenses also decreased by a further 5.1 per cent to EUR 24.4m, though the majority of the measures introduced in the personnel sector had already been recognised in net profit in the previous year. At EUR 2.7m (2012: EUR 2.5m), depreciation remained virtually the same, as did the other operating expenses at EUR 8.7m (2012: EUR 9.2m). In total, the operating result before impairment charges and restructuring costs in the first half of 2013 improved from EUR -3.3m to around EUR -2.7m. Accounting for restructuring costs of EUR 0.2m (2012: EUR 0.9m), the EBIT stood at around EUR -3.0m, compared to EUR -4.2m in the prior-year benchmark period, with breakeven EBIT in the second quarter of 2013 (Q2 2012: EUR -1.9m).

The financial result in the first six months of 2013 amounted to EUR -0.8m, after EUR -1.1m in the prior-year period. Consolidated earnings before taxes totalled EUR -3.7m (2012: EUR -5.3m). After taxes, net earnings of our continued segments came to EUR -3.8m (2012: EUR -5.5m). This translates into — diluted and undiluted — earnings per share of EUR -0.48 for our continued segments (2012: EUR -0.68).

### FINANCIAL POSITION

As financial management targets, Funkwerk AG seeks to secure the group's liquidity, optimise its financial expenses and income, and control and minimise its currency and interest risks. The primary features and instruments of our system are described in our 2012 annual report.

### LIQUIDITY TREND

In the first half of 2013, cash outflow relating to current operations amounted to EUR 6.5m, compared to EUR 9.3m in the prior-year benchmark period. The main factors here were the net loss for the period of EUR -5.0m, the settlement of debt amounting to EUR -6.1m, and the reduction of payments received on account of orders at EUR -2.8m. Cash outflow in the main was opposite positive cash effects from the specific reduction of inventories, receivables and other assets to the amount of EUR 3.7m.

Cash flow from investing activities in the reporting period totalled EUR +0.8m. This positive figure is due to cash injections of EUR 2.3m resulting from the sale of companies. Development spending totalled EUR 1.1m, the expenditures for tangible assets came to EUR 0.3m.

Adding up the cash inflow and outflow from current operations and investing activities, free cash flow in the first half of 2013 totalled EUR -5.7m (2012: EUR -4.0m). In terms of financing activities, Funkwerk repaid short-term credit lines of around EUR 1.9m in the reporting period.

Adding up all payment transactions between January and June 2013, cash outflow totalled EUR 7.6m, so that liquid assets reduced from EUR 12.9m at 31 December 2012 to EUR 5.3m.

### ASSET POSITION

Consolidated total assets as at the end of June 2013 amounted to EUR 94.9m, after EUR 113.1m at the end of December 2012. This reduction by 16.0 per cent resulted from the sale of company divisions in the year to date as well as further optimisation of our working capital. A significant factor on the assets side was changes in the trade accounts receivable, which reduced by

EUR 5.7m to EUR 23.2m as a result of our improved working capital management. Liquid funds also reduced quite notably by EUR 7.6m to EUR 5.3m. On the whole, short-term assets decreased by 18.0 per cent to EUR 66.5m.

Long-term assets dropped by a total of 11.0 per cent to EUR 28.4m, primarily including the reduction of goodwill from EUR 4.7m to EUR 2.6m.

Changes on the liabilities side of the consolidated balance sheet also primarily affected short-term items. Contributing factors here, primarily, were the decrease in other liabilities from EUR 14.4m to EUR 9.6m, reduced payments received on account of orders, which were down by EUR 3.7m to EUR 6.2m, and the cut in trade accounts payable by EUR 2.2m to EUR 19.2m. Short-term financial liabilities also reduced from EUR 6.9m to EUR 5.0m as at the end of June. There were no long-term financial liabilities as at the cutoff date. As a result, net cash and cash equivalents in the Funkwerk group (liquid funds less short- and long-term financial debt) totalled EUR 0.3m at the end of June, after EUR 6.0m at the end of 2012.

Long-term debt at the cutoff date totalled EUR 13.6m, compared to EUR 14.2m at the end of 2012. The primary change here related to pension commitments, which reduced from EUR 13.4m to EUR 12.9m due to claims.

Equity in the Funkwerk group decreased by 15.6 per cent to EUR 27.2m as a result of the deficit in the first half of the year. Therefore, the equity ratio stood at 28.6 per cent at the end of June 2013, compared to 28.5 per cent at the end of 2012.

## Other performance indicators

### RESEARCH AND DEVELOPMENT

Intensive research and development activities (R&D) at Funkwerk are aimed at designing new products and systems, with specific focus on our core components to extend our technological edge in these areas. We are also continuously working to optimise our production processes. In the first six months of 2013, R&D spending in the group totalled around EUR 7.6m. In terms of sales, this produces an R&D ratio of 15 per cent.

Focus in our TCC segment was given to working towards SIL 4 certification of our Alister interlocking system. Activities here centred on the completion and appraisal of the considerable amount of documentation, which we pushed with an enlarged team working closely with our customer, Deutsche Bahn, and the Federal Railway Authorities. We also steadily continued to develop and optimise our train radio systems including adaptation to the specifications of new countries and regions.

In our security systems sector we aim to increase our market presence in Russia and introduce our products to China with the installation of new frequencies for our Tetra systems. Efforts are also made to gain approval for the mining sector and work on relevant solutions. After approval for the sale of small Dect-over-IP system solutions as a promising market for Funkwerk, we successfully completed a field test in this sector. Our video sector, meanwhile, focused on developing and completing our digital product ranges FAC 4000 and VNS 404. As a result, we now also hold a promising position in this fast-growing sector.

#### EMPLOYEES

As a result of our efficiency improvement measures in the administrative and productive sectors, the number of our employees reduced from 788 at the end of 2012 to 755 as at 30 June 2013.

### 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 2012 annual financial statements. The opportunities and risks of the group in the first six months of 2013 did not significantly change on the account in the 2012 annual financial statements.

Funkwerk AG as the borrower and its German subsidiaries as codebtors have concluded a multi-year syndicated loan agreement with three German commercial banks for which it has provided collateral in the form of blanket assignments of trade accounts receivable of individual subsidiaries, assignment of

inventories of all companies in the Funkwerk group, and land charges on the company premises. The loan has a term of three years (up until March 2014) with the option of renewal for a further two years. The medium-term planning for 2013 to 2015 has shown that the financial ratios defined for 2013 (the »Covenants«) cannot be met at the required level during the period. The banking syndicate has reassured us that it would not exercise its termination rights despite failure to meet the defined financial ratios at the due dates. Based on projections, the Executive Board expects that the newly negotiated financial ratios agreed for the relevant due dates will be met. If the target figures cannot be reached, both the company and the group may face considerable liquidity risks.

### Events after the reporting period

No 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

In view of the fact that the economy proves more sluggish than expected and the factors causing this situation persist, the International Monetary Fund has adjusted its projections for the full 2013 year downward. On the whole, the IMF now predicts global growth of no more than 3.1 per cent — which would mirror the comparatively poor trend in 2012. One of the main factors responsible for this, so the IMF says, is poorer than expected economic dynamics in the developing and newly industrialised countries,

which are estimated to see an increase in economic performance by no more than 5 per cent. China is also expected to fare somewhat worse than anticipated, with growth of 7.8 per cent. The trend in the eurozone with GDP shrinking by 0.6 per cent and the persistent all but moderate growth in the USA of 1.7 per cent are also not expected to provide positive momentum to any significant degree.

In its latest report, the IMF once again warned of continuing risks from the euro crisis and the budget problems in the USA, though these are less pronounced than before after progress made at a political level. The IMF further believes there is now a greater risk that weak growth in the developing and newly industrialised countries will persist longer than expected.

#### SECTOR TREND

With orders notably down in the previous year, the German Rail Industry Association, VDB, predicts an end to current growth in the German rail industry for 2013. The main sector to be affected will be rolling stock, but trade in infrastructure equipment will also remain difficult. The hope that a continuation of the Service and Financing Agreement of the German government, which is designed to ensure steady infrastructure investments, will stimulate demand has not been fulfilled. Relevant work was postponed until after the Bundestag elections. Since the current framework contract will soon expire, we may even see cuts in this sector. Similar to Germany, a certain investment reluctance is noticeable also in European countries facing a difficult economic setting. Only countries such as China, Russia and Turkey, which are specifically pushing the development of their railway transport system, are expected to see sustained growth.

The domestic market for security technology has a good chance of continuing the growth levels experienced in recent years. According to the report by the National Association of Manufacturers and Installers of Security Systems, BHE, in the second quarter, the majority of member firms described their situation predominantly as good. Positive signs were seen particularly in terms of willingness in the industry to invest, whereas the demand of public and private target groups is thought to be satisfactory at best. The demand is expected to rise in the medium to long term. The debate about public safety may provide fresh impetus here, which should benefit Funkwerk, as it holds a good position in its markets. In the short term, however, the momentum to be expected for Funkwerk business may be dampened by investment restraint in the public sector.

#### PROSPECTIVE DEVELOPMENT IN THE FUNKWERK GROUP

Unless the general economic setting deteriorates considerably, we expect consolidated sales for the full 2013 financial year to range at a steady EUR 140 m. In terms of operating earnings (without restructuring costs) we should be able to see significant improvement on the previous year, as our initiated cost saving measures will take full effect in 2013.

As part of our reorientation, we are planning to focus our efforts in the latter half of 2013 on optimising the production structures at our SC site in Salzgitter. We also intend to improve our productivity in the group largely through standardisation and automation of our operations. To this end, we are introducing a modern SAP system one site at a time.

Opportunity for growth in markets arises particularly through continued efforts aimed at the international expansion of our business, which we primarily approach through cooperation and project-specific partnerships. Along with the potential we see in specific countries, the broader international position will enable us to compensate regional market fluctuations in better ways. Further opportunities for Funkwerk arise in full-service solutions. We therefore want to use our substantial system expertise more intensively and increasingly offer our customers complete

solutions. In addition, we aim to strengthen our market position through development of our customer service business. Ongoing customer care for existing accounts will be intensified and the real value of their investments maintained through upgrades and adjustment measures. In terms of video systems, for instance, the changeover of existing equipment to digital solutions results in much greater demand for servicing and maintenance.

#### DEVELOPMENT IN THE SEGMENTS

The focus in our TCC segment continues to be on working emphatically towards SIL 4 certification of our Alister interlocking system. Our SC segment will benefit from the high level of orders in the personal security sector in the latter half of the year and from today's vantage point complete several projects in forensics institutes and penal facilities. Outside Germany, we are increasingly concentrating on our Tetra business in the Chinese and Russian growth markets. We were able through our new partners to further extend the reach of Funkwerk systems. In addition, we plan to intensify our customer service to a greater degree and position ourselves as a profit centre here.

Kölleda, August 2013

— The Executive Board —



Dr.-Ing. Manfred Lerch



Kerstin Schreiber

## The Funkwerk share

PERFORMANCE FUNKWERK SHARE FIRST HALF OF 2013 [ 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
- Designated Sponsor: Close Brothers Seydler Bank AG
- Capital stock: EUR 8,101,241
- Number of shares: 8,101,241

### Positive market developments

In the first half of 2013, the international stock markets largely posted gains due primarily to the continued expansive monetary policy of the central banks. A renewed cut in interest rates by the European Central Bank in the second quarter sparked a surge in share prices which in May took the American indices and the leading German index, DAX, to their new all-time highs. Any euphoria was subsequently dampened by the head of the American Central Bank, who announced a possibly less expansive course of the central bank in the future. This led to notable corrective price adjustments in the stock markets which partly

offset any previous gains. At the end of June, the DAX still posted an increase of 4.6 per cent. The TecDaX, meanwhile, fared considerably better with a growth of 14.3 per cent.

### **Funkwerk share – highly volatile price performance**

The Funkwerk share faced a highly volatile trend in the first half of 2013. Following a poor start with a significant markdown of the EUR 2.11 posted at the end of 2012, the price soon climbed back up to EUR 2.41 before gradually dropping again to its annual low of EUR 1.88 at the end of March. Early in the second quarter, it then rallied again, taking the Funkwerk share up to its current annual high of EUR 2.49 at the beginning of June. Corrective price adjustments in the market also affected our share, which somewhat lost the ground gained and closed at EUR 2.16 at the end of June. Compared to the 2012 closing price, this translates into a gain of 2.3 per cent. Factors contributing to the highly volatile trend of the Funkwerk share were the recent sluggish trend in the stock markets, but also primarily the varying assessments of investors in terms of the progress of our restructuring process.

### **Segment change**

As reported, the Executive Board and the Supervisory Board of Funkwerk AG decided in early 2013 to transfer the listing of its share to a different stock market segment. After approval of our application for admission to the market in Munich, the Funkwerk share has been listed exclusively in the m:access trading segment within the open market of the Munich Stock Exchange since July 2013.

### **Investor Relations activities**

The change of stock market segment will not have any significant effect on our information policy. We will continue to notify our shareholders, other financial market players and the interested public promptly and fully of any business development at Funkwerk. As before, we will regularly publish financial statements along with press releases and any facts that may be relevant to our share. As always, the personal dialogue with financial analysts remains a key aspect of our Investor Relations activities. In April 2013, for instance, we were at the Munich Capital Market Conference where 44 companies presented themselves to a plenum of over 300 participants.

### **Shareholder structure remains unchanged**

The shareholder structure of Funkwerk AG as at the end of June 2013 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 balance sheet as at 30 June 2013 according to IFRS

ASSETS	30/06/2013	31/12/2012
	EUR K	EUR K
<b>A. LONG-TERM ASSETS</b>		
1. Intangible assets	19,478	22,378
of which goodwill	2,583	4,675
of which development costs	14,734	15,383
2. Tangible assets	8,927	9,536
3. Other assets	4	4
	<b>28,409</b>	<b>31,918</b>
<b>B. SHORT-TERM ASSETS</b>		
1. Inventories	23,753	25,355
2. Trade accounts receivable	23,164	28,896
3. Receivables from projects in progress	7,282	7,741
4. Due from affiliated companies	21	0
5. Tax refund claims	1,458	1,329
6. Other assets	1,923	1,470
7. Financial assets	3,606	3,445
8. Liquid assets	5,322	12,906
	<b>66,529</b>	<b>81,142</b>
	<b>94,938</b>	<b>113,060</b>

LIABILITIES	30/06/2013	31/12/2012
	EUR K	EUR K
<b>A. CAPITAL STOCK</b>		
1. Subscribed capital	8,101	8,101
2. Capital reserve	63,562	63,562
3. Retained earnings (revenue reserve)	38,211	38,211
4. Own shares	-1,062	-1,062
5. Net loss for the year	-81,374	-76,351
6. Foreign currency item	-249	-228
Equity of Funkwerk AG shareholders	27,189	32,233
	<b>27,189</b>	<b>32,233</b>
<b>B. LONG-TERM LIABILITIES</b>		
1. Pension obligations	12,855	13,376
2. Deferred investment subsidies	143	155
3. Deferred taxes	620	635
	<b>13,618</b>	<b>14,166</b>
<b>C. SHORT-TERM LIABILITIES</b>		
1. Financial liabilities	5,000	6,873
2. Trade accounts payable	19,228	21,394
3. Advance payments received on orders	6,162	9,846
4. Due to affiliated companies	286	364
5. Tax liabilities	6,415	6,624
6. Accrued liabilities	7,370	7,150
7. Deferred investment subsidies	29	31
8. Other liabilities	9,641	14,379
	<b>54,131</b>	<b>66,661</b>
	<b>94,938</b>	<b>113,060</b>

## Consolidated statement of comprehensive income acc. to IFRS for the half year ended 30 June 2013

	Q2 2013 01/04/2013 TO 30/06/2013 EUR K	Q2 2012 01/04/2012 TO 30/06/2012 EUR K	Q1-Q2 2013 01/01/2013 TO 30/06/2013 EUR K	Q1-Q2 2012 01/01/2012 TO 30/06/2012 EUR K
<b>CONTINUED BUSINESS SEGMENTS</b>				
<b>1. Sales revenues</b>	<b>27,689</b>	<b>34,770</b>	<b>49,724</b>	<b>62,685</b>
2. Increase/decrease in finished goods inventories and work in progress	-341	-2,459	-324	-2,302
3. Other own work capitalised	388	237	969	468
4. Other operating income	1,105	860	1,870	1,398
<b>5. Total operating performance</b>	<b>28,841</b>	<b>33,408</b>	<b>52,239</b>	<b>62,249</b>
6. Cost of materials	-10,830	-15,589	-19,197	-28,158
7. Personnel expenses	-12,377	-12,768	-24,366	-25,682
8. Planned depreciation	-1,317	-1,192	-2,712	-2,473
9. Other operating expenses	-4,090	-5,057	-8,710	-9,191
<b>10. Operating result before impairment charges and restructuring costs</b>	<b>227</b>	<b>-1,198</b>	<b>-2,746</b>	<b>-3,255</b>
11. Restructuring costs	-217	-747	-217	-919
<b>12. Operating result / EBIT</b>	<b>10</b>	<b>-1,945</b>	<b>-2,963</b>	<b>-4,174</b>
13. Financial income	15	120	20	245
14. Financial expenses	-623	-670	-805	-1,340
<b>15. Financial results</b>	<b>-608</b>	<b>-550</b>	<b>-785</b>	<b>-1,095</b>
<b>16. Earnings before taxes</b>	<b>-598</b>	<b>-2,495</b>	<b>-3,748</b>	<b>-5,269</b>
17. Taxes on income	123	-158	-99	-188
<b>18. Result of continued segments</b>	<b>-475</b>	<b>-2,653</b>	<b>-3,847</b>	<b>-5,457</b>
<b>19. Result of sold segments (after taxes)</b>	<b>-1,189</b>	<b>-901</b>	<b>-1,176</b>	<b>-321</b>
<b>20. Earnings after taxes/period result</b>	<b>-1,664</b>	<b>-3,554</b>	<b>-5,023</b>	<b>-5,778</b>
<b>AMOUNTS DIRECTLY INCLUDED IN EQUITY</b>				
21. Currency differences	-22	30	-21	-6
22. Other period results – continued segments	-22	30	-21	-6
23. Other period results – sold segments	0	0	0	0
<b>24. Total</b>	<b>-1,686</b>	<b>-3,524</b>	<b>-5,044</b>	<b>-5,784</b>
<b>THE RESULT FOR THE PERIOD COMPRISES</b>				
Funkwerk AG shareholders	-1,664	-3,554	-5,023	-5,778
<b>THE AMOUNTS DIRECTLY INCLUDED IN EQUITY COMPRISE</b>				
Funkwerk AG shareholders	-22	30	-21	-6
<b>EARNINGS PER SHARE</b>				
Earnings per share (undiluted and diluted) in EUR	-0.21	-0.44	-0.62	-0.72
<b>EARNINGS PER SHARE – CONTINUED SEGMENTS</b>				
Earnings per share (undiluted and diluted) in EUR	-0.06	-0.33	-0.48	-0.68

## Consolidated statement of cash flows acc. to IFRS for the half year ended 30 June 2013

	Q1 - Q2 2013	Q1 - Q2 2012
	EUR K	EUR K
<b>1. Period result</b>	<b>-5,023</b>	<b>-5,778</b>
2. Income tax expenditure	108	797
3. Depreciation of development costs	1,629	1,200
4. Depreciation of tangible assets and intangible assets	1,069	1,858
5. Other non-cash expenditure and income	1,314	-1,808
6. Reversal of investment subsidies	-17	-44
7. Changes in reserves	-324	-2,487
8. Profit/loss from the disposal of fixed assets	0	-173
9. Changes in inventories, receivables and other assets	3,722	6,745
10. Changes in advance payments received on orders	-2,844	-1,737
11. Changes in other debts	-6,085	-7,791
12. Interest income	-11	-29
13. Interest expenditure	330	668
14. Interest paid	-144	-591
15. Interest received	11	15
16. Paid income tax	-256	-156
<b>17. Cash flow from operating activities</b>	<b>-6,521</b>	<b>-9,311</b>
18. Receipts from the disposal of fixed assets	12	175
19. Payments for investments in development costs	-1,077	-2,398
20. Payments for investments in intangible assets without goodwill and development costs	-167	-102
21. Payments for investments in fixed assets	-295	-1,059
22. Receipts from investment subsidies	0	11
23. Receipts for deconsolidation	2,337	8,671
<b>24. Cash flow from investing activities</b>	<b>810</b>	<b>5,298</b>
<b>25. Free cash flow</b>	<b>-5,711</b>	<b>-4,013</b>
26. Payments for the redemption of (financial) credit	-1,873	-9,425
<b>27. Cash flow from financing activities</b>	<b>-1,873</b>	<b>-9,425</b>
28. Net change in cash and cash equivalents	-7,584	-13,438
29. Cash and cash equivalents at beginning of period	12,906	17,951
<b>30. Cash and Cash equivalents at end of period</b>	<b>5,322</b>	<b>4,513</b>

### Consolidated statement of changes in equity acc. to IFRS for the half year ended 30 June 2013

	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE RESERVE	OWN SHARES	NET LOSS	FOREIGN CURR. ITEM	EQUITY OF FUNKWERK AG SHARE- HOLDERS
	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K
<b>31 December 2011</b>	<b>8,101</b>	<b>63,529</b>	<b>38,211</b>	<b>-1,062</b>	<b>-59,915</b>	<b>-204</b>	<b>48,660</b>
Group profit for the period	0	0	0	0	-5,778	0	-5,778
Foreign currency item	0	0	0	0	0	-6	-6
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-5,778</b>	<b>-6</b>	<b>-5,784</b>
Share options (IFRS 2)	0	16	0	0	0	0	16
<b>Transactions with owners</b>	<b>0</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>16</b>
<b>30 June 2012</b>	<b>8,101</b>	<b>63,545</b>	<b>38,211</b>	<b>-1,062</b>	<b>-65,693</b>	<b>-210</b>	<b>42,892</b>
<b>31 December 2012</b>	<b>8,101</b>	<b>63,562</b>	<b>38,211</b>	<b>-1,062</b>	<b>-76,351</b>	<b>-228</b>	<b>32,233</b>
Group profit for the period	0	0	0	0	-5,023	0	-5,023
Foreign currency item	0	0	0	0	0	-21	-21
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-5,023</b>	<b>-21</b>	<b>-5,044</b>
Share options (IFRS 2)	0	0	0	0	0	0	0
<b>Transactions with owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>30 June 2013</b>	<b>8,101</b>	<b>63,562</b>	<b>38,211</b>	<b>-1,062</b>	<b>-81,374</b>	<b>-249</b>	<b>27,189</b>

## Segment reporting for the half year ended 30 June 2013

	YEAR	TCC	SC	AC	GROUP	SOLD BUSINESS SEGMENTS	CORR. CONSOLI- DATION	CONTINUED BUSINESS SEGMENTS
		EUR K	EUR K	EUR K				
Total sales revenues	2013	30,565	21,948	0	52,513			
	2012	38,832	25,250	11,277	75,359			
Sales revenues with other business segments*	2013	6	221	0	227			
	2012	4	152	1	157			
External sales revenues	2013	30,559	21,727	0	52,286	-2,562	0	49,724
	2012	38,828	25,098	11,276	75,202	-13,873	1,356	62,685
Other operating income	2013	1,519	535	0	2,054	-958	774	1,870
	2012	2,224	598	553	3,375	-2,133	156	1,398
<b>Segment revenues</b>	<b>2013</b>	<b>32,078</b>	<b>22,262</b>	<b>0</b>	<b>54,340</b>	<b>-3,520</b>	<b>774</b>	<b>51,594</b>
	<b>2012</b>	<b>41,052</b>	<b>25,696</b>	<b>11,829</b>	<b>78,577</b>	<b>-16,006</b>	<b>1,512</b>	<b>64,083</b>
Inventory changes of finished goods and work in progress	2013	-755	464	0	-291	-33	0	-324
	2012	-1,805	-541	93	-2,253	-49	0	-2,302
Own work capitalised (development)	2013	109	968	0	1,077	-108	0	969
	2012	85	468	1,845	2,398	-1,930	0	468
Cost of materials	2013	-10,552	-9,542	0	-20,094	897	0	-19,197
	2012	-15,041	-13,392	-7,858	-36,291	9,489	-1,356	-28,158
Personnel expenses	2013	-15,595	-10,073	0	-25,668	1,302	0	-24,366
	2012	-16,434	-10,176	-4,528	-31,138	5,456	0	-25,682
Planned depreciation of fixed assets	2013	-696	-412	0	-1,108	25	0	-1,083
	2012	-716	-601	-544	-1,861	538	0	-1,323
Planned depreciation of development work	2013	-671	-958	0	-1,629	0	0	-1,629
	2012	-737	-462	0	-1,199	49	0	-1,150
Other operating expenses	2013	-6,310	-4,230	0	-10,540	2,604	-774	-8,710
	2012	-5,142	-4,193	-1,712	-11,047	2,012	-156	-9,191
<b>Operating result before impairment charges and restructuring costs</b>	<b>2013</b>	<b>-2,392</b>	<b>-1,521</b>	<b>0</b>	<b>-3,913</b>	<b>1,167</b>	<b>0</b>	<b>-2,746</b>
	<b>2012</b>	<b>1,262</b>	<b>-3,201</b>	<b>-875</b>	<b>-2,814</b>	<b>-441</b>	<b>0</b>	<b>-3,255</b>
Restructuring costs	2013	-190	-27	0	-217	0	0	-217
	2012	-548	-321	-138	-1,007	88	0	-919
<b>Operating result / EBIT</b>	<b>2013</b>	<b>-2,582</b>	<b>-1,548</b>	<b>0</b>	<b>-4,130</b>	<b>1,167</b>	<b>0</b>	<b>-2,963</b>
	<b>2012</b>	<b>714</b>	<b>-3,522</b>	<b>-1,013</b>	<b>-3,821</b>	<b>-353</b>	<b>0</b>	<b>-4,174</b>

\* 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 Financial Reporting Standards (IFRS) passed and published by the International Accounting Standards Board (IASB). The quarterly accounts are based on the accounting principles and methods applied to the consolidated financial statements for the 2012 financial year.

This interim report has neither been audited under Section 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 %
Funkwerk Information Technologies GmbH	Kiel, Schleswig-Holstein	100
Funkwerk Security Communications GmbH	Salzgitter, Lower Saxony	100
Funkwerk Systems Austria GmbH	Vienna, Austria	100
Funkwerk Statkom GmbH	Kölleda, Thuringia	100
FunkTech GmbH	Kölleda, Thuringia	100
Funkwerk eurotelematik GmbH	Ulm, Baden-Württemberg	100

  

INDIRECT SUBSIDIARIES	REGISTERED OFFICE	VOTING RIGHTS IN %
Funkwerk Information Technologies Karlsfeld GmbH	Karlsfeld, Bavaria	100
Funkwerk Information Technologies Malmö AB	Malmö, Sweden	100
Funkwerk IT Polska Sp. z o.o.	Warsaw, Poland	100
Funkwerk videosysteme GmbH	Nuremberg, Bavaria	100
Funkwerk Electronic Services GmbH	Salzgitter, Lower Saxony	100
Funkwerk Engineering GmbH	Kiel, Schleswig-Holstein	100

On 2 May 2013, Funkwerk sold 100 per cent of its shares in Microsyst Systemelectronic GmbH, which was part of the Traffic & Control Communication (TCC) segment. As per IFRS 5, the transaction was reported in the consolidated statement of comprehensive income as »Result of the sold business segments (after taxes)«. The deconsolidation effective 30 April 2013 did not have any significant effect on the consolidated statement of comprehensive income. At the time of sale, the company employed a total workforce of 39 people. In the 2012 financial year, the sold subsidiary generated a net profit of EUR 1,165k, with revenues of EUR 7,465k.

On 31 May 2013 Funkwerk sold all shares in its British subsidiary Funkwerk Information Technologies York Limited. The company had been part of the TCC segment and had at that point employed 27 people. The deconsolidation effective 31 May 2013 resulted in a negative adjustment to net income of around EUR -1.3m, which is also reported in the »Result of the sold business segments (after taxes)«. In the 2012 financial year, the sold subsidiary generated a net loss of EUR -1,241k, with revenues of EUR 2,342k.

Under the merger agreement of 4 June 2012, Funkwerk Passenger Informations GmbH was merged with FunkTech GmbH. The merger was entered in the Commercial Register on 19 June 2013. It did not have any effect on the consolidated statement of comprehensive income.

The result of the sold business segments (after taxes) as per item 19 of the consolidated statement of comprehensive income is calculated as follows:

SOLD BUSINESS SEGMENTS	Q1 – Q2 2013	Q1 – Q2 2012
	IN EUR K	IN EUR K
Sales revenues	2,562	13,873
Gross performance	2,783	16,278
Expenditure	-2,645	-17,705
Operating result	138	-1,427
Financial results	0	-65
Taxes on income	-9	-609
Operating result after tax	129	-2,101
Result from the sale of sold business segments	-1,305	1,780
Taxes on income on the result from the sale of sold business segments	0	0
<b>Period result</b>	<b>-1,176</b>	<b>-321</b>

### 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 2013.

### 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  
 Köllda, August 2013

# Financial calender

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Analyst conference

November 2013

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