

**INTERIM REPORT 3/2012**

## Consolidated key figures

		Q1-Q3 2012	Q1-Q3 2011
<b>Results (continued business segments)</b>			
Sales	EUR m	98.2	102.7
Gross profit	EUR m	50.8	51.6
Gross profit margin	%	53.0	50.2
Operating EBITDA*	EUR m	-2.2	-0.1
Earnings from operations*	EUR m	-6.1	-3.8
Net operating earnings/EBIT	EUR m	-8.0	-4.4
Earnings after taxes/net result for the period	EUR m	-10.1	-8.6
Earnings per share	EUR	-1.25	-1.07
New business	EUR m	92.1	103.8
Order level	EUR m	88.5	97.9
<b>Asset and financial position</b>			
		30/09/2012	31/12/2011
Operating cash flow	EUR m	-11.9	-15.6
Working Capital	EUR m	33.1	37.1
Net funds	EUR m	-3.7	4.5
Equity capital	EUR m	31.7	48.7
Equity ratio	%	28.8	30.8
Equity ratio adjusted **	%	31.2	34.2
Total assets	EUR m	110.3	157.9
Employees (reporting date excl. trainees/continued segments)		822	852

\* before restructuring and impairment costs \*\* adjusted for liabilities held for sale

## Funkwerk AG

Funkwerk AG is a mid-sized technology company specialising in solution-oriented information, communication and security systems for rail transport, vehicles, 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

# Interim Group Management Report

## Business and general setting

### GLOBAL ECONOMIC ENVIRONMENT

In 2012 the economic conditions worldwide gradually continued to deteriorate. Following an already sluggish second quarter, the IMF (International Monetary Fund) reports a lack of notable improvement in the period from July to September. The main factors here were the as yet unresolved euro crisis as much as the continuing weakness in the USA. Despite the global slowdown, the German economy has to date proved comparatively robust. According to the Federal Statistical Office, growth in the second quarter of 2012 still clocked in at 0.3 per cent compared to the previous quarter – though this was down from the 0.5 per cent at the start of the year.

### SECTOR ENVIRONMENT

In the financial year to date, the German rail industry developed positively in absolute terms. Sector sales, according to the German Rail Industry Association, VDB, improved by almost 13 per cent to EUR 5.3bn in the first six months of 2012. The demand for rail vehicles was a welcome factor – up by a good 14 per cent to EUR 4bn. In contrast, business involving infrastructure equipment such as interlocking systems or signalling technology continued to suffer from what the VDB called a »notorious weakness«, virtually stagnating at a low level.

The need for security technology on the whole also increased in 2012. The National Association of Manufacturers and Installers of Security Systems, BHE, saw in this a continuation of the positive trend seen in 2011 when sales improved more strongly than expected by 4.1 per cent to EUR 2.7bn. Outside Germany, sales on the whole rose, even although investment confidence in the public sector in Europe was visibly shaken by the effects of the debt crisis.

### REORIENTATION OF THE FUNKWERK GROUP

In mid-2011, Funkwerk AG initiated an extensive restructuring programme. Its aim is to focus the group on its core segments, to simplify its structures and to improve its earning power. The main features of the programme are detailed in the 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.

In the third quarter, we managed once more to reach key milestones. In July 2012 Funkwerk finalised the sale of its loss-making sports display product line in the TCC segment, while Funkwerk Dabendorf GmbH, Zossen, was sold with effect from 1 October 2012. Our Dabendorf subsidiary was the central site for key activities in our Automotive Communication (AC) segment. The total purchase price ranged in the low single-digit millions, with a portion due immediately and a performance-linked remainder spread over the next few years, from 2013 to 2016. This sale consistently continues our strategy of focusing on core segments. But the step also helped us to stabilise the group's financial situation and reduce its business risk. The sale does not extend to the facilities in Dabendorf/Zossen nor our subsidiary Funkwerk euro-telematik GmbH, Ulm. These two assets were removed prior to execution of the contract on 19 October 2012 and transferred from Funkwerk Dabendorf GmbH to Funkwerk AG, Köllede.

### MERGER OF HÖRMANN-FUNKWERK KÖLLEDE GMBH WITH AND INTO FUNKWERK AG

In August 2012, Funkwerk completed the merger of Hörmann-Funkwerk Köllede GmbH (HFWK) with and into Funkwerk AG after approval at the shareholders' meeting. HFWK was a fully owned subsidiary and part of the TCC segment; it specialises in the development of communication system solutions for mobile rail transport and railway infrastructures. The merger has retroactive effect from 1 January 2012. The formation of the new economic entity simplifies our structures within the group as well as our processes and makes them more efficient and transparent. In addition, the operating units can be consistently focused on their relevant target groups.

### REORGANISATION OF THE EXECUTIVE BOARD

From 2013 Funkwerk AG will be managed by Dr.-Ing. Manfred Lerch as the sole director, who the Supervisory Board appointed to the Executive Board effective from 1 November 2012. This step was decided against the backdrop of the company's focus on the pivotal area of rail systems and its significantly reduced size as a result of our restructuring efforts, but also the decision of the two other board members, Johann Schmid-Davis and Carsten Ahrens, to leave the company at the end of their contracts at year-end. Dr. Lerch has in-depth know-how and many years of experience in

rail technology. Since 2002 he also served on the Executive Committee of the German Railway Industry Association. Dr Christian E. Baur (42), who had been appointed to the board as Chief Restructuring Officer (CRO) in April 2012 as a temporary measure, will continue in his role until completion of the restructuring project implemented under his supervision.

#### BUSINESS TREND AT A GLANCE

Business at Funkwerk AG in the third quarter continued to be defined by the restructuring measures which affect all our sites. The primary purpose here is to adjust our capacities in the Funkwerk group to the considerably downsized organisation resulting from our focusing strategy, to achieve a significant improvement of efficiency in operations in order to lower the breakeven threshold, and to ensure more stable processes within the group. These plans also involve personnel adjustments. The cross-sector ERP system designed throughout the year was rolled out, the production sites were centralised and the planned changes in the production sector are going according to plan.

Both in TCC and in our Video Systems BU in SC demand in the third quarter proved sluggish, so incoming orders in both segments lagged behind the prior-year quarter. On the whole, new orders in the Funkwerk group reduced to EUR 92.1m between January and the end of September 2012. Compared to the benchmark figure of EUR 103.8m in 2011 adjusted for our sold units, orders were down by around 11 per cent. In our TCC segment, incoming orders in the first three quarters totalled EUR 51.2m (2011: EUR 59.3m), and EUR 38.3m (2011: EUR 38.3m) in SC. The level of orders as at 30 September 2012 came to EUR 88.5m (2011: EUR 97.9m).

At EUR 98.2m, consolidated sales generated by our continued business segments in the first nine months remained around 4.4 per cent below the prior-year benchmark figure of EUR 102.7m. One of the main reasons for this was the price pressures that had grown quite notably in both segments. The loss in sales and total operating performance, however, could be partly absorbed by savings in the cost of materials, so that the gross yield on the whole decreased only marginally by 1.5 per cent to EUR 50.8m. The gross yield margin improved from 50.2 per cent to 53.0 per cent. At EUR -6.1m, operating earnings before impairment and restructuring costs in total remained below the prior-year level of EUR -3.8m. Net earnings per share stood at EUR -1.25 (2011: EUR -1.07). The reorientation measures taken helped to stabilise the asset and financial position in the group.

## Segment report

### TRAFFIC AND CONTROL COMMUNICATION (TCC)

Our successful participation in the InnoTrans, the international trade fair for transport technology, held in Berlin in September, proved that our product spectrum in TCC continues to attract much interest. More than 1,000 visitors were keen to know more about the services which our two Business Units, Infrastructure and Rolling Stock, offer. The competitive pressure in this sector, however, has grown significantly, which notably affected our order situation here as well as profit contributions. A number of contracts were placed on unprofitable terms, to the effect that we decided to withdraw from the bidding in a number of cases. Sales in TCC over the first nine months of 2012 totalled EUR 56.7m, after EUR 60.6m in the previous year. The segment thus contributed some 58 per cent to the group's volume of sales of the continued business segments. Operating earnings as at 30 September amounted to EUR 0.0m (2011: EUR 1.0m). The EBIT at the end of September stood at EUR -1.1m, compared to EUR 0.7m in the same prior-year period.

In regard to our Alister project, our electronic interlocking system, we were forced to put up with a painful delay in the first half of 2012 on account of the fact that we failed to get the certification allowing us to start-up our ESTW-R Lindaunis project as planned. We are still pursuing the certification of our Alister SIL 4 type ESTW-R due hopefully in the next few months. We are also currently still working on conditions imposed by the Federal Railway Office (EBA), among others, which need to be completed prior to certification as a requirement for the planned commissioning of our »ESTW-R Lindaunis« project in Q1 2013. Due to this, we are required to use up additional unplanned resources — which obviously has a negative effect on our current earnings situation. This delay also pressed us to withdraw from a follow-up project involving Deutsche Bahn AG.

As a result of this cancellation, new business and our order volume in 2012 reduced by around EUR 2.9m.

In the Cargo sector, which is subject to a lower safety level, our Alister SIL 2 interlocking system has put us in a good market position with now more than 40 installations throughout Europe. In the third quarter, we completed the commissioning of the interlocking system for a depot under a contract placed by Hamburger Hochbahn AG, the second-largest local public transport system in Germany. As a result, the first SIL 2 interlocking system supplied by Funkwerk has now been set into operation. The scope

of supply also included interfaces to the neighbouring relay interlocking system and to the signalling and control system of Hamburger Hochbahn AG as a further product supplied by Funkwerk.

Our BEST (German acronym for operations and interlocking simulation) training platform was delivered for final inspection to the Swiss railway operator SBB. The system enables practically orientated, effective and cost-efficient training of signalmen and train controllers and is already used in various locations throughout Europe.

In the reporting period, we also launched intensive negotiations for our Travis solution (train management platform) with a partner, hoping in this way to push the worldwide sale of our solution. The flexible operations control and safety system ensures effective system management of railway networks of different sizes and functions.

In our Rolling Stock BU, which offers a wide range of mobile radio solutions for communication between the train and stationary infrastructure and between people, we have added a wireless GSM-R desktop radio to our focX line of handhelds. We were able here with a partner to take initial successful steps towards launching into the Russian market.

#### SECURITY COMMUNICATION (SC)

Positive trends in our Security Communication BU primarily involved solutions based on the Tetra technology. We successfully acquired new projects here both in Germany and in the international arena. We have also noticed an obvious trend towards system solutions in sales. IP systems enjoy keen demand especially in the video sector. Our Video Security Solutions BU has now moved from Fürth to our new site adjacent to the Nuremberg Exhibition Centre and since July has been operating under its new name, Funkwerk video systeme GmbH (formerly: Funkwerk plettac electronic GmbH).

On the whole, our SC segment was defined as well by growing intensity in competition and the resulting fierce price war, which particularly affected our video systems margins. As a result, operating earnings as at 30 September decreased to EUR -6.4m (2011: EUR -4.2m), even despite the fact that sales in the first three quarters of 2012 totalled EUR 36.8m to exceed the relevant prior-year figure of EUR 32.9m by almost 12 per cent. The EBIT in our SC segment stood at EUR 7.0m, after EUR -4.4m in the same period in 2011.

From Russia we received our first contract worth around EUR 1.5m from a pro-government tool building institute in the reporting period, involving the equipment of inland water vessels with Tetra Security systems. We are expecting a further contract of similar value to materialise here before the end of 2012. Since the GUS region is expected to see significant growth over the next few years, these contracts have considerable strategic significance for Funkwerk. The nuclear waste facility at Gorleben will also in future be monitored by a Funkwerk Tetra system.

The DECT-over-IP system developed by Funkwerk, which we only introduced in the third quarter, met with keen interest. It enables the connection of existing transceiver stations, e.g. in large buildings, using the available Ethernet cabling. In Australia, we finalised the establishment of business which we are pursuing with a partner and have begun with marketing activities. At the same time, we recently secured approval here for our explosion-proof device version.

In the Video Security Solutions BU Funkwerk received a call order for PLATON cameras which are used in traffic engineering in the Netherlands. Another order came from Hamburg for a combustion chamber probe for a German coal-fired power plant.

#### AUTOMOTIVE COMMUNICATION (AC)

Our AC segment, whose main activities were largely consolidated in Funkwerk Dabendorf GmbH, Zossen, was sold with economic effect from 1 October 2012. Our subsidiary was taken over by the novero group, Düsseldorf, which specialises on aspects such as professional mobile radio equipment in the automobile sector. Remaining segment sales up until the end of September 2012 totalled EUR 3.2m (2011: EUR 1.8m), the EBIT stood at EUR 0.1m (2011: EUR -0.5m).

### Earnings, financial and asset position

#### SALES AND EARNINGS

The reorientation of Funkwerk, which is pushed ahead at a good pace, significantly affected the earnings, financial and asset position of the group. The sales and cost fractions of Funkwerk Dabendorf GmbH sold with effect from 1 October 2012 were shown separately under »Result from the sale of sold business segments (after tax)« in the current statement of income and accumulated earnings. The expected deconsolidation loss of around EUR 6.0m was also already taken into account as at 30 September. The quar-

terly and nine-month figures of the previous year were corrected accordingly and adjusted for the companies and business segments sold in 2011 and up until now in 2012.

Now comparable, consolidated sales of the continued activities reduced by 4.4 per cent to EUR 98.2m between January and September 2012. This reduction was due primarily to the low investment confidence in the public sector and to the increasing price pressures in a number of market segments. The already tense situation further aggravated throughout the year. Whereas the trend remained virtually stable in the first half of the year, Funkwerk's business volume in the third quarter of 2012 reduced by around 15 per cent to EUR 30.9m on the prior-year quarter.

Internally produced and capitalised assets shown in the statement of income and accumulated earnings, which comprise products and programmes developed by Funkwerk, decreased in a nine-month comparison from EUR 3.4m to EUR 0.9m as a result of the announced changes to the valuation methods for capitalisation. Due to the billing of contracts and improved working capital management, our inventory of finished products and work in progress reduced notably by EUR 2.3m. On the whole, the total operating performance in the Funkwerk group reduced by 9.4 per cent to EUR 99.2m between January and September.

The cost of materials in the first nine months significantly reduced by 12.1 per cent, down to EUR 45.1m. A positive factor here was savings as a result of our restructuring measures and a streamlined portfolio. This enabled us to absorb a large part of the loss in volume. As a result, the gross yield — without internally produced and capitalised assets and other operating income — decreased only moderately by 1.5 per cent to EUR 50.8m. The gross margin, in contrast, improved considerably from 50.2 per cent to 53.0 per cent.

Personnel expenses reduced by 4.7 per cent to EUR 41.1m due to adjustments in the workforce, even though 2012 once again saw pay-scale and non-pay-scale wage and salary increases.

In total, operating earnings before impairment and restructuring costs decreased despite considerable savings, down from EUR -3.8m to EUR -6.1m. Taking restructuring costs of EUR 1.9m (2011: EUR 0.6m) into account, the EBIT settled at EUR -8.0m (2011: EUR -4.4m). Of this amount, EUR -3.8m were attributable to the third quarter of 2012 (2011: EUR -1.5m).

At EUR -1.4m, the financial result remained stable in a nine-month comparison, so consolidated earnings before taxes below the line totalled EUR -9.5m (2011: EUR -5.8m). At the same time, however, the tax expenditure reduced quite notably from EUR 2.8m to EUR 0.6m, as the prior-year figure had been comparatively high on account of a reserve set up for back taxes. As a result, net earnings generated by our continued business segments decreased moderately from EUR -8.6m to EUR -10.1m. Diluted and undiluted earnings per share for our continued business segments therefore stood at EUR -1.25 (2011: EUR -1.07).

Earnings in the sold business segments (after tax) aggregated EUR -6.9m in the first three quarters of 2012, compared to EUR 1.8m in the same prior-year period. This includes the expected deconsolidation loss of Funkwerk Dabendorf GmbH amounting to EUR 5.7m. Due to the sale of these shares on 19 October 2012, we will deconsolidate the company as at 1 October 2012. Total earnings in the Funkwerk group therefore amounted to EUR -17.0m (2011: EUR -6.8m).

#### FINANCIAL POSITION

The restructuring activities in the Funkwerk group have contributed to improving our financial position. Positive effects came from the cash inflow after the sale of companies. This inflow prompted our banking syndicate headed by Commerzbank AG to amend the syndicated loan agreement of 2011 in April 2012. The addendum centred on reducing the loan funds from EUR 75.5m to EUR 50.0m on the same interest terms. At the same time, funds of around EUR 18m from the sale were made available to Funkwerk AG at its free disposal. The indemnity bonds received from the »Germany funds« Government/Laender programme in connection with the syndicated loan agreement could be returned. This means that the condition whereby the majority shareholder of Funkwerk AG is obligated to vote for a retention of earnings no longer applies from fiscal 2012.

#### LIQUIDITY TREND

The cash flow from current operations amounted to EUR 11.9m in the first nine months of 2012 (2011: EUR 15.6m). This outflow was due primarily to the deficit of EUR 17.0m and the change in other debt, which led to cash outflow of EUR 7.8m. This must be seen opposite the release of funds to the amount of EUR 10.0m, which had previously been tied up in inventories, trade accounts receivable, and other assets.

The cash flow from investment activities totalled EUR +3.3m across the group (2011: EUR - 8.9m), because of cash inflow of EUR 8.7m for the sale of our companies between January to September 2012. Investments in tangible assets aggregated EUR 1.8m, whereas outflows for investments in development costs came to EUR 3.8m. Adding up the cash transactions in operations and investments, the free cash flow for the first three quarters of 2012 totalled EUR -8.6m, compared to EUR -24.5m in the same prior-year period.

The cash outflow from financing activities amounted to EUR 5.5m. This was due to the scheduled repayment of funds from the credit line which we had utilised to finance current operations. In total, cash outflow from January to September 2012 amounted to EUR -14.1m. As a result, the cash fund reduced from EUR 18.0m as at 31 December 2011 to EUR 3.8m.

#### ASSET POSITION

The group's balance sheet was equally reflective of the reorientation measures in the Funkwerk group. As at 30 September 2012, »Assets held for sale« of EUR 3.7m were posted for the assets of Funkwerk Dabendorf GmbH (sold effective October 2012) which had been combined in consideration of the expected deconsolidation loss. At the end of December 2011, this figure had been EUR 14.6m for the relevant assets of Funkwerk Avionics GmbH and the EC segment, the sale of which was not finalised until 2012. Due to the sale of these two units, our financial assets also reduced from EUR 12.0m to EUR 3.5m, because of the complete redemption of shareholder loans, which Funkwerk AG had granted EC and Funkwerk Avionics GmbH. The »Liabilities held for sale« item on the liabilities side reduced from EUR 15.7m at the end of 2011 to EUR 8.7m at the end of September 2012.

An even greater factor contributing to the reduction of total assets from EUR 157.9m to EUR 110.3m on the assets side, however, was our active working capital management. Inventories were decreased by 20.9 per cent to EUR 28.2m and trade accounts receivable by 40.9 per cent to EUR 20.1m. Liquid funds also decreased significantly from EUR 17.4m to EUR 3.8m due to the discharge of financial debt and high payments in our operating business. At EUR 37.5m, the long-term assets on the other hand barely changed in total, compared to EUR 36.9m previously.

The long-term assets decreased from EUR 36.9m to EUR 33.5m, primarily because of reduced fixed assets. These were down from EUR 12.3m as at the end of 2011 to EUR 10.2m due to the sale of Funkwerk Dabendorf GmbH.

On the liabilities side, the most prominent aspect other than the effects of the sale of our corporate units was the repayment of short-term financial liabilities. These reduced by EUR 5.3m to EUR 7.6m. Equally notable here was the primarily seasonal reduction in accounts payable by EUR 10.6m to EUR 17.3m. On the whole, short-term debt — without debt held for sale — reduced by around 29 per cent to EUR 55.9m. Long-term debt on the whole remained stable at around EUR 14m.

Due to the deficit and the expected deconsolidation effect of Funkwerk Dabendorf GmbH, equity reduced by EUR 17.0m to EUR 31.7m. As a result of equally reduced total assets, however, the equity ratio dropped only marginally from 30.8 per cent at the end of 2011 to 28.8 per cent. Adjusted for the debt held for sale, the equity ratio stood at 31.2 per cent (2011: 34.2 per cent). Net cash as at 30 September amounted to EUR 3.7m, after a positive figure of EUR 4.5m at the end of 2011.

#### Other performance indicators

##### INVESTMENTS

In the first nine months of the current financial year, Funkwerk invested around EUR 1.9m in fixed and intangible assets (excl. development costs), after EUR 2.4m in the same period in 2011. Investments in product developments in the continued business segments reduced from EUR 3.4m to around EUR 0.9m. These internally produced and capitalised assets were opposite appropriate depreciation of EUR 1.8m (2011: EUR 1.3m).

##### RESEARCH AND DEVELOPMENT

Intensive research and development activities (R&D) at Funkwerk are aimed at designing new products and solutions and increasing the efficiency of our production processes. In the first nine months of 2012, R&D spending in the group (continued segments) totalled around EUR 11.3m. In terms of sales, this produces a R&D ratio of 11.5 per cent.

Work in our TCC segment continued to focus on the SIL 4 certification of our Alister interlocking system and meeting the requirements of the Federal Railway Authority, but also the completion of developments for our electro-acoustic (ELA) with SIL 2 safety level for use in trains.

A key focus of R&D in SC was the development of various Tetra versions and several extension levels of our DECT-over-IP systems. Development started on a special version of a Tetra device for our Russian contract. Our Video Systems BU completed work on our HD camera FAC 4000HD, which excels particularly in terms of image quality. The new model was approved for sale and introduced at the Security trade fair held in Essen in September. Work on our video decoder VNS 404 is due to be finalised by the end of 2012. It will continue our VNS range of transmission technology for video images, which has enjoyed much success over the last few years. We are also currently developing a new version of our innovative pan/tilt head for cameras, which is used for such aspects as hard shoulder release on motorways.

#### EMPLOYEES

As at 30 September 2012, Funkwerk as a group employed 822 people, down by 30 employees on the prior-year reference date. This reduction in figure is due to streamlined operating units and the adjustment of our structures to the company's reduced size.

#### Opportunity and risk report

The existing opportunities and risks for Funkwerk as a group along with the structure and setup of our risk management system are described in detail in our 2011 annual financial statements. Otherwise, the opportunities and risks of the group in the first nine months of 2012 did not significantly change compared to the account in the 2011 annual financial statements. As before, we are not facing any risks that might jeopardise the continued existence of our company.

#### Events after the reporting period

The sales contract for our subsidiary Funkwerk Dabendorf GmbH, which had been signed on 17 September 2012, was executed by a notarial act and hence finalised on 19 October 2012. The company was deconsolidated as at 1 October 2012. No other events of material importance which may have a significant effect on the earnings, financial and asset position of the Funkwerk group occurred between the end of the reporting period and the signing of this report.

#### RELATED PARTY DISCLOSURES

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

#### Forecasting report

##### GENERAL ECONOMIC SETTING

##### GLOBAL ECONOMIC ENVIRONMENT

Uncertainty as to the further development of the economy has increased significantly in light of the still disappointing trend seen in the global market and the as yet unsolved problems in the eurozone as well as the USA. The IMF predicts little improvement in the situation over the next few months and has further downgraded its forecast. It believes that worldwide growth in 2012 will range at around 3.3 per cent — down by 0.2 percentage points on the already trimmed forecast in July. At the same time, the Monetary Fund also warns of the risk that the situation in the global market could get even worse. That scenario would unroll particularly if politicians fail to find appropriate solutions to the euro crisis and the budget dilemma in the USA.

In their autumn reports, leading research institutes also expect economic growth in Germany to temper towards the end of the year. This will be reflected in growth predicted for 2013 at only 1.0 per cent, half the prediction of the previous forecast. 2012 should see a rise of 0.8 per cent.

##### SECTOR TREND

Against the backdrop of solid development in the first half of the year, the German rail sector is confident that sales for 2012 on the whole will once again exceed EUR 10bn. According to the Railway Association, this is corroborated by generally full order books, after orders in the first six months once again reached a very respectable level of almost EUR 6bn. At the same time, however, uncertainties are increasing. The weakening economy, in particular, but also the rather unpredictable development of the debt crisis in the eurozone have led to caution. The situation particularly for manufacturers of infrastructure equipment should remain difficult, as business here depends largely on public funding.

The growing uncertainty will also likely make itself felt in the market for security solutions. Demand should continue to increase in the medium and long term in view of the rising need of people for security and the increasing efficiency requirements in regard to transport infrastructure. In the short term, however, business may suffer from the cautious attitude in the public sector — a key market for Funkwerk. We are also expecting a further intensification of competition and, with it, growing price pressures. On the whole, market analysts believe improvement in the single-digit percentage range is still be possible in global terms for 2012. In Germany, the BHE anticipates a rise in sector volume by around 3 per cent.

#### PROSPECTIVE DEVELOPMENT OF FUNKWERK AG

The radical restructuring of the group will continue to define the course of our business in the last quarter of the current financial year. The prime targets of our set of measures are specified in a fitness programme pursued across all our sites under the responsibility of our specially appointed CRO. It includes:

1. significant improvement in performance, specifically the reduction of our operational break-even,
2. a further reduction of inventories, and
3. the setup of efficient structures and processes both to optimise internal operations in order to reduce our processing times and to ensure greater efficiency of future production structures in the Funkwerk group.

Our reorientation includes all sites of the Funkwerk group and involves adjustments in the personnel sector.

The sale of our AC segment means we have parted with all major activities outside our core business. This now allows us to focus specifically on our two strategic segments, TCC and SC. We will continuously review the success of individual product lines here. As a specialist in information, communication and security systems, we benefit more than anything from our technological expertise and our excellent market position in the rail sector. By introducing more efficient processes in production and with an adjustable personnel structure, Funkwerk is also changing increasingly into a manufacturer of small batches with high flexibility.

On an adjusted basis, i.e. without our sold business units, we expect consolidated sales in the current financial year of between EUR 143m and EUR 148m. Last year, our appropriately adjusted business volume had ranged at around EUR 147m. The group's net

operating results for the continued business segments before restructuring and impairment costs will likely be in the negative low single-digit millions. The comparable figure for 2011 had amounted to around EUR -1m.

In consideration of the general economic prospects, sales generated by our continued segments TCC and SC in 2013 should remain at a similar level as in 2012. In terms of our operating earnings, we are hoping to reach break-even point again. A detailed description of the strategy of Funkwerk AG is contained in our 2011 annual report.

Kölleda, November 2012

— The Executive Board —

## The Funkwerk share

PERFORMANCE FUNKWERK SHARE [ INDICATED TO 100 ]



### Basic information on the Funkwerk share

- First listing: 15 November 2000
- Ticker symbol: FEW
- ISIN: DE0005753149
- WKN: 575314
- Stock class: No-par bearer share at a nominal value of EUR 1
- Market segment: Prime Standard
- Designated Sponsor: Close Brothers Seydler Bank AG
- Capital stock: EUR 8.102.241
- Number of shares: 8.102.241

### Stock markets in the black

In the first nine months of 2012, the international stock markets on the whole developed on a highly positive note. The upturn in prices was due primarily to the de-escalation of the European debt crisis, which had become notably less volatile in the third quarter after a temporary escalation. The announcement of support measures by the European Central Bank, in particular, but also the confirmed political will to launch the European Stability Mechanism, ESM, as quickly as possible were received with enthusiasm. The relief that came as a result initially eclipsed the economic risks that were steadily growing worldwide, giving new impetus to the stock markets from mid-June. This helped

more than compensate for the sluggish prices in the second quarter. On balance, the leading German index, DAX, gained around 22 per cent over the first nine months of 2012. The TecDAX improved by 18.2 per cent.

### **Funkwerk share stable**

Securities in the industrial and technology sectors on the whole saw greater fluctuation in the reporting period than the market in general. The same applied to our share, which was subject to a highly volatile trend especially in the first few months of the year. Initial losses, which took the share price to its current annual low of EUR 2.11 in early January, were soon compensated by the incipient disposition to buy. The mood among investors was lifted most notably by appreciable successes achieved in the reorientation of our company. In this phase, the price of our share rose to its annual peak of EUR 5.15. This was followed by a correction which was related, among other things, to rather difficult fundamentals for key subsegments of the European railway industry including communication and information systems. Previous gains of the Funkwerk share were gradually lost again by the middle of the year resulting in a sideways movement in the third quarter. The closing price at the end of September was fixed at EUR 2.80. Compared to EUR 2.82 at the end of 2011, this proves quite a stable trend. At the closing date, the 8.1 million Funkwerk shares had a market capitalisation of EUR 22.7m, after EUR 22.8m as at 31 December 2011.

### **Exchange transactions**

Funkwerk AG is quoted on the German Stock Market in Frankfurt/Main and is listed in the Prime Standard. It is also traded in the electronic trading system XETRA and in off-floor trading at all other German stock markets. A total of around 2.3m Funkwerk shares were traded between January and September, compared to around 1.4m in the comparative prior-year period. Over the first nine months of 2012, an average of around 12,000 shares changed hands per trading day (2011: around 7,200).

### **Investor Relations activities**

Funkwerk AG subscribes to an active information policy providing investors and the financial market players with all relevant company data. We regularly publish annual and quarterly financial statements along with press releases. Furthermore, we ensure prompt publication of all information relevant to our share through ad-hoc releases. Our investors and the interested public also have access to comprehensive information on our website at [www.funkwerk.com](http://www.funkwerk.com). A key aspect of our Investor Relations activities is personal dialogue with representatives of the business press and financial analysts. In March 2012, for instance, we held a combined analyst and press conference on our financial statements.

### **Shareholder structure remains unchanged**

The shareholder structure of Funkwerk AG as at the end of September 2012 remained unchanged: 52.83 per cent of the shares were held by HÖRMANN Funkwerk Holding GmbH, the remaining 47.17 per cent of the shares were in free float.

## Consolidated Financial Statement

### Consolidated Statement of Financial position acc. to IFRS at 30 September 2012

ASSETS	30/09/2012	31/12/2011
	€ K	€ K
<b>A. LONG-TERM ASSETS</b>		
1. Intangible assets	23,248	24,607
thereof goodwill	5,425	5,425
thereof development costs	15,579	16,354
2. Tangible assets	10,219	12,252
3. Other assets	4	4
	<b>33,471</b>	<b>36,863</b>
<b>B. SHORT-TERM ASSETS</b>		
1. Inventories	28,155	35,611
2. Trade accounts receivable	20,105	33,991
3. Receivables from projects in progress	8,307	4,733
4. Due from affiliated companies	1	52
5. Tax refund claims	1,224	1,010
6. Other assets	7,956	1,602
7. Financial assets	3,514	11,997
8. Liquid assets	3,822	17,424
9. Long-term assets available for sale	3,730	14,631
	<b>76,814</b>	<b>121,051</b>
	<b>110,285</b>	<b>157,914</b>

LIABILITIES	30/09/2012	31/12/2011
	€ K	€ K
<b>A. LIABILITIES</b>		
1. Subscribed capital	8,101	8,101
2. Capital reserve	63,554	63,529
3. Retained earnings (revenue reserve)	38,211	38,211
4. Own shares	-1,062	-1,062
5. Net loss for the year	-76,868	-59,915
6. Foreign currency items	-216	-204
Equity of Funkwerk AG shareholders	31,720	48,660
	<b>31,720</b>	<b>48,660</b>
<b>B. LONG-TERM LIABILITIES</b>		
1. Pension obligations	12,898	12,822
2. Deferred investment subsidies	153	517
3. Deferred taxes	889	1,066
	<b>13,940</b>	<b>14,405</b>
<b>C. SHORT-TERM LIABILITIES</b>		
1. Financial liabilities	7,556	12,886
2. Trade accounts payable	17,303	27,939
3. Advance payments received on orders	5,840	9,004
4. Due to affiliated companies	275	390
5. Tax liabilities	5,862	5,674
6. Accrued liabilities	8,760	11,532
7. Deferred investment subsidies	31	87
8. Other liabilities	10,318	11,679
9. Liabilities held for sale	8,680	15,658
	<b>64,625</b>	<b>94,849</b>
	<b>110,285</b>	<b>157,914</b>

## Statement of Comprehensive Income acc. to IFRS 01/01/2012 to 30/09/2012

	Q3 2012	Q3 2011	Q1 - Q3 2012	Q1 - Q3 2011
	01/07/2012	01/07/2011	01/01/2012	01/01/2011
	TO 30/09/2012	TO 30/09/2011	TO 30/09/2012	TO 30/09/2011
	€ K	€ K	€ K	€ K
<b>CONTINUED SEGMENTS</b>				
<b>1. Sales revenues</b>	<b>30,922</b>	<b>36,437</b>	<b>98,166</b>	<b>102,697</b>
2. Increase in finished goods inventories and work in progress	-9	-331	-2,325	237
3. Other own work capitalised	355	894	908	3,379
4. Other operating income	1,153	600	2,446	1,967
<b>5. Total operating performance</b>	<b>32,421</b>	<b>37,600</b>	<b>99,195</b>	<b>108,280</b>
6. Cost of materials	15,192	18,062	45,062	51,291
7. Personnel expenses	13,371	14,752	41,064	43,105
8. Planned depreciation	1,354	1,201	3,912	3,665
9. Other operating expenses	5,373	4,764	15,272	14,013
<b>10. Operating result before impairment charges and restructuring costs</b>	<b>-2,869</b>	<b>-1,179</b>	<b>-6,115</b>	<b>-3,794</b>
11. Restructuring costs	929	324	1,936	594
<b>12. Operating result / EBIT</b>	<b>-3,798</b>	<b>-1,503</b>	<b>-8,051</b>	<b>-4,388</b>
13. Financial income	17	3	46	9
14. Financial expenses	309	629	1,454	1,435
15. Financial results	-292	-626	-1,408	-1,426
<b>16. Earnings before taxes</b>	<b>-4,090</b>	<b>-2,129</b>	<b>-9,459</b>	<b>-5,814</b>
17. Taxes on income	-260	-2,253	-621	-2,784
<b>18. Result of continued segments</b>	<b>-4,350</b>	<b>-4,382</b>	<b>-10,080</b>	<b>-8,598</b>
<b>DISCONTINUED OPERATIONS</b>				
<b>19. Result of sold business segments (after tax)</b>	<b>-6,825</b>	<b>3,960</b>	<b>-6,873</b>	<b>1,841</b>
<b>20. Earnings after taxes / Result for the period</b>	<b>-11,175</b>	<b>-422</b>	<b>-16,953</b>	<b>-6,757</b>
<b>AMOUNTS DIRECTLY INCLUDED IN EQUITY</b>				
21. Currency differences	-6	85	-12	31
<b>22. Other period results – continued segments</b>	<b>-6</b>	<b>85</b>	<b>-12</b>	<b>31</b>
<b>23. Other period results – sold business segments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>24. Total</b>	<b>-11,181</b>	<b>-337</b>	<b>-16,965</b>	<b>-6,726</b>
<b>THE RESULT FOR THE QUARTER COMPRISES</b>				
Funkwerk AG shareholders	-11,175	-422	-16,953	-6,757
<b>THE AMOUNTS DIRECTLY INCLUDED IN EQUITY COMPRISE</b>				
Funkwerk AG shareholders	-6	85	-12	31
<b>EARNINGS PER SHARE</b>				
Earnings per share (undiluted and diluted) in €	-1.39	-0.05	-2.10	-0.84
<b>EARNINGS PER SHARE CONTINUED SEGMENTS</b>				
Earnings per share (undiluted and diluted) in €	-0.54	-0.54	-1.25	-1.07

## Consolidated Statement of Cash flows acc. to IFRS 01/01/2012 to 30/09/2012

	Q1 – Q3 2012 01/01/2012 TO 30/09/2012 € K	Q1 – Q3 2011 01/01/2011 TO 30/09/2011 € K
<b>1. Annual result</b>	<b>-16,953</b>	<b>-6,757</b>
2. Income tax expenditure	1,173	3,437
3. Depreciation of development costs	1,805	2,432
4. Depreciation of tangible assets and intangible assets	2,756	3,808
5. Other non-cash expenditure and income	3,835	-5,066
6. Reversal of investment subsidies	-397	-100
7. Changes in reserves	-2,464	-1,869
8. Profit / loss from disposal of fixed assets	-170	141
9. Changes in inventories, receivables and other assets	10,034	-8,958
10. Changes in advance payments received on orders	-3,164	-780
11. Changes in other debts	-7,838	-2,300
12. Interest income	-46	-10
13. Interest expenditure	872	877
14. Interest paid	-619	-425
15. Interest received	31	17
16. Paid/received income tax	-719	-36
<b>17. Cash flow from operating activities</b>	<b>-11,864</b>	<b>-15,589</b>
18. Receipts from the disposal of fixed assets	281	99
19. Payments for investments and development costs	-3,762	-6,664
20. Payments for investments in intangible assets without goodwill and development costs	-149	-702
21. Payments for investments in fixed assets	-1,774	-1,677
22. Receipts from investment subsidies	11	46
23. Receipts for deconsolidating	8,671	-15
<b>24. Cash flow from investing activities</b>	<b>3,278</b>	<b>-8,913</b>
<b>25. Free Cash Flow</b>	<b>-8,586</b>	<b>-24,502</b>
26. Receipts from take-up of (financial) credit	0	16,954
27. Payments for the redemption of (financial) credit	-5,539	0
<b>28. Cash flow from financing activities</b>	<b>-5,539</b>	<b>16,954</b>
29. Net change in cash and cash equivalents	-14,125	-7,548
30. Cash and cash equivalents at beginning of period	17,951	12,056
<b>31. Cash and cash equivalents at end of period</b>	<b>3,826</b>	<b>4,508</b>

## Consolidated Statement of Changes in Equity acc. to IFRS 01/01/2012 to 31/09/2012

	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE REVERSE	OWN SHARES	NET LOSS	FOREIGN CURR. ITEM	EQUITY OF FUNKWERK AG SHARE- HOLDERS
	€ K	€ K	€ K	€ K	€ K	€ K	€ K
<b>December 31, 2010</b>	<b>8,101</b>	<b>63,422</b>	<b>38,211</b>	<b>-1,062</b>	<b>-43,976</b>	<b>-237</b>	<b>64,459</b>
Group profit for the period	0	0	0	0	-6,757	0	-6,757
Foreign currency items	0	0	0	0	0	31	31
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-6,757</b>	<b>31</b>	<b>-6,726</b>
Share options (IFRS 2)	0	87	0	0	0	0	87
<b>Transactions with owners</b>	<b>0</b>	<b>87</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>87</b>
<b>September 30, 2011</b>	<b>8,101</b>	<b>63,509</b>	<b>38,211</b>	<b>-1,062</b>	<b>-50,733</b>	<b>-206</b>	<b>57,820</b>
<b>December 31, 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	-16,953	0	-16,953
Foreign currency items	0	0	0	0	0	-12	-12
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-16,953</b>	<b>-12</b>	<b>-16,965</b>
Share options (IFRS 2)	0	25	0	0	0	0	25
<b>Transactions with owners</b>	<b>0</b>	<b>25</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25</b>
<b>September 30, 2012</b>	<b>8,101</b>	<b>63,554</b>	<b>38,211</b>	<b>-1,062</b>	<b>-76,868</b>	<b>-216</b>	<b>31,720</b>

## Segment Reporting IFRS 01/01/2012 to 30/09/2012

	YEAR	TCC	SC	AC	EC	GROUP	SOLD BUS. SEG- MENTS	CORR. CONS.	RETAINED BUS. SEGS
		€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K
Total sales revenues	2012	57,026	37,106	14,668	0	108,800			
	2011	73,069	39,381	18,449	21,490	152,389			
Sales revenues with other business segm.*	2012	15	329	1	0	345			
	2011	1	6,468	33	150	6,652			
External sales revenues	2012	57,011	36,777	14,667	0	108,455	-11,820	1,531	98,166
	2011	73,068	32,913	18,416	21,340	145,737	-50,530	7,490	102,697
Other operating income	2012	3,012	826	1,236	0	5,074	-2,672	44	2,446
	2011	6,223	275	865	425	7,788	-6,670	849	1,967
<b>Segment revenues</b>	<b>2012</b>	<b>60,023</b>	<b>37,603</b>	<b>15,903</b>	<b>0</b>	<b>113,529</b>	<b>-14,492</b>	<b>1,575</b>	<b>100,612</b>
	<b>2011</b>	<b>79,291</b>	<b>33,188</b>	<b>19,281</b>	<b>21,765</b>	<b>153,525</b>	<b>-57,200</b>	<b>8,339</b>	<b>104,664</b>
Inventory changes of finished goods and work in progress	2012	-1,681	-634	-119	0	-2,434	109	0	-2,325
	2011	-901	1,030	548	0	677	-170	-270	237
Own work capitalised (development)	2012	172	736	2,854	0	3,762	-2,854	0	908
	2011	1,391	1,987	1,845	1,441	6,664	-3,285	0	3,379
Cost of materials	2012	22,717	20,683	10,538	0	53,938	10,407	1,531	45,062
	2011	33,326	16,679	12,105	10,055	72,165	28,094	7,220	51,291
Personnel expenses	2012	24,225	15,224	6,600	0	46,049	4,985	0	41,064
	2011	29,853	16,020	8,450	7,540	61,863	18,758	0	43,105
Planned depreciation of fixed assets	2012	1,083	963	712	0	2,758	651	0	2,107
	2011	1,344	1,049	969	446	3,808	1,441	0	2,367
Planned depreciation of development work	2012	1,126	679	0	0	1,805	0	0	1,805
	2011	456	842	315	819	2,432	1,134	0	1,298
Other operating expenses	2012	7,916	6,539	8,209	0	22,664	7,436	44	15,272
	2011	8,417	5,838	2,792	4,392	21,439	8,275	849	14,013
<b>Operating result before impairment charges and restructuring costs</b>	<b>2012</b>	<b>1,447</b>	<b>-6,383</b>	<b>-7,421</b>	<b>0</b>	<b>-12,357</b>	<b>6,242</b>	<b>0</b>	<b>-6,115</b>
	<b>2011</b>	<b>6,385</b>	<b>-4,223</b>	<b>-2,957</b>	<b>-46</b>	<b>-841</b>	<b>-2,953</b>	<b>0</b>	<b>-3,794</b>
Restructuring costs	2012	1,008	649	279	0	1,936	0	0	1,936
	2011	238	208	89	59	594	0	0	594
<b>Operating result / EBIT</b>	<b>2012</b>	<b>439</b>	<b>-7,032</b>	<b>-7,700</b>	<b>0</b>	<b>-14,293</b>	<b>6,242</b>	<b>0</b>	<b>-8,051</b>
	<b>2011</b>	<b>6,147</b>	<b>-4,431</b>	<b>-3,046</b>	<b>-105</b>	<b>-1,435</b>	<b>-2,953</b>	<b>0</b>	<b>-4,388</b>

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

## Notes to the Consolidated Financial Statement

### Accounting rules and methods

Funkwerk's consolidated financial statements have been prepared in euros in compliance with the International Financial Reporting Standards (IFRS) passed and published by the International Accounting Standards Board (IASB). The quarterly report does not contain any changes to the accounting rules and methods applied in the consolidated financial statements for the 2011 financial year.

This interim report was neither verified in accordance with Section 317 of the German Commercial Code (HGB) nor audited by a professional auditor.

### Overview of companies in the consolidated group of Funkwerk AG

The merger of Funkwerk AG with its previous subsidiary Hörmann-Funkwerk Kölleda GmbH (HFWK) as approved at the shareholders' meeting on 22 June 2012 and agreed in the contract of 20 July 2012 was finalised in the reporting period. Entry of the merger in the Commercial Register was made on 28 August 2012.

In addition to Funkwerk AG as the controlling company, the following companies are fully consolidated in the quarterly consolidated financial statements:

DIRECT SUBSIDIARIES	REGISTERED OFFICE	VOTING RIGHTS IN %
Funkwerk Information Technologies GmbH	Kiel, Schleswig-Holstein	100
Funkwerk Security Communications GmbH	Salzgitter, Lower Saxony	100
Microsyst Systemelectronic GmbH	Weiden, Bavaria	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
Funkwerk Dabendorf GmbH	Zossen, Brandenburg	100
INDIRECT SUBSIDIARIES	REGISTERED OFFICE	VOTING RIGHTS IN %
Funkwerk Information Technologies Karlsfeld GmbH	Karlsfeld, Bavaria	100
Funkwerk Information Technologies York Limited	York, Great Britain	100
Funkwerk Information Technologies Malmö AB	Malmö, Sweden	100
Funkwerk IT Polska Sp. z o.o.	Warsaw, Poland	100
Funkwerk Passenger Informations GmbH (vormals Funkwerk Akademie GmbH)	Kölleda, Thuringia	100
Funkwerk video systeme GmbH (vormals Funkwerk plettac electronic GmbH)	Nuremberg, Bavaria	100
Funkwerk Electronic Services GmbH	Salzgitter, Lower Saxony	100
Funkwerk Engineering GmbH	Kiel, Schleswig-Holstein	100

Funkwerk Dabendorf GmbH, which belonged to the AC segment and was sold in October 2012, is classified for the first time as a sold business segment as at 30 September 2012.

The sports display product line of Funkwerk Information Technologies Karlsfeld GmbH, which belonged to the TCC segment, was sold in the reporting period.

The results of the sold business segments (after tax) as per item 19 of the consolidated statement of income and accumulated earnings is calculated as follows:

SOLD BUSINESS SEGMENTS	Q1 - Q3 2012	Q1 - Q3 2011
	€ K	€ K
Sales revenues	11,820	50,530
Gross performance	15,530	55,502
Expenditure	-17,852	-57,702
Operating result	-2,322	-2,200
Financial result	-78	-465
Taxes on income	-553	-647
Operating result after tax	-2,953	-3,312
Result from the sale of sold business segments	-3,920	5,153
Taxes on income on the result from the sale of sold business segments	0	0
<b>Period result</b>	<b>-6,873</b>	<b>1,841</b>

The book loss resulting from the deconsolidation of Funkwerk Dabendorf GmbH as at 1 October 2012, which is estimated at around EUR 6m, has already been included in the results of the sold business segments as at 30 September 2012.

### Seasonal and cyclical factors

Business operations are not affected by any seasonal or cyclical factors beyond the ordinary which would require reporting or are not already included in the management report.

### Major events

No special events of material importance which may have a significant effect on business operations and are not already included in the management report occurred after the reporting date on 30 September 2012.

### Executive Board statement

»To the best of our knowledge and in accordance with the applicable accounting rules for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit and loss of the group, and the interim group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group in the remainder of the financial year.«

The Executive Board of Funkwerk AG  
Kölleda, November 2012

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### **IMPRINT**

Editing: Funkwerk AG, Kölleda  
Concept, Design and Typesetting: Studio Delhi, Mainz  
Text: TIK, Text, Information & Kommunikation GmbH, Nürnberg

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