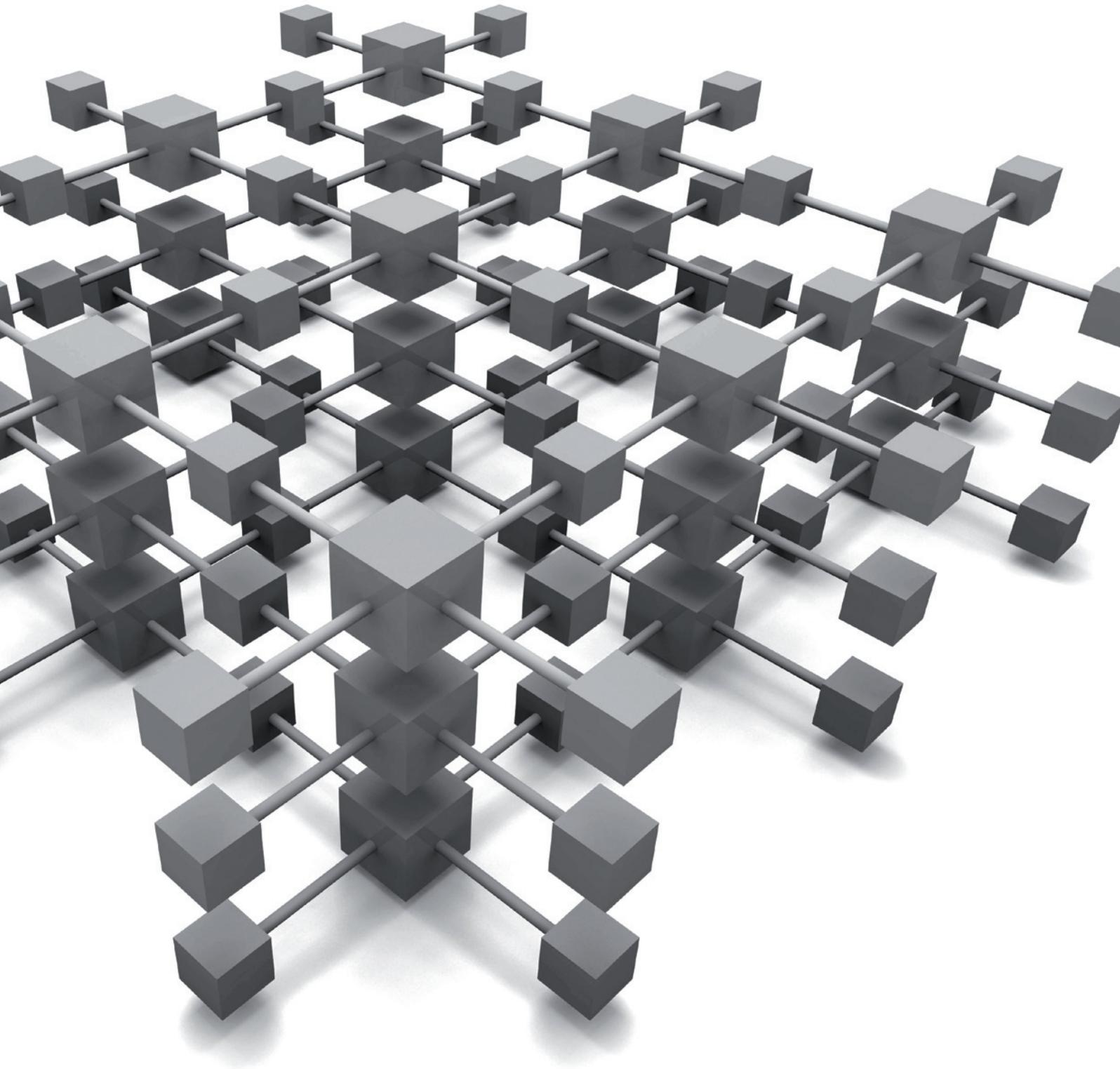


INTERIM REPORT

3 / 2010



KEY DATA

	Q1-Q3 2010	Q1-Q3 2009
	€ M	€ M
Results of operations		
Revenues	149.4	167.9
Gross yield	73.8	82.3
Operating profit*	-2.5	-12.5
Operating result /EBIT	-3.2	-15.5
Earnings per share in EUR	-0.68	-1.48
Receipt of order	160.3	156.5
Order volume	103.0	101.3
Net assets and financial position		
Operating Cash Flow	-10.0	-10.5
Working Capital	59.9	79.1
Shareholder's Equity	83.7	117.7
Equity ratio (in %)	53.8	59.8
Balance sheet total	155.6	196.9
Employees (annual average)	1,324	1,582

*result before impairment charges and restructuring costs

FUNKWERK AG

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

TRAFFIC & CONTROL COMMUNICATION

- Communication systems
- Management systems
- Information systems

AUTOMOTIVE COMMUNICATION

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

ENTERPRISE COMMUNICATION

- Networks
- Voice
- Data security

SECURITY COMMUNICATION

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

GROUP INTERIM MANAGEMENT REPORT

Dear ladies and gentlemen, dear shareholders,

In the third quarter of 2010, Funkwerk AG successfully continued its restructuring measures by concentrating business activities, streamlining its organisation and improving the cost structure. In the same quarter, however, both our incoming business and sales remained behind the projections. Contrary to expectations, the upswing heralded earlier in the year failed to reach the lagging sectors in which Funkwerk operates with lasting effect. Rather, it was a case of retracting announcements such as infrastructure investments in information and communication technology. Call-offs originally advised under framework agreements also at times failed to materialise. As a consequence, this led to a general delay in recovery from the crisis despite improved productivity.

As the restructuring measures in the group are now almost completed – with the exception of our Security Communication segment – and personnel levels have been cut along with a significant reduction in fixed costs, Funkwerk was able, however, to close the third quarter with a close to break-even result. This leaves our target of returning into the black in operations within reach in fiscal 2010.

GENERAL ECONOMY AND SECTOR TREND

The information and communication systems Funkwerk provides are primarily used as infrastructure for transport operators, companies and institutions. The sector trend therefore follows the general economic development with a certain delay. After the first six months of 2010, we were once again aware that many companies and institutions retained their cautious stance in terms of investments, while the global trade, in particular, regained strength to give fresh impetus to other sectors of the economy.

Affected by significant state debts and the resulting pressure on public authorities to consolidate, transport operators in particular, along with companies with infrastructure facilities, which greatly depend on public spending, shied away from new investments and postponed acquisitions. Budgets for information systems and communication technology even saw further cuts.

This particularly affected business in our Traffic & Control Communication segment in the third quarter. Furthermore, our Security Communication segment failed to provide sales contributions from export.

At € 48.7 m, group revenues in the third quarter therefore lagged behind not only our projections, but also the previous year (€ 54.0 m). The same applies to incoming business, which amounted to € 46.6 m (2009: € 66.9 m).

As a result, accumulated sales in the nine-month period stood at € 149.4 m (2009: € 167.9 m). It must be noted here, however, that some €5.4 m of the decrease in sales on the previous year is due alone to the deconsolidation effect and around €15 m to the politically induced standstill of business activities in Algeria. Furthermore, Funkwerk deliberately shed a number of product groups, and, therefore, sales contributions, as part of our restructuring measures.

Owing to the positive trend in the first half of the year, incoming business as at the end of September, on the other hand, totalled €160.3 m to exceed the prior-year figure of €156.5 m. The same is true for the volume of orders, which came to €103.0 m (2009: €101.3 m).

EBIT IN THIRD QUARTER UP BY OVER € 9 M ON PREVIOUS YEAR

As a result of the now almost completed measures to adjust our capacities and reduce the fixed costs, Funkwerk was able despite a business trend which, on balance, proved disappointing in the third quarter to achieve a close to break even operating result. Whereas the prior-year quarter still saw a loss before interest and taxes (EBIT) of €9.6m, the figure reduced to €-0.5m in the third quarter of 2010. This, for one, reflects the relief of the strain on personnel and other operating expenses; on the other hand, it indicates a decline in spending on restructuring measures, which in the previous year was still valued at €2.5m.

After nine months, Funkwerk therefore generated earnings before interest and taxes (EBIT) at group level of €-3.2m (2009: €-15.5m). The negative figure was caused almost exclusively by the segment result of €-5.4m (2009: €-8.5m) produced by our Security Communication segment. The latter reflects the expenditure required for still ongoing restructuring measures and capacity adjustments as well as the considerable project planning costs, which were necessary in the first two quarters. The result generated in this segment in the third quarter therefore remained negative at around €-1.1m. We do, however, expect the operating result to be positive in the fourth quarter indicating a successful restructuring.

The three remaining business segments, Traffic & Control Communication, Automotive Communication and Enterprise Communication, again generated balanced or even positive earnings contributions in the third quarter, though these figures – with the exception of Automotive Communication – remained behind our projections.

Compared to the previous year, interest and taxes payable in the Funkwerk group increased in the third quarter so that the period result aggregated €-2.1m (2009: €-7.4m). This led to a group loss of €-5.6m in the first nine months of 2010 (2009: €-12.2m), corresponding to earnings per share of €-0.68 (2009: €-1.48).

We expect to see drastic improvements in the last quarter of 2010, which tends to be the strongest in terms of sales and earnings. We are also likely to experience catch-up effects after delayed order and project placements in the third quarter.

Business trend by segment

TRAFFIC & CONTROL COMMUNICATION: REMAINING PROFITABLE DESPITE DROP IN SALES

In the third quarter, Funkwerk's largest segment, Traffic & Control Communication (TCC), felt the budget cuts for information systems and communication technology made by railway companies in the wake of the financial crisis. Contrary to announcements and already existing commitments, product call-off orders under framework agreements were delayed. A Western European railway company, for example, stretched the roll-out of GSM-R terminals. This will push sales revenues of over €5m for Funkwerk into the following periods in 2011.

On the whole, TCC generated revenues of €23.1m between July and the end of September (2009: €27.8m). Over the nine month period, sales in this segment accumulated to €71.7m (2009: €79.2m). It must be borne in mind here, however, that some €5.4m on the previous year are due to a deconsolidation effect.

Funkwerk countered the deviation from the sales budget at TCC with the introduction of further cost saving measures and a prompt adjustment of capacities. This made it possible to reduce the earnings effect and once again achieve a positive operating result in the third quarter. After the first nine months, TCC therefore reported a

segment operating result of € 1.7 m. In the previous year – before the successful restructuring – this had still been a deficit of € – 1.5 m. The key earnings contributions were again made by mobile radio equipment despite the delayed roll-outs. The other product groups will not see a positive turnaround until the fourth quarter.

Due to catch-up effects in investments, we expect business with communication, management and information systems for transport operators and manufacturers of transport infrastructure to pick up in the last quarter of 2010. The same applies to the next financial year. At € 79.6 m, incoming business at TCC as at the end of September matched the prior-year level, while the order volume climbed to € 74.3 m, up by a good 10 per cent on the previous year (€ 67.4 m).

The internationalisation of business, a strategic focus of TCC, is beginning to bear fruit. Exports in the reporting period were up, with new orders won in Australia, India and Morocco. Further business initiations are on the horizon in the BRIC states, where Funkwerk is relying on cooperations with infrastructure suppliers to gain a foothold in the market.

Product innovations at TCC gained much attention at the transport industry's leading trade fair, the »Inno-Trans«, in Berlin at the end of September. Many delegations from emerging markets showed keen interest particularly in the handheld Dual Mode GSM-R terminals, which are now ready for the market.

Experts also see great potential for our electronic interlocking system, Alister. It is considered a real innovation in the market, meeting the most stringent security requirements. A preliminary trial is currently under way and going smoothly. Approval is likely to be granted in the next few months in an intensive cooperation between the German Railway Authorities, the rail industry and Funkwerk. This would open up an additional market for Funkwerk over the next ten years. Due to its cost advantage, Alister is suited particularly for emerging markets.

Funkwerk has also introduced a new display generation for information systems which promises technical and economic advantages for railway companies. In addition, we are currently developing a highly modern information system on a modular platform for the rail vehicle industry, which integrates audio, displays, video and infotainment in a single network. This opens up new potential for vehicle equipment, but also for the modernisation of older train generations.

SECURITY COMMUNICATION REDUCES LOSS

The Security Communication (SC) segment of Funkwerk made good progress in restructuring the various operating units and realigning its business model in the third quarter. But again, we noticed delays here in contract allocations and call-offs in export, which had a negative effect on quarterly sales. Nonetheless, revenues generated between July and September totalled € 11.1 m, which is not much less than the prior-year result (€ 11.2 m), though still clearly below our projections.

On a nine-month basis, segment sales totalled € 34.2 m, compared to € 43.1 m in the previous year. This decrease is due exclusively to the standstill of our projects in Algeria. Where we had still generated over € 14 m here in the previous year, we are now down to € 1.4 m in 2010.

In 2007, Funkwerk was commissioned with the setup of major security systems in Algeria. We have since provided security for key oil and gas plants including their residential bases as part of a property protection project for a local industrial corporation. Due primarily to political upheavals in the country, however, which also led to a change in leadership in the industrial corporation, business activities here were, for the time being, discontinued in early 2010. In the previous year, this had already resulted in writing off a follow-up contract, which had been a

definite in our plans and had already been in preparation. Our »Base 24« project, then still fully in the implementation stage, was halted at the request of our customer. Efforts are currently made at the highest level to ensure this project can continue and be completed. This is necessary in order to free up working capital of around €8.5 m tied up in this project. Due to the situation described, we are not currently in a position yet to transfer liquid funds in the amount of around €3.7 m from Algeria. Again, talks are held here in order to make these resources available again to the group as quickly as possible.

Without the stop in Algeria business, our Security Communication segment would have developed positively compared to the previous year. This is evident specifically from incoming business, which was up from €31.4 m in the previous year to €36.0 m. New projects were acquired particularly in the personal security sector involving the equipment of penal institutions and industrial plants and video monitoring for power plants (Sweden) as well as airports (Frankfurt) and railway stations (Turin). The new TETRA handheld units with special functions already enjoy increasing demand and have the potential in 2011 to generate additional sales in the global market.

Despite the decline in sales on the previous year and the sluggish development in the third quarter, Security Communication was able to further improve its earnings situation. While the operating result of €-1.2 m remained negative in the third quarter contrary to our projections, it improved by over €4.7 m on the previous year. This produces a segment operating result of €-4.8 m for the first nine months of 2010, compared to €-8.4 m in the previous year.

We are currently in the process of reorganising and streamlining the operational processes at SC and combining operating units. This should significantly increase our productivity here in the future. By the end of the year, we expect that the reorientation, the progressing integration and the related synergy effects for Security Communication will, on the whole, lead to a rise in business with a positive operative earnings contribution in the fourth quarter.

Here, too, Funkwerk is increasingly successful with its innovations. Following the market launch of the new product portfolio of TETRA radio equipment with special functions for security-related tasks, for example, we increasingly managed to win project orders involving personal security in penal institutions and industrial plants. Our aim is to add further contracts from both Germany and abroad by the end of the year. We also expect continuous sales contributions from a long-term framework agreement with a French energy company, which is in the process of equipping its power plants with personal security systems based on DECT technology from Funkwerk.

Further equipment versions of the TETRA handheld units will be ready for the market in the next few months. In addition, we are aiming to address a wider market of users (organisations with security-related functions (BOS), fire brigade, ambulance services) with standard equipment and BOS-specific features to open up additional sales potential.

In the video monitoring and property protection sector, Funkwerk also increasingly scored successes with such key products as pan/tilt heads, control systems, transmission technology and with the scaling of systems for special applications. This includes new contracts from Germany, Austria and Kuwait. We also see great interest in Argoscan, the worldwide unique video-based control system developed by Funkwerk for the purpose of opening hard shoulders on motorways.

AUTOMOTIVE COMMUNICATION CONTINUES UPWARD TREND

Our Automotive Communication (AC) segment continued its upward trend in the third quarter to report a result which exceeds our expectations. The OEM business with amplifier and connectivity units for commercial vehicle manufacturers and the automobile industry continued to revive, as did business with radio transponders in our avionics product sector. The after-sales market, in contrast, remained unsatisfactory.

Between July and September, AC generated revenues of €7.4 m, which corresponds to an increase of around 10 per cent on the previous year (€6.8 m). Nine-month sales thus stood at €22.5 m, compared to €21.0 m in 2009.

Concentrating our sales efforts to provide more intensive support for key customers started to show effect. The third quarter, in particular, saw some success in sales. New contracts could be generated for wireless connection of mobile phones (coupling chamber) to the vehicle antenna and the supply of WLAN routers for use in vehicles to German premium manufacturers. As a result, incoming business improved by 12.5 per cent on the previous year to €22.9 m (2009: €20.4 m).

In addition to the supplies for the automobile industry, the positive trend at AC was aided by business with radio transponders for general aviation. Sales in our avionics product sector increased from €2.0 m to €2.5 m to return into the black. The focus here was on aerospace projects and increasing the demand for radio equipment for light aircraft.

Our telematics product sector contributed some €3 m to sales in this segment, after around €4 m in the previous year. This decrease as at the cutoff date is due primarily to the conclusion of individual projects, while demand for our »Easyfleet« fleet management system is up. Due to the further optimisation of costs, however, this product sector was also able to report a break-even result.

On the whole, AC managed to further stabilise its earnings trend, generating a close to break-even operating result of €-0.4 m as at the end of September, after a loss of €-4.9 m back in 2009. This above-average improvement in performance based on the sales trend was achieved by reducing our personnel expenses and overheads and the resulting reorganisation of operational processes.

In the third quarter, we also completed the development platform which is to be used as the basis for future product developments. The AC segment of Funkwerk addresses a number of target groups, from the after-care market to commercial vehicles and private cars to avionics and telematics. All target groups increasingly want a wide range of functions integrated into compact models with standard operation. Using our generic development platform makes it possible to reduce development periods and reuse development results more effectively. Our new platform was used for the first time for the development of a communication unit for a well-known commercial vehicle manufacturer.

In the fourth quarter of 2010, we expect a steady sales and earnings trend for AC. The positive trend should continue in the following financial year. While existing serial deliveries are coming to a stop, we have won major tenders for the equipment of commercial and private motor vehicles, which will bring about growth from 2011. In addition, we see significant interest in our »Active Antenna«, which was developed by AC and has already been successfully launched. It was developed on the basis of the patented mobile radio amplifier from Funkwerk (Compenser) and ensures a perfect radio signal even in buildings in areas where mobile radio coverage is poor. This makes it possible to provide good Internet connection via UMTS or 3G radio networks in regions where broadband via landlines is not possible. We anticipate significant sales potential here, specifically after future adaptation to the LTE standard.

ENTERPRISE COMMUNICATION: SEGMENT NOW PROFITABLE

The Enterprise Communication (EC) segment of Funkwerk has become an example of successful restructuring of a business segment in a fiercely competitive market. Despite significant competitive and pricing pressures, the business parameters here have improved to the point that business with TC systems, network and data security solutions is profitable even at a comparatively low sales level. In terms of products and sales, EC is now also in a position that sales should grow again at a sustainable level.

In the third quarter, sales at EC were marginally up again. This is due to the fact that we are managing particularly for network products such as routers and gateways to enter cooperations which open up new sales channels. Furthermore, Funkwerk's data security solutions are increasingly meeting with a good response in the market. Revenues generated at EC between July and September continued to improve to €7.1 m. On a cumulative basis as at the end of September, revenues thus totalled €21.0 m (2009: €24.6 m). Compared to the previous year, it must be borne in mind here that 2009 included a one-off licence sale of €2.3 m and that our product range here has since been concentrated to market-driven solutions for small to mid-sized companies, which meant a loss of sales contributions in this segment.

There was also a technology-related decrease in the demand for ISDN-based TC systems. Funkwerk, however, anticipated this technology change towards IP-based communication solutions and is now ready to launch its new »Hybird« IPTC system after extensive tests. Initial reactions from customers show that we can expect demand to surge as early as in the fourth quarter.

By the end of the year, we anticipate sales to be stable in this segment. This is underlined by the inflow of new orders, which totalled €21.7 m at the end of September (2009: €24.8 m) to exceed sales generated.

Due to successful restructuring, EC is now making a positive profit contribution. As at the end of September, this segment reported a positive operating result of €1.0 m (2009: €2.2 m, though the one-off licence sale distorts a comparison with the previous year).

For the full 2010 financial year, we again expect a positive operating result at EC. The now largely completed concentration of business units and the launch of our IP-based communication solution »Hybird« will again necessitate expenditure at EC. This, however, should effectively continue to reduce our fixed costs here and stabilise growth in this segment.

Explanatory notes to the earnings situation

In the first nine months of fiscal 2010, the earnings situation of Funkwerk AG notably improved on the previous year. Business on balance proved disappointing in the third quarter, a setback on the way to regaining our previous earning power. Thanks to the now almost completed measures to adjust our capacities and reduce the fixed costs, however, Funkwerk was able despite it all to achieve a close to break-even operating result.

Whereas the prior-year quarter still saw a loss before interest and taxes (EBIT) of €-9.6 m, the figure reduced to €-0.5 m in the third quarter. This, for one, reflects the relief of the strain on personnel and other operating expenses at around €6 m; on the other hand, it also indicates largely completed restructuring measures, which in the previous year were still valued at €2.5 m. The quarterly operating result therefore improved by around €6.6 m, from €-7.0 m in 2009 to €-0.4 m in 2010. With nine-month sales of €149.4 m down on the previous year by over

€ 18 m, earnings before interest and taxes (EBIT) generated at group level as at the end of September improved by over € 12 m to € - 3.2 m (2009: € - 15.5 m). The operating result also notably stabilised by around € 10 m to € - 2.5 m. The negative figure was caused almost exclusively by the segment operating result of € - 4.8 m of Security Communication. We do, however, expect an improvement in earnings from operations in the fourth quarter, which will be brought about as much by project implementations as by effects resulting from our restructuring efforts.

The three remaining business segments, Traffic & Control Communication, Automotive Communication and Enterprise Communication, again generated balanced or even positive earnings contributions in the third quarter, though these figures – with the exception of Automotive Communication – remained behind our projections.

Lasting relief of the strain on the profit and loss account of Funkwerk is seen primarily in personnel expenses and other operating expenses. Over the past nine months, personnel expenses reduced by over € 10 m on the previous year to € 60.3 m. The number of employees on the cutoff date was down, however, from 1,527 to 1,293. The other operating expenses also decreased above average by around € 6 m to € 21.6 m. In contrast, the cost of materials largely developed on a par with sales, decreasing to € 76.8 m (2009: € 88.5 m). The savings achieved in fixed costs thus continued to be higher than the sales-related reduction in gross yield.

Compared to the previous year, interest and taxes payable in the Funkwerk group also increased in the third quarter so that the period result stood at € - 2.1 m (2009: € - 7.4 m). This led to a group loss of € - 5.6 m for the first nine months of 2010 (2009: € - 12.2 m), corresponding to earnings per share of € - 0.68 (2009: € - 1.48).

Due to the fixed cost savings achieved, the expected increase in sales in the fourth quarter should provide us with a positive operating result for the period and help us in the 2010 financial year to return into the black in terms of operations.

Explanatory notes to the financial and net worth position

The positive effects of our set of measures introduced to reduce our fixed costs and optimise the capital employed for operations (working capital) were somewhat foiled by the unsatisfactory trend of business in the third quarter. This also had a detrimental effect on the financial and net worth position of Funkwerk as a group.

Despite these influencing factors, we were able in the third quarter to keep our working capital constant at around € 60 m compared to the level as at the end of June. The effectiveness of our optimisation measures for the working capital is obvious in comparison with the previous year. The reduction by around € 19 m, or 24 per cent, (end of September 2009: € 79.1 m) proved disproportionate to sales.

In contrast to the end of 2009, however, the capital requirement in the working capital to finance ongoing operations and the emerging growth increased again by around € 7 m. This and the poor sales trend in the third quarter are reflected in the cash flow from operations. While the latter improved by more than € 2 m on the end of June, to € - 10 m, this figure remained notably below our target. The cash flow from investment activities as at the cutoff date including deconsolidation effects (€ - 1.1 m) totalled € - 9.4 m. This results in a negative free cash flow of € - 19.4 m at the end of September 2010 (2009: € - 19.5 m).

While the cash flow situation will continue to improve towards the end of the year, we will no longer be able to achieve our target of a positive free cash flow for the full year. The liquidity situation should ease by year-end. As at the end of September, Funkwerk held liquid resources of €7.3 m (2009: €9.1 m) and net cash and cash equivalents of around €0.5 m (2009: €5.5 m). At 53.8 per cent (2009: 59.8 per cent), the equity ratio as an indicator of the financial stability of a company remained at a higher-than-average level despite the period loss. The marginal decrease in the equity ratio is due primarily to the one-off impairments towards the end of 2009.

Investments

Funkwerk maintained its restrictive stance on investments in the reporting period. Spending on tangible and intangible assets totalled €1.9 m over the first nine months, down by almost 40 per cent on the previous year (€3.1 m). Investments in product developments totalled €6.4 m, which also reduced on the prior-year figure (2009: €7.9 m). The capitalised development costs of €6 m (2009: €8.2 m) must be seen opposite scheduled depreciation in the amount of €1.8 m (2009: €5.0 m).

Research and development

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

The reported spending on research and development usually ranges between 8 to 15 per cent of sales. Added to this, however, are customer-financed developments in projects, which generally account for a much higher amount.

Over the first nine months of fiscal 2010, Funkwerk invested some €12 m in research and development, which corresponds to around 8 per cent of sales. Product developments made up €6.5 m, while €5.5 m were spent on basic developments and product maintenance. The focal point was on TETRA mobile radio devices, the electronic interlocking system Alister, the IP communication solution »Hybird«, the generic development platform for automobiles and on a modular passenger information system for the railway industry.

Employees

In the reporting period, Funkwerk largely completed the personnel and capacity adjustments required as part of our restructuring measures. Personnel levels in the third quarter did not change significantly. As at 30 September, Funkwerk as a group employed a workforce of 1,293 people, down by 234 on the previous year (1,527 employees). Due to the further concentration of operating units and the reorganisation of our Security Communication segment, this figure will likely reduce further by the end of the year.

Opportunities and risk report

The main opportunities and risks affecting the asset, financial or earnings position of Funkwerk, along with the risk management system are described in detail in the 2009 annual report of our company.

The only additional risk arose in our Security Communication segment from the temporary discontinuation of the Algeria projects. Due to political upheaval in the country, government contracts awarded to international contractors in Algeria are currently widely reviewed. In this context, the contracts allocated to Funkwerk have also been subjected to a judicial inquiry. We are convinced that Funkwerk has negotiated and executed each of these correctly. A special audit carried out by an auditing firm commissioned by the Executive Board back in 2009 to review the accounting procedures and the contracts concluded confirmed that Funkwerk did not engage in any obvious misconduct. These findings also correspond with the stage reached in currently still ongoing investigations in Algeria. Nonetheless, this situation involves a certain potential risk in terms of availability of liquid resources of around €3.7 m and equipment made available for payment along with claims in the amount of around €8.5 m.

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

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

Forecast and prospects

Prospects of a continuation of the favourable environment in the global economy unexpectedly dimmed in September. The drastic decrease in incoming business in the German industry and the appreciation of the euro, in particular, nurse doubt as to whether the growth forecast for 2011 will in fact come true.

On the whole, growth in 2011 is expected to decrease marginally on 2010. The global economy, however, is still said to grow at 4.2 per cent, though this rate should more than halve for Europe and the USA. In contrast, the key emerging markets, i.e. the BRIC states Brazil, Russia, India and China, are predicted to grow at between 4.4 and 9 per cent.

The information and communication systems Funkwerk provides are primarily used as infrastructure for transport operators, companies and institutions. The sector trend therefore follows the general economic development with a certain delay. This »lagging cyclic« generally gives rise to hope for a favourable growth climate for Funkwerk until the end of 2010 and into the first half of 2011. This, however, must be seen opposite financing uncertainties on the customer side.

Affected by significant state debts and the resulting pressure on public authorities to consolidate, transport operators in particular, along with companies with infrastructure facilities, which greatly depend on public spending, shy away from new investments. Contrary to announcements, the budgets for information systems and communication technology have not yet been raised. This also explains the poor level of incoming business in the third quarter of 2010. We do, however, see a certain catch-up effect develop here in the fourth quarter.

The most significant earnings contribution is likely to come from Traffic & Control Communication. The fourth quarter of 2010 tends to generate the highest sales in this segment. Catch-up effects related to investments should also lead to a stimulation of business with communication, management and information systems for transport operators and manufacturers of transport infrastructure. Additional potential results from business initiations in the BRIC states, the imminent market penetration of our electronic interlocking system Alister, and a highly modern, integrated information system for the rail vehicle industry along with the modernisation of older train generations. We plan to continue establishing ourselves here as a specialist in this area through concentration and increase in the depth of value added to further increase our earning power.

A crucial factor in the overall result of the Funkwerk group in 2010 is the development of our Security Communication segment. SC is currently restructuring and streamlining its operational processes and merging units, which should significantly increase its productivity in the future. The cost and savings synergies thus created should in part become evident as early as in the fourth quarter. By the end of the year, we expect that the reorientation, the progressing integration and the related synergy effects for Security Communication will, on the whole, lead to a rise in business with a positive operating result in the fourth quarter. Nonetheless, this segment will close the 2010 financial year with an operating loss. From 2011, however, SC should be able to unlock worldwide growth potential through such new products as TETRA radio equipment with special functions for security-related tasks and in video monitoring and property protection.

Automotive Communication should be able to continue its marginally positive sales and earnings trend in the fourth quarter 2010 and the following financial year. While existing serial deliveries are coming to a stop, we have won major tenders for the equipment of commercial and private motor vehicles here, which will bring about stronger growth, though not until 2012.

Enterprise Communication proves to be a stable element in the Funkwerk group. We anticipate sales to be steady until the end of the year with a positive earnings contribution from operations for 2010. All-in business solutions and system solutions with differentiating performance features for selected sectors promise profitable growth here in the medium term. Cooperations and partnerships with key system companies are proving useful here and are currently in preparation.

On the whole, the risks for Funkwerk affecting its further economic development have decreased in recent months. Opportunities have increased, as our restructuring measures are beginning to take effect and are improving our competitive positions. Before the end of 2010, but especially in the following periods, Funkwerk will benefit from the fact that our fixed cost block has significantly reduced. Due to the comparatively poor level of incoming business in the third quarter, we will no longer be able to improve sales at group significantly on 2009. But even with a relatively flat trend of business, it should be possible to achieve a positive operating result.

In the medium to long term, the use of information and communication technology by transport providers, in the industry and at organisations with security functions will continue to increase in importance. For Funkwerk as a technology leader this will open up sustainable growth potential in many areas, along with a positive, profitable business trend over the next few years. As a result, we are confirming our medium-term margin target (EBIT) of 8 per cent.

The Executive Board



Dr.-Ing. Hans Grundner
Chairman of the Board



Johann M. Schmid-Davis,
Chief Financial Officer

Corporate bodies in the reporting period

SUPERVISORY BOARD

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

EXECUTIVE BOARD

- Dr.-Ing. Hans Grundner (Chairman), Strategy and Business Development
- Johann M. Schmid-Davis, Masters in Bus. Econ., Finance, Organisation and Investor Relations
- Carsten Ahrens, Graduate Engineer, Portfolio-Development and Strategy (Member from 1 October 2010)

FUNKWERK-SHARE AND INVESTOR RELATIONS

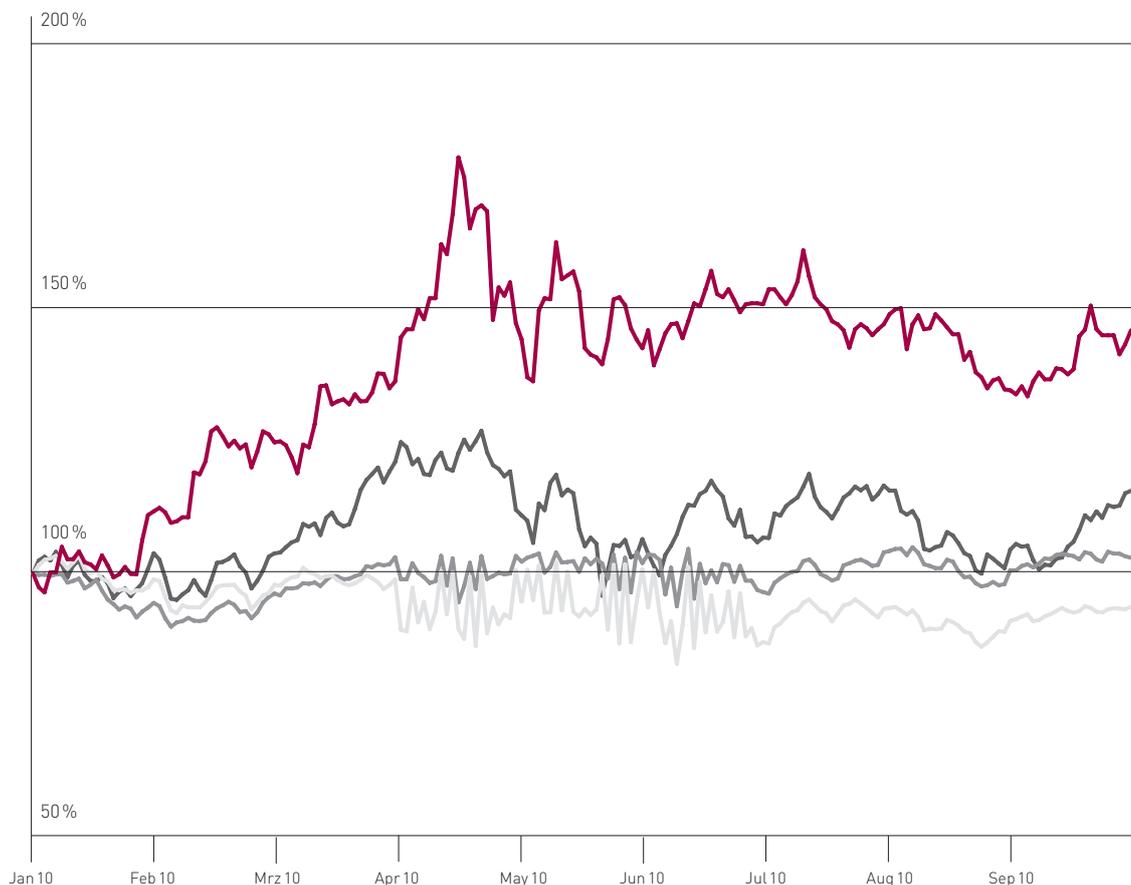
THE FUNKWERK SHARE: FOLLOWING IN THE TRACKS OF THE TECDAX

In the third quarter of 2010, Funkwerk's share (ISIN DE0005753149) essentially followed the trend of the German technology index, TecDAX. As at 30 September, its price was marginally down, though its performance over the nine-month period proved significantly better than the TecDAX or even the German stock index, DAX.

As most international stock exchanges, Germany's leading share indices had failed by the end of September to hold on to the peaks achieved early in the year. Fears flaring up time and again over the consequences of the debt crisis, the currency turbulences and the appreciation of the euro led to a high volatility and serious seesawing of the prices.

This also affected Funkwerk's share. After its recent annual high of € 9.65 in mid-April and an appreciation of over 80 per cent, it had dropped back down to € 7 by early September after profit takings. The following upward trend saw the share climb back up to € 7.63 by the end of September and subsequently almost revisit the 9-euro mark.

PERFORMANCE Q1-Q3 2010



As at the end of September, Funkwerk noted an appreciation of around 44 per cent for 2010 – based, however, on a rather low level. In contrast, the DAX gained a mere 4.6 per cent in the same period, while the TecDAX lost as much as 4.4 per cent.

The »Capital Markets Day« for analysts and investors organised by Funkwerk on the occasion of the »Inno-Trans« at the end of September met with a good response among the attendees. This also expressed itself in a further rise in the share price. Four out of five analysts most recently rated Funkwerk's share as a buy. The upside targets published by them currently range between € 6.50 and € 11.00.

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

BASIC SHARE INFORMATION

- Segment: Prime Standard, Frankfurt Stock Exchange
- Class: No-par bearer share at a nominal value of €1
- WKN / ISIN DE 575 314 / DE 0005753149 (code: FEW)
- Reuters: FEWG.DE
- Bloomberg: FEW GR
- Designated sponsors: WestLB, Close Brothers Seydler Bank AG
- Market capitalisation: € 61.8m (end of June 2010)

CONSOLIDATED FINANCIAL STATEMENT

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

ASSETS	30/09/2010	31/12/2009
	EUR K	EUR K
A. Long-Term Assets		
1. Intangible assets	36,691	32,887
thereof goodwill	10,168	10,161
thereof development costs	22,151	17,487
2. Tangible assets	14,787	16,804
3. Financial assets reported using the equity method	930	1,530
4. Other assets	43	67
5. Deferred taxes	1,463	2,303
	53,914	53,591
B. Short-Term Asset		
1. Inventories	48,052	42,568
2. Trade accounts receivable	20,697	25,282
3. Receivables from projects in progress	18,783	15,206
4. Due from affiliated companies	765	682
5. Tax refund claims	2,141	3,955
6. Other assets	2,940	3,397
7. Financial assets	1,017	950
8. Financial assets	7,266	22,141
9. Long-term assets available for sale	0	76
	101,661	114,257
	155,575	167,848

LIABILITIES	30/09/2010	31/12/2009
	EUR K	EUR K
A. Equity Capital		
1. Subscribed capital	8,101	8,101
2. Capital reserve	63,370	63,270
3. Retained earnings	38,211	38,211
4. Own shares	-1,062	-1,062
5. Net loss	-24,694	-19,096
6. Foreign currency items	-238	-323
Equity of Funkwerk AG shareholders	83,688	89,101
7. Minority interests	0	14
	83,688	89,115
B. Long-Term Liabilities		
1. Pension obligations	11,915	13,021
2. Deferred investment subsidies	818	748
3. Deferred taxes	0	0
4. Financial liabilities	15	23
	12,748	13,792
C. Short-Term Liabilities		
1. Financial liabilities	6,809	2,264
2. Trade accounts payable	24,053	23,263
3. Advance payments received on orders	4,342	7,349
4. Due to affiliated companies	21	58
5. Tax liabilities	323	2,852
6. Accrued liabilities	10,036	11,289
7. Deferred investment subsidies	157	403
8. Other liabilities	13,398	17,463
	59,139	64,941
	155,575	167,848

Statement of Comprehensive Income acc. to IFRS

01/01/2010 to 30/09/2010

	Q3 2010	Q3 2009	Q1 - Q3 2010	Q1 - Q3 2009
	01/01/2010 TO	01/01/2009 TO	01/01/2010 TO	01/01/2009 TO
	30/09/2010	30/09/2009	30/09/2010	30/09/2009
	EUR K	EUR K	EUR K	EUR K
1. Sales revenues	48,693	53,969	149,395	167,913
2. Change in finished goods inventories and work in progress	-738	796	1,206	2,938
3. Other own work capitalised	2,370	2,466	6,451	8,177
4. Other operating income	2,064	1,671	5,826	5,228
5. Total operating performance	52,389	58,902	162,878	184,256
6. Cost of materials	24,525	29,542	76,812	88,461
7. Personnel expenses	19,441	22,969	60,324	70,924
8. Planned depreciation	2,353	3,882	6,656	10,054
9. Other operating expenses	6,504	9,566	21,556	27,412
10. Operating result before impairment charges and restructuring costs	-434	-7,057	-2,470	-12,595
11. Restructuring costs	53	2,506	747	2,893
12. Operating result (EBIT)	-487	-9,563	-3,217	-15,488
13. Earnings from financial assets reported using the equity method	-310	0	-600	0
14. Interest and similar income	17	1	143	118
15. Interest and similar expenses	472	304	831	792
16. Financial results	-765	-303	-1,288	-674
17. Earnings before taxes	-1,252	-9,866	-4,505	-16,162
18. Taxes on income	-783	2,602	-996	4,305
19. Other taxes	-23	-141	-97	-393
20. Earnings after taxes/result for the period	-2,058	-7,405	-5,598	-12,250
Amounts directly included in equity				
21. Currency differences	-17	41	85	177
22. Other period results	-17	41	85	177
23. Total	-2,075	-7,365	-5,513	-12,073
The result for the quarter comprises				
Funkwerk AG shareholders	-2,058	-7,423	-5,598	-12,232
Minority interests	0	17	0	-18
The amounts directly included in equity comprise				
Funkwerk AG shareholders	-17	41	85	177
Minority interests	0	0	0	0
Earnings per share acc. to IAS 33				
Earnings per share (undiluted) in EUR	-0.26	-0.92	-0.69	-1.52
Earnings per share (diluted) in EUR	-0.25	-0.90	-0.68	-1.48

Consolidated Statement of Cash Flows acc. to IFRS

01/01/2010 to 30/09/2010

	Q1-Q3 2010	Q1-Q3 2009
	01/01/2010 TO	01/01/2009 TO
	30/09/2010	30/09/2009
	EUR K	EUR K
1. Annual result	-5,598	-12,250
2. Income tax revenues/expenditure	993	-4,326
3. Depreciation of development costs	1,787	4,950
4. Depreciation of tangible assets and intangible assets	4,869	5,104
5. Earnings from financial assets reported using the equity method	600	0
6. Other non-cash expenditure and income	123	-2,062
7. Reversal of investment subsidies	-176	-109
8. Changes in reserves	-1,969	-501
9. Profit/loss from disposal of fixed assets	-63	90
10. Changes in inventories, receivables and other assets	-4,888	10,215
11. Changes in advance payments received on orders	-3,007	-901
12. Changes in other debts	-2,065	-10,154
13. Interest and similar income	-143	-118
14. Interest and similar expenses	831	792
15. Interest paid	-220	-364
16. Interest received	40	35
17. Paid income tax	-1,127	-912
18. Cash flow from operating activities	-10,013	-10,511
19. Receipts from the disposal of fixed assets	9	75
20. Payments for investments and development costs	-6,451	-8,177
21. Payments for investments in intangible assets without goodwill and development costs	-609	-674
22. Payments for investments in fixed assets	-1,229	-2,214
23. Payments for the acquisition of consolidated companies less acquired cash and cash equivalents	25	-215
24. Acquisition of participating interests	0	-32
25. Receipts from the disposal of participating interests	0	2,233
26. Payments for removal of majority owned shares (including liquid funds)	-1,144	0
27. Cash flow from investing activities	-9,399	-9,004
28. Free cash flow	-19,412	-19,515
29. Receipts from take-up of (financial) credit	4,537	3,283
30. Payments for the redemption of loans and (financial) credit	0	0
31. Receipts/payments due to compensation claims to minority shareholders	0	0
32. Cash flow from financing activities	4,537	3,283
33. Net change in cash and cash equivalents	-14,875	-16,232
34. Cash and cash equivalents at beginning of period	22,141	25,364
35. Cash and cash equivalents at end of period	7,266	9,132

Consolidated Statement of Changes in Equity acc. to IFRS

	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE RESERVE	OWN SHARES	NET PROFIT/ LOSS	FOREIGN CURRENCY ITEMS	EQUITY OF FUNKWERK AG SHARE- HOLDERS	MINORITY INTERESTS	TOTAL
	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K
December 31, 2008	8,101	63,017	38,211	-1,062	21,657	-379	129,545	11	129,556
Group profit for the period	0	0	0	0	-12,232	0	-12,232	-18	-12,250
Foreign currency items	0	0	0	0	0	177	177	0	177
Total	0	0	0	0	-12,232	177	-12,055	-18	-12,073
Share options (IFRS 2)	0	219	0	0	0	0	219	0	219
Change in minority interests	0	0	0	0	0	0	0	4	4
Transactions with owners	0	219	0	0	0	0	219	4	233
September 30, 2009	8,101	63,236	38,211	-1,062	9,425	-202	117,709	-3	117,706
December 31, 2009	8,101	63,270	38,211	-1,062	-19,096	-323	89,101	14	89,115
Group profit for the period	0	0	0	0	-5,598	0	-5,598	-14	-5,612
Foreign currency items	0	0	0	0	0	85	85	0	85
Total	0	0	0	0	-5,598	85	-5,513	-14	-5,527
Share options (IFRS 2)	0	100	0	0	0	0	100	0	100
Change in minority interests	0	0	0	0	0	0	0	0	0
Transactions with owners	0	100	0	0	0	0	100	0	100
September 30, 2010	8,101	63,370	38,211	-1,062	-24,694	-238	83,688	0	83,688

Segment reporting

01/01/2010 to 30/09/2010

	YEAR	TCC EUR K	AC EUR K	EC EUR K	SC EUR K	GROUP EUR K
Total sales revenues	2010	71,716	22,692	21,122	40,229	155,759
	2009	79,338	21,088	25,192	49,532	175,150
Sales revenues with other business segments*	2010	15	192	129	6,028	6,364
	2009	133	93	543	6,468	7,237
External sales revenues	2010	71,701	22,500	20,993	34,201	149,395
	2009	79,205	20,995	24,649	43,064	167,913
Other operating income	2010	2,685	1,142	1,103	896	5,826
	2009	2,502	1,027	1,108	591	5,228
Segment revenues	2010	74,386	23,642	22,096	35,097	155,221
	2009	81,707	22,022	25,757	43,655	173,141
Inventory changes of finished goods and work in progress	2010	1,618	77	0	-489	1,206
	2009	1,329	265	0	1,344	2,938
Own work capitalised (development)	2010	1,444	1,851	1,403	1,753	6,451
	2009	2,218	2,266	1,589	2,104	8,177
Cost of materials	2010	36,044	13,711	10,345	16,712	76,812
	2009	38,504	13,718	11,617	24,622	88,461
Personnel expenses	2010	28,907	7,946	7,301	16,170	60,324
	2009	35,166	9,299	7,545	18,914	70,924
Planned depreciation of fixed assets	2010	1,965	1,108	756	1,040	4,869
	2009	2,139	1,213	595	1,157	5,104
Planned depreciation of development work	2010	184	556	79	968	1,787
	2009	886	2,187	1,207	670	4,950
Other operating expenses	2010	8,655	2,619	3,991	6,291	21,556
	2009	10,017	3,053	4,226	10,116	27,412
Operating result before impairment charges and restructuring costs	2010	1,693	-370	1,027	-4,820	-2,470
	2009	-1,458	-4,917	2,156	-8,376	-12,595
Restructuring costs	2010	4	0	176	567	747
	2009	1,738	612	458	85	2,893
Operating result	2010	1,689	-370	851	-5,387	-3,217
	2009	-3,196	-5,529	1,698	-8,461	-15,488

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES AND METHODS

The accounts were compiled in Euro in compliance with the International Accounting Standards Board (IASB) passed and published by the International Financial Reporting Standards (IFRS). The accounts are based on the accounting principles and methods applied to the consolidated financial statement for the 2009 financial year.

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

OVERVIEW OF COMPANIES OF THE CONSOLIDATED FUNKWERK GROUP

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

DIRECT SUBSIDIARIES	REGISTERED OFFICE	VOTING RIGHTS IN %
Hörmann-Funkwerk Kölleda GmbH (HFWK)	Kölleda, Thuringia	100
ALPHA Meß-Steuer-Regeltechnik GmbH (Alpha)	Neustadt/Weinstraße, Rhineland-Palatinate	100
Funkwerk Dabendorf GmbH (FWD)	Zossen, Brandenburg	100
Funkwerk Enterprise Communications GmbH (FEC)	Nürnberg, Bavaria	100
Funkwerk Information Technologies GmbH (FIT)	Kiel, Schleswig-Holstein	100
Funkwerk Security Communications GmbH (FSC)	Salzgitter, Lower-Saxony	100
INDIRECT SUBSIDIARIES	REGISTERED OFFICE	VOTING RIGHTS IN %
Funkwerk eurotelematik GmbH	Ulm, Baden-Württemberg	100
Funkwerk Avionics GmbH	Waal, Bavaria	100
Funkwerk Enterprise Communications Iberia S.L.	Madrid, Spain	100
Funkwerk Enterprise Communications France S.A.S.	Gradignan Cedex, France	100
Funkwerk Enterprise Communications Italy S.R.L.	Mailand, Italy	100
Funkwerk Aphona Communications GmbH	Wien, Austria	100
Funkwerk IP-Appliances GmbH	Nürnberg, Bavaria	100
FunkTech GmbH	Nürnberg, Bavaria	100
Funkwerk Information Technologies Karlsfeld GmbH (FITK)	Karlsfeld, Bavaria	100
Funkwerk Information Technologies York Limited	York, Great Britain	100
Funkwerk Information Technologies Malmö AB	Malmö, Sweden	100
Funkwerk IT Polska Sp. Z.o.o.	Warschau, Poland	100
Microsyst Systemelectronic GmbH	Weiden, Bavaria	100
Funkwerk Systems Austria GmbH	Wien, Austria	100
Funkwerk Akademie GmbH	Beichlingen, Thuringia	100
Funkwerk plettac electronic GmbH	Fürth, Bavaria	100
Funkwerk Electronic Services GmbH (FES)	Salzgitter, Lower-Saxony	100
Funkwerk Engineering GmbH	Kiel, Schleswig-Holstein	100

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

SEASONAL AND ECONOMIC INFLUENCES

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

KEY EVENTS

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

STATEMENT OF THE EXECUTIVE BOARD

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

The Executive Board of Funkwerk AG
Kölleda, November 2010

CORPORATE CALENDAR FOR 2010

March 31, 2010 Balance sheet press conference

May 12, 2010 Disclosure of quarterly report

May 27, 2010 Shareholders' Meeting

August 12, 2010 Disclosure of half-yearly report

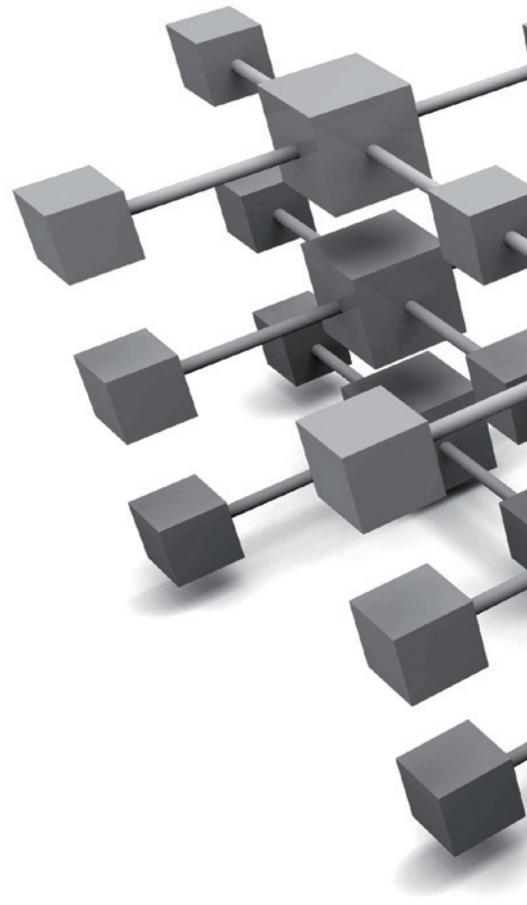
November 10, 2010 Disclosure of nine-monthly report

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